

# AUDITOR-GENERAL'S REPORT FINANCIAL AUDITS

## Volume Eleven 2010



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 2010 Report.

Peter Achterstraat  
Auditor-General

Sydney  
December 2010



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## Significant Items

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Funding of \$485 million has been provided to implement 134 of the Garling Inquiry's 139 recommendations.	20
Significant internal control weaknesses exist at Health Support Services' service centres. Health Support Services and Area Health Services cannot agree on who is responsible for some controls.	23
Since 2007, I have reported concerns over the use of fully depreciated items of plant and equipment. Addressing the concerns has been complex and slow.	23
The time taken to pay creditors has improved, but needs to be improved further. Total creditors fell to \$406 million at 30 June 2010 from \$447 million at 30 June 2009.	24
Difficulties were again experienced in obtaining timely data to analyse the extent contractors are used, indicating shortcomings in management controls over their use.	26
36,434 employees are aged 50 years or older increasing the risk of a significant loss of knowledge and skills over the next 5 to 10 years as these employees retire.	31
Managing excess annual leave balances remains a challenge with 23,833 employees (or 25.5 per cent of all staff) holding more than 40 days in annual leave entitlements.	32
Employee long service leave liabilities were \$1,668 million at 30 June 2010, an increase of 47.7 per cent over the last five years. The Department expects to transfer these liabilities to the Crown Entity with effect from 31 December 2010.	33
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, and seven did not meet it for potentially life threatening situations.	35-37
Metropolitan Area Health Services typically record lower emergency admission performance than rural services. Sydney West recorded the lowest performance at 66 per cent, while Hunter New England recorded the highest at 83 per cent.	39
There was a significant increase in the median waiting time for Category Three elective surgery patients, increasing from 134 to 205 days in the April to June quarters of 2009 and 2010 respectively.	40
The median waiting time for Category Two patients improved slightly from 51 to 49 days, while Category One patients waited an average of 11 days compared to 10 days.	40
Patients on the surgical waiting list increased to 66,817 at 30 June 2010 from 64,512 at 30 June 2009.	41
<b>WorkCover Authority of New South Wales</b>	
The Authority's 'Be Aware, Take Care' advertising campaign was approved by the Treasurer instead of the Chief Executive Officer, had no cost benefit analysis of the advertising budget and failed to substantiate some statements in the advertisements.	49

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<b>Worker's Compensation (Dust Diseases) Board</b>	
Investment income was \$52.8 million compared with a loss of \$59.3 million in the prior year.	59
Liabilities for compensation claims were \$1.6 billion at 30 June 2010.	60
<b>Workers Compensation Nominal Insurer</b>	
The Scheme's net asset deficiency, incurred during the global financial crisis, increased by a further \$101 million to \$1.6 billion at 30 June 2010.	61
By 30 June 2018, the Scheme is expected to be fully funded without an increase in premium rates or reduced compensation benefits.	61
<b>Greater Southern Area Health Service</b>	
The Victorian Government now manages the provision of acute services at Albury Base Hospital.	73
<b>Sydney West Area Health Service</b>	
An independent audit of waiting lists found the Service had not effectively managed its waiting lists, and noted weaknesses in people, processes and systems.	140
The Service incorrectly used \$12.8 million of the Westmead Millennium Institute's funds for general operating purposes, which it has had to repay with borrowings from the Department of Health.	142
<b>Health Care Complaints Commission</b>	
The Commission received 3,515 complaints compared to 3,360 in 2008-09 continuing the upward trend of the last three years. Complaints have increased by 29.1 per cent since 2006-07.	169
Complaints about public hospitals fell to 614 from 620 in 2008-09. Overall there has been a 20.9 per cent increase in complaints since 2006-07.	170
<b>Port Kembla Port Corporation</b>	
Total trade tonnes through the port increased by 17.6 per cent mainly due to the improving economic climate and strong demand for coal from China and India.	201

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# Recommendations

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<b>Health Overview</b>	
I recommend:	
▪ the Department of Health ensures it meets the set timeframes for implementation of the Garling Inquiry recommendations.	19
▪ Health Support Services agree the respective responsibilities for implementing effective standardised internal controls with its customers and the Department. Control deficiencies have increased the risk that irregularities are not prevented or detected. The standardised internal controls should be implemented at Health Support Services and its customers as soon as practicable.	22
I recommend the Department:	
▪ finalise its review of the continued use of fully depreciated plant and equipment. Actions emanating from the completed review should be implemented in a timely manner.	23
▪ again ensures Area Health Services pay creditors within agreed payment terms. Area Health Services (AHS) need to improve cash flow management, ensure purchases are supported by authorised orders, and follow up disputed invoices in a timely manner.	24
▪ develop a system to monitor the number of contractors who provide personal or professional services and the length of time they have done so. The review should identify contractors whose services are no longer required. Internal controls over the use of contractors need to be strengthened. A similar exercise should be performed at AHS for non-medical contractors.	26
▪ finalise the implementation of recommendations from the NSW Health Independent Financial Management Review of its budget setting and monitoring processes.	27
▪ ensure AHS policies agree with all requirements of the Treasurer's Directions.	27
▪ in conjunction with the AHS, finalise the review of 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 Public Contributions Trust Fund account, to assist in the delivery of health services.	27
▪ reinforce compliance with its policies and procedures for plant and equipment stock takes, to ensure all AHS perform effective stock takes each year. Accountability for non-compliance with the Department's policies should be made clearer to senior AHS officers.	28
▪ establish and monitor appropriate targets for ensuring asset maintenance levels are adequate. This should be done in conjunction with the reviews being performed on fully depreciated plant and equipment referred to earlier.	29
▪ develop and implement effective policies to address and manage its ageing workforce.	31
I recommend:	
▪ each health entity review the effectiveness of its policies for managing excessive annual leave balances.	32

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<b>WorkCover Authority of New South Wales</b>	
I recommend the entities within the WorkCover Group:	
<ul style="list-style-type: none"> <li>▪ create and maintain a single record of all contractors engaged by them.</li> </ul>	54
should also periodically review the roles and responsibilities of all their contractors to ensure:	
<ul style="list-style-type: none"> <li>▪ reliance on contractors is not excessive</li> <li>▪ use of contractors instead of permanent employees is appropriate</li> <li>▪ contractors do not become de facto employees by virtue of being with an entity for an extended period of time</li> <li>▪ use of contractors continues to represent value for money.</li> </ul>	54
<b>Department of Health</b>	
I recommend:	
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<b>Greater Southern Area Health Service</b>	
I recommend the Service:	
<ul style="list-style-type: none"> <li>▪ ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and it follows up disputed invoices in a timely manner.</li> </ul>	73
<ul style="list-style-type: none"> <li>▪ again improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.</li> </ul>	74
<ul style="list-style-type: none"> <li>▪ again 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.</li> </ul>	75
<ul style="list-style-type: none"> <li>▪ review the effectiveness of its policies for managing its ageing workforce.</li> </ul>	77
<ul style="list-style-type: none"> <li>▪ continue its efforts in managing excessive leave balances and continuously reassess the effectiveness of its policies.</li> </ul>	79
<b>Greater Western Area Health Service</b>	
I recommend the Service:	
<ul style="list-style-type: none"> <li>▪ again pays its creditors within agreed payment terms and follows up disputed invoices in a timely manner.</li> </ul>	83
<ul style="list-style-type: none"> <li>▪ again improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.</li> </ul>	84
<ul style="list-style-type: none"> <li>▪ again should continue to 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.</li> </ul>	84

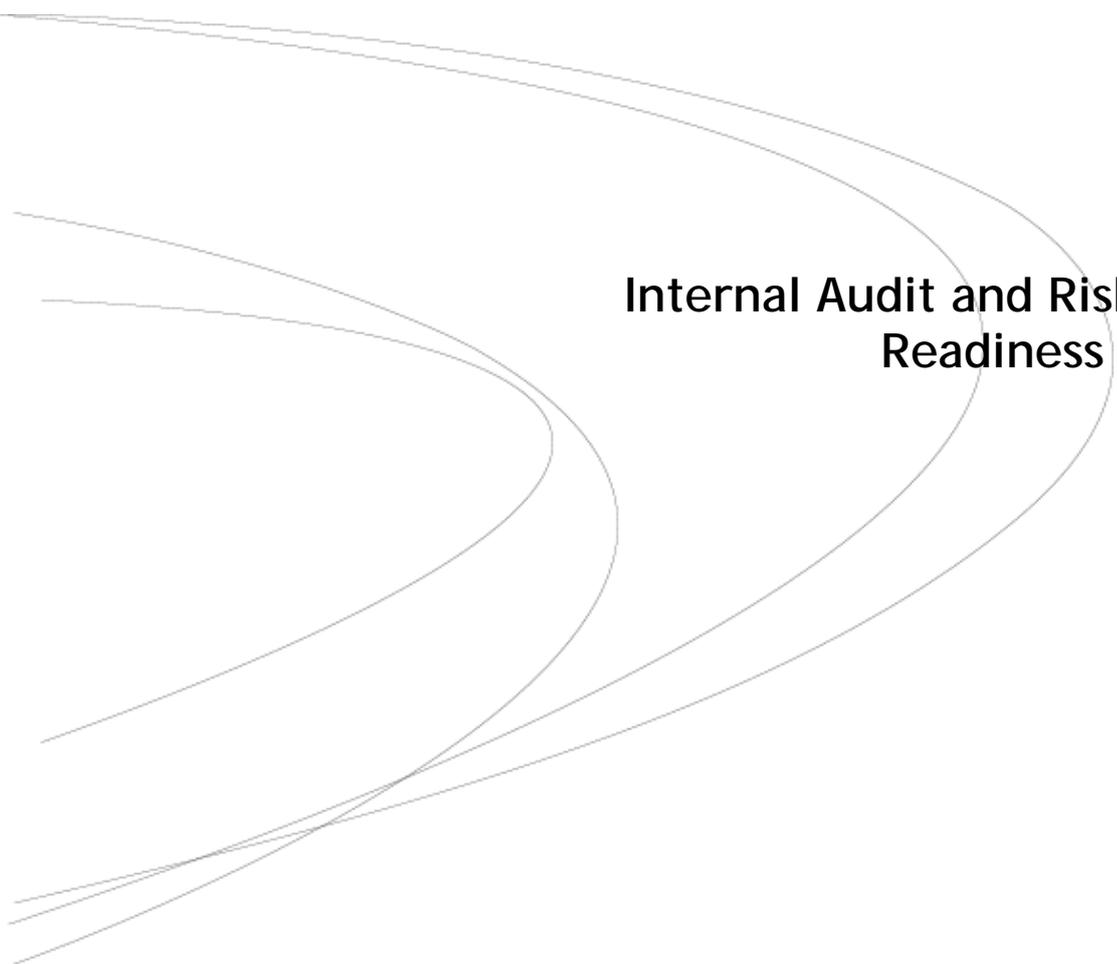
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<b>Greater Western Area Health Service (continued)</b>	
I recommend the Service:	
▪ continues to strengthen its policies and procedures in relation to plant and equipment stock takes.	84
▪ continues reviewing all special purpose and trust funds to 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.	85
▪ review the effectiveness of its policies for managing its ageing workforce.	86
▪ review the effectiveness of its policies for managing excess annual leave.	88
<b>Hunter New England Area Health Service</b>	
I recommend the Service:	
▪ again 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.	93
▪ review the effectiveness of its policies for managing its ageing workforce.	94
▪ review the effectiveness of its policies for managing excess annual leave.	96
<b>North Coast Area Health Service</b>	
I recommend the Service:	
▪ ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and it follows up disputed invoices in a timely manner.	100
▪ again 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.	101
▪ review the effectiveness of its policies for managing excessive leave balances.	105
<b>Northern Sydney and Central Coast Area Health Service</b>	
I recommend the Service:	
▪ again pays its creditors within agreed payment terms and follows up disputed invoices in a timely manner.	110
▪ continue to improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.	111
▪ continue to 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.	111
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I recommend the Service:	
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▪ review the effectiveness of its policies for managing its ageing workforce.	114
▪ review the effectiveness of its policies for managing excess annual leave.	115
<b>South Eastern Sydney and Illawarra Area Health Service</b>	
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▪ again ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and disputed invoices are followed up in a timely manner.	119
▪ again improve its budget monitoring processes to ensure any potential budget overruns are addressed in a timely manner.	120
▪ again 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.	120
▪ again 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 public contributions trust fund account where they can then be used to assist in the delivery of health services.	121
▪ again strengthen its policies and procedures in relation to plant and equipment stock takes.	122
▪ review the effectiveness of its policies for managing its ageing workforce.	123
▪ review the effectiveness of its policies for managing excess annual leave.	124
<b>Sydney South West Area Health Service</b>	
I recommend the Service:	
▪ ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and disputed invoices are followed up in a timely manner.	129
▪ continue its review of all special purpose and trust funds to confirm their intended purpose. Where appropriate, approvals should be sought to move funds into the public contributions trust fund where they can then be used for health services.	130
▪ again 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.	131
▪ further strengthen its policies and procedures in relation to plant and equipment management.	131
▪ review the effectiveness of its policies for managing excess annual leave.	134

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<b>Sydney South West Area Health Service (continued)</b>	
I again recommend:	
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<b>Sydney West Area Health Service</b>	
I recommend the Service:	
▪ again ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and disputed invoices are followed up in a timely manner.	140
▪ again should liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department conducted into whole of lifecycle management of medical equipment.	141
▪ finalise its review of all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the public contribution trust fund account where they can then be used to assist in the delivery of health services.	142
<b>Health Administration Corporation</b>	
I recommend:	
▪ Health Support Services (HSS), a division of the Corporation, agree with the Department of Health and its customers the respective responsibilities for implementing effective internal controls. In the absence of this, there is an elevated risk that irregularities may not be prevented or detected. Standardised internal controls should be implemented at HSS to prevent errors and irregularities from occurring.	159
▪ again HSS further develop its Key Performance Indicators (KPIs) for its service centres to ensure they include more qualitative indicators as well as quantitative indicators. It needs to measure these indicators against appropriate targets.	160
▪ again that HSS finalise the Service Partnership Agreements (SPAs) with its customers under its newly established framework as soon as possible.	161
▪ again that HSS implement a systematic process to confirm its intra health receivables with its customers at year end.	161
▪ the control deficiencies I have reported to the Corporation for the past two years, which have not been addressed, be actioned as a matter of priority.	161
▪ to ensure sufficient availability of experienced staff in the future, the Corporation actively monitor its workforce age profile and develop and implement appropriate strategies to attract and retain staff whose skills are aligned with the strategic direction of the Corporation.	164

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I recommend the Network:	
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▪ again 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.	180
▪ complete its review of Governance arrangements over Special Purpose and Trust Funds.	181
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▪ I recommend the Corporation review the effectiveness of its policies for managing its ageing workforce.	203
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▪ review the effectiveness of its policies in managing its ageing workforce.	208
▪ continues with its individual staff plans to reduce excessive annual leave balances within an acceptable timeframe.	210

# Section One



## Internal Audit and Risk Management Readiness Survey Report



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# Internal Audit and Risk Management Readiness Survey Report

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The Treasury issued [TPP09-05](#), *Internal Audit and Risk Management Policy for the New South Wales Public Sector* in August 2009. Treasury Circular [TC09/08](#) implemented the Internal Audit and Risk Management Policy on 24 August 2009. It applies to years ending on or after 30 June 2010.

The Policy requires Departments and Statutory Bodies to implement core requirements to meet Internal Audit and Risk Management standards. Department Heads and Governing Boards of Statutory Bodies are required to attest to compliance with the core requirements annually.

To assess the readiness of Departments and Statutory Bodies to attest compliance with the Policy, I conducted a survey of 137 agencies. This survey was conducted with the collaboration of The Treasury, which shares my interest in implementing, refining and promoting a policy that reflects best practice. This report presents the findings from the survey and includes The Treasury's comments on the first attestation statements received from agencies for 30 June 2010.

The policy mandates core requirements agencies must implement unless an agency has obtained an exception by the relevant Minister before the dates designated in TC09/08. The core requirements are:

Core Requirement 1	An Internal Audit function has been established and maintained
Core Requirement 2	An Audit & Risk Committee has been established
Core Requirement 3	An Audit & Risk Committee has an independent chair and a majority of independent members. The Audit & Risk committee has at least three members, and no more than five members
Core Requirement 4	The Audit & Risk Committee has a Charter that is consistent with the content of the 'model charter'
Core Requirement 5	An enterprise risk management process that is appropriate to the department or statutory body has been established and maintained. The enterprise risk management process is consistent the current Australian/New Zealand (AS/NZS) on risk management
Core Requirement 6	The operation of the Internal Audit function is consistent with IIA <i>International Standards for the Professional Practice of Internal Auditing</i> . There are additional practice requirements set by the Policy.

## CONCLUSION

Generally, I found most agencies had implemented policies and procedures to address the core requirements. Larger agencies appear to have been better prepared to make a positive attestation than smaller agencies.

Agency responses indicate that because some governance processes were newly implemented at 30 June 2010, some gaps, fundamental to good governance, existed at that time.

## KEY ISSUES

I recommend agencies continue to take steps necessary to ensure they fully and effectively comply with all core requirements by 30 June 2011.

In complying with the policy, agencies may:

- consider holding an internal risk assessment session for their agency and, where applicable, for other agencies for which they have governance responsibilities
- to the extent any Charter for the Audit & Risk Committee is inconsistent with the policy, redraft the Charter
- develop a risk management plan, outlining the structural, operational and maintenance elements of their respective risk management frameworks. (Note the Risk Management standard referred to in the policy has been superseded by AS/NZS ISO 31000 Risk Management)
- consider holding an internal audit planning session for their agency and, where applicable, for other agencies for which they hold governance responsibilities
- develop an internal audit plan, outlining the structural, operational and maintenance elements of their respective internal audit frameworks
- keep up to date with changes in internal audit standards, guidance and best practice.

I recommend The Treasury uses the findings outlined in this report to:

- update the Policy and the Annexure documents in TPP09-05 so they are consistent
- include guidance on arrangements for agency 'clusters' in the policy
- include guidance on secrecy and confidentiality standards in the policy
- remove or provide some context to references to materiality in the attestation statement.

I recommend The Treasury considers any implications (and possible outcomes) of ongoing discussions between my Office, the Crown Solicitor's Office and various agencies to determine the appropriate course of action in relation to:

- the requirement for agencies to comply with Section 11 of the *Public Finance and Audit Act 1983*(PF&A Act)
- the issues raised by an agency in relation to the operation of Audit & Risk Committee (as outlined in the Crown Solicitor's opinion dated May 28, 2010)
- the ability or otherwise of my Office to comply with S.38 of the PF&A Act in context of the point bulleted above.

I recommend The Treasury consults with agencies to:

- discuss issues arising from implementing the new policy
- provide guidance, where necessary
- develop a consistent understanding of The Treasury's expectations.

I recommend The Treasury considers mechanisms to monitor the effectiveness of the internal audit and risk management policy, including:

- monitoring and tracking of the number of positive, exceptions and absent attestation statements
- periodically requesting the Auditor-General to conduct a compliance review of agencies' compliance with the policy, since the attestation statements do not form part of the audited financial statements and are therefore not otherwise subject to independent scrutiny
- identifying areas of weakness and opportunities for improvement.

## FINDINGS

I received 125 responses (91.0 per cent) from the agencies I surveyed. Twelve agencies did not respond and are listed in Appendix A. On average, 58.0 per cent of respondents believe they have implemented effective measures that meet the core requirements.

The nature of the survey required agencies to:

- make an overall self assessment of compliance with the policy for each core requirement
- answer specific questions on detailed aspects of the policy.

While most agencies appear to have completed the survey diligently, because the survey was a self assessment, some responses appeared to lack objectivity. In some cases, overall assessments were contradicted by the underlying detailed responses to specific questions. Some agencies rated themselves as 'Fair', despite specifically stating documents and policies were still draft and had not been implemented or rolled out. Other agencies rated themselves as 'Highly Effective' for having simply arranged for another entity to discharge all responsibilities associated with the core requirements. Consequently the results are not readily comparable across all respondents.

For some agencies, the annual review and monitoring processes (required by the policy) were newly implemented and because anniversary dates had not been reached, they responded that some survey questions were 'not applicable'.

Pre-existing arrangements at some agencies appear to have met some policy requirements on its commencement. However, some of the issues identified below may have arisen because those arrangements did not meet the policy requirements and had not been revised to ensure compliance with the policy.

It may take some time for specific new processes to be implemented and become operationally effective.

For each core requirement, I assessed the detailed responses against the requirements specified in the policy. The statistical results are detailed later in this report, but the issues arising can be summarised as follows:

- some inconsistencies exist in the policy and its annexures that need to be addressed by The Treasury
- some Audit & Risk Committees did not review the survey responses. Twenty six per cent of completed surveys were not reviewed by the Chair of the Audit & Risk Committee, 13.0 per cent were not reviewed by senior management and seven per cent did not have evidence of review by either the Audit & Risk Committee or senior management
- Audit & Risk Committee minutes do not evidence sufficient review of resourcing internal audit functions (core requirement 1)
- Audit & Risk Committee charters are inconsistent with the model provided in the policy and are not reviewed annually (core requirement 1)
- Audit & Risk Committee performance is not formally monitored (core requirement 1)
- Audit & Risk Committee consultation is not sought for key staff appointments (core requirement 1)
- non-independent members of Audit and Risk Committees may not meet eligibility or competency requirements (core requirement 3)
- agencies have not adopted model documents in some cases (core requirements 1 and 4)
- Audit & Risk Committees do not meet with the internal audit and risk management staff independently of the operational staff (core requirement 4)
- formal review procedures have not been implemented by the Audit & Risk Committee (e.g. review of the internal audit plan) (core requirement 6).
- some critical components of an effective governance structure have not been implemented:
  - enterprise risk management processes are not effectively implemented or regularly monitored (core requirement 5)
  - the internal audit plan is not always reviewed by the Audit & Risk Committee (core requirement 6)
  - results of the internal audit program are not followed up to ensure recommendations are implemented (core requirement 6)
  - outsourced internal audit arrangements have not been documented or contracted fully (core requirement 6)
  - document control procedures over the retention, storage and management of internal audit documentation appear insufficient (core requirement 6).

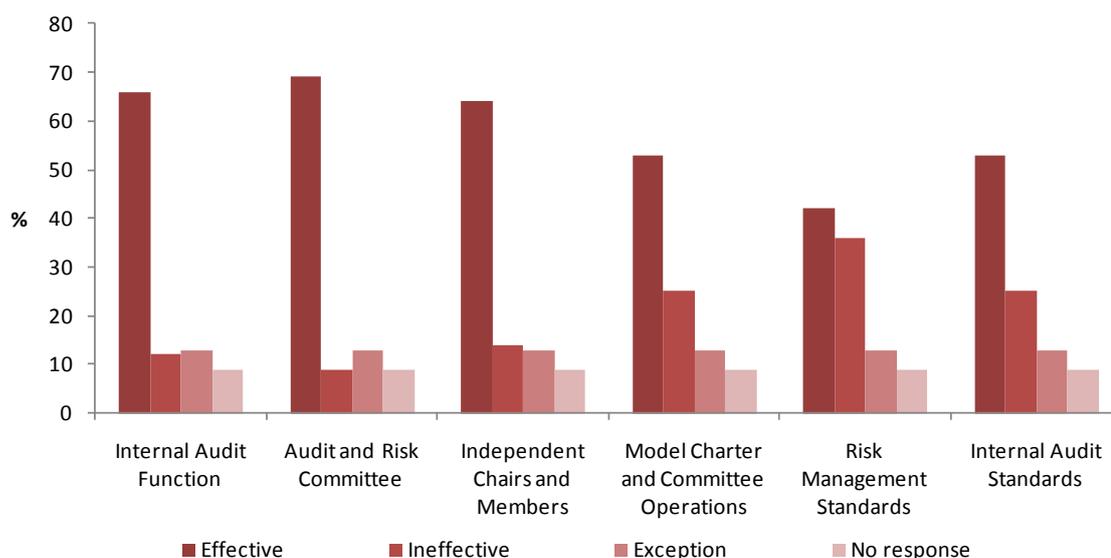
## OTHER FINDINGS

On average, 58.0 per cent of respondents believe their agency has implemented effective processes that meet the policy requirements, 20 per cent believe they are non-compliant, and 13.0 per cent claim to have obtained a Ministerial Exception.

The responses indicate stronger compliance with core requirements 1 to 3 than for core requirements 4 to 6. This is consistent with my observations and analysis. The responses indicate much work has been completed in establishing committees and frameworks. Many agencies, however, have not fully implemented effective internal audit and risk management processes. Agencies will need to develop and implement these processes during what should be the first year of operation under the policy.

Some agencies' Audit & Risk Committees are new and appear to be experiencing some teething problems. Implementing effective internal audit and risk management processes may help address the deficiencies these committees currently face.

The respondents' self assessment data are summarised below:



In 2009, the Government announced a comprehensive reform of the public sector, amalgamating 160 government agencies and offices into 13 new departments, some of which have established 'cluster' arrangements incorporating other agencies.

The Agency amalgamations were not envisaged when The Treasury drafted the original policy. This event appears to have significantly confused and hindered agencies' progress to attestation. Some agencies believed they were automatically exempt from the policy by virtue of the new amalgamation arrangements. Agencies belatedly joined available clustered governance arrangements and only applied for Ministerial Exceptions after the cut off date for granting such Exceptions.

The confusion impacted the survey results because affected agencies were not sure how to respond. Consequently, some agencies may have gaps in governance processes, simply because of the uncertainty around responsibility and accountability created by the amalgamations. It appears some agencies still need to:

- determine the appropriate degree of governance oversight required for the agency, including the number and timing of Audit & Risk Committee meetings
- implement processes that will ensure sufficient, timely and effective interactions between committee members and the internal and external auditors.

Where agencies have taken responsibility for implementing the core requirements on behalf of smaller agencies in clustered arrangements, the lead agency must take responsibility for ensuring these arrangements operate effectively for all agencies. Cluster arrangements do not, however, relieve individual agencies within the cluster of their responsibilities. In fact, cluster arrangements create additional governance and oversight issues, such as the risk of governance processes becoming too diluted and distant to be effective for the smaller agencies. Some arrangements may result in the loss of local accountability, ineffective control at the agency level and/or failure by the lead agency to be effective in its oversight role.

The opportunity for external and internal auditors to voice concerns to those charged with governance may be limited if cluster arrangements do not adequately cater for the needs of multiple agencies under these umbrella type arrangements.

The survey indicates some agencies made positive attestations despite process gaps, partially implemented policies and procedures, and Ministerial exceptions requested after the cut off date. This is contrary to the intention of the attestation, which is to confirm the agency has internal audit and risk management processes in place that comply in all material respects with the core requirements.

In an earlier report to Parliament, I recommended The Treasury and Department of Premier and Cabinet clarify the intention of TPP 09-05 Internal Audit and Risk Management Policy. If the intention is for agencies within a cluster to use the audit and risk committee of another agency in the same cluster, the central agencies should seek amendments to Section 11(2) of the PF&A Act and the TPP 09-05 to clearly authorise this (refer to my Volume Three of 2010 Report to Parliament).

**TREASURY COMMENTS**

The Treasury is currently reviewing the attestation statements it has received and is undertaking stakeholder consultations regarding issues arising from the first implementation cycle of the new Internal Audit and Risk Management Policy. An appropriate policy response to any issues identified will be developed over the course of 2011. Where material issues have come to its attention during the review of attestation statements, The Treasury is writing to the individual agencies concerned.

The policy has been generally well accepted and considered a significant step forward in establishing organisational arrangements that provide additional assurance, independent from operational management, on internal audit and risk management. In particular, relatively few Ministerial exceptions have been sought by the larger agencies.

However, feedback from smaller agencies indicates difficulty in complying with the policy due to lack of both financial and administrative resources. The Treasury is considering an appropriate response to address this issue.

To assist agencies with their obligations pursuant to core requirement 5 of the policy (Risk Management Standards), The Treasury will develop guidance for agencies in the form of an enterprise risk management toolkit to help agencies progressively build risk management capabilities.

**DETAILED RESULTS**

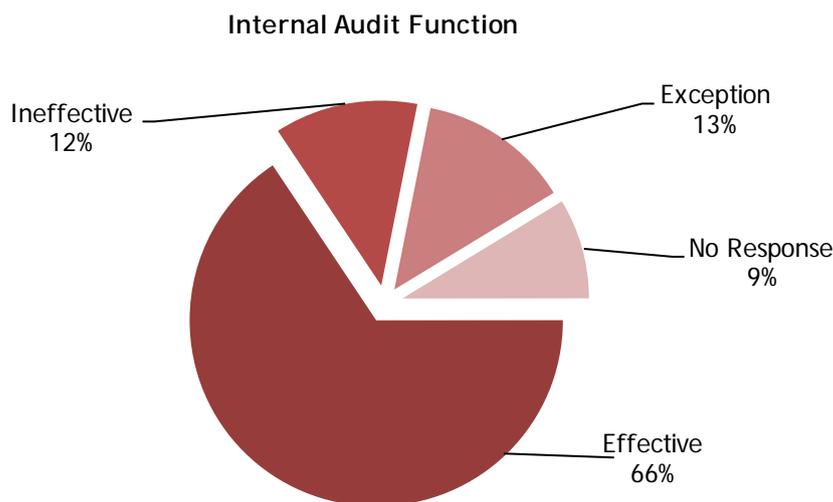
The average self assessment results are summarised below. These results relate to the overall assessment. As stated earlier, I found some overall assessments contradicted the conclusion I drew from the underlying responses to detailed questions. The following tables highlight those components of the core requirements with the highest incidence of non-compliance.

Criteria	Effective %	Ineffective %	Exception %	No response %
Internal Audit Function	66	12	13	9
Audit and Risk Committee	69	9	13	9
Independent Chairs and Members	64	14	13	9
Model Charter and Committee Operations	53	25	13	9
Risk Management Standards	42	36	13	9
Internal Audit Standards	53	25	13	9
Average	58	20	13	9

Thirteen per cent of respondents indicated they had received Exceptions from their respective Minister - these Exceptions indicate either:

- the Agency complies with the core requirements because the policy deems an agency with a Minister’s Exception is compliant (this appears contradictory to the intention of the policy)
- the Agency is not ready and has effectively sought more time to implement the core requirements.

**Core Requirement 1 - An Internal Audit Function has been established and maintained.**



Significant non-compliance Elements of Core Requirement	Policy Reference	Result
The core requirements define an internal audit function as one of four available models. Where the chosen model is an in-house internal audit delivery service model, the policy requires that a documented and operational quality assurance and improvement program be implemented.	Section 1.7.1	45% indicated this was not yet in place.
The policy requires department heads and CEOs of statutory bodies involve or consult with the Audit & Risk Committee in making the chief audit executive appointment.	Section 1.3.4	52% indicated they did not involve or consult the Audit & Risk Committee when appointing the chief audit executive.
The policy provides a Model Internal Audit Charter.	Section 1.4.1	36% had an internal audit charter that was inconsistent with the model charter.
Key decisions regarding allocation of resources by the Audit & Risk Committee must be minuted.	Section 1.6.2	38% did not minute key decisions regarding allocation of resources by the Audit and Risk Committee.
Agencies must have a review plan to ensure that the internal audit program is assessed against relevant professional standards at least every five years.	Section 1.7.2	45% did not have a review plan.

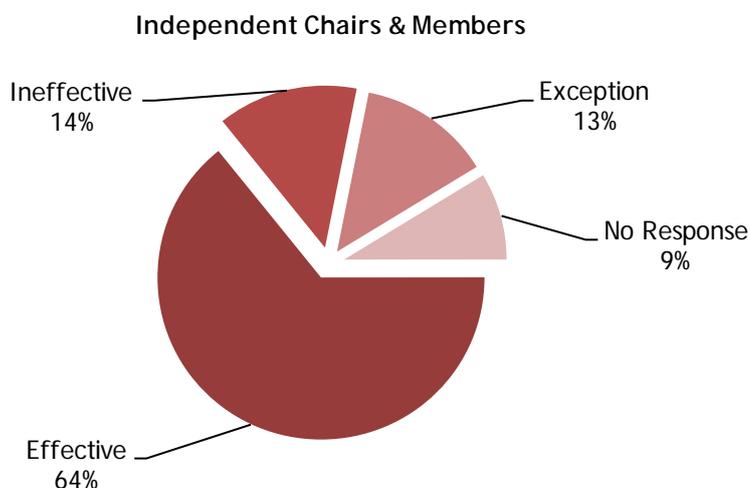
Agencies indicated reasonable compliance with the other elements of this core requirement.

**Core requirement 2 - An Audit & Risk Committee has been established.**



Core Requirement	Policy Reference	Result
Has the department head or governing board of the statutory body established an Audit & Risk Committee?	Section 2.1	9% indicated they had not established an Audit & Risk Committee.
If prior to the release of TPP 09-05 these responsibilities were separated, the responsibilities of the Risk Committee must be transferred to the Audit & Risk Committee.		13% indicated they had received a Ministerial Exception. 9% did not respond.

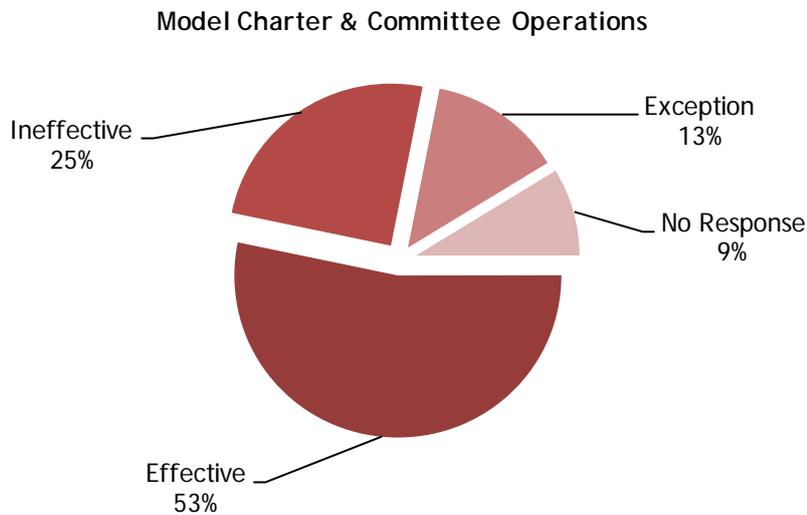
Core requirement 3 - The Audit & Risk Committee has an independent chair and a majority of independent members. The Audit & Risk Committee has at least three members, and no more than five members.



Significant non-compliance Elements of Core Requirement	Policy Reference	Result
The policy requires that agencies appoint an independent chair from policy-specified sources.	Section 3.2.1	42% had not appointed an independent chair from policy-specified sources.
The policy requires appointment of the chair of the Audit & Risk Committee subject to a minimum and maximum term.	Section 3.2.4	50% have not appointed the chair of the Audit & Risk Committee subject to a minimum and maximum term.
The policy requires the appointment of only eligible non-independent members.	Section 3.4.1	45% have not ensured non-independent members are eligible to serve.
The policy requires non-independent members collectively possess the required skills and competencies.	Section 3.4.3	44% have not assessed the skills and competencies of non-independent members.
The policy requires that agencies use the panel of pre-qualified individuals to appoint members of the Audit & Risk Committee.	Section 3.3.2	50% did not use the panel of pre-qualified individuals to appoint members of the Audit & Risk Committee.
The policy requires that agencies stagger Audit & Risk Committee membership renewal dates.	Section 3.5.3	50% did not stagger Audit & Risk Committee membership renewal dates.

Agencies indicated reasonable compliance with the other elements of this core requirement.

Core requirement 4 - The Audit & Risk Committee has a Charter that is consistent with the content of the 'model charter'.



Significant non-compliance Elements of Core Requirement	Policy Reference	Result
The policy requires that agencies use an Audit & Risk Committee charter consistent with the model charter.	Section 4.1.1	36% did not use an Audit & Risk Committee charter consistent with the model charter.
Agencies must implement an annual review procedure for the Audit & Risk Committee charter.	Section 4.1.4	39% did not have an annual review procedure for the Audit & Risk Committee charter.
The policy requires that Audit & Risk Committees meet with the internal and external audit teams independently of the operational staff.	Section 4.2.7	43% of committees do not meet with the internal and external audit teams independently of the operational staff.
The policy requires that agencies implement an annual performance review procedure for assessment of the Audit & Risk Committee.	Section 4.5.1	51% admitted to inadequate performance review procedures for assessing the Committee's performance.

Agencies indicated reasonable compliance with the other elements of this core requirement.

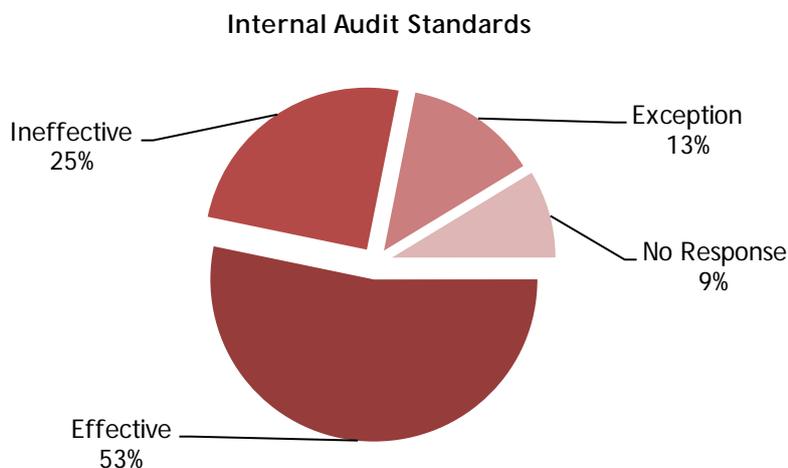
Core requirement 5 - An enterprise risk management process that is appropriate to the department or statutory body has been established and maintained. The enterprise risk management process is consistent with the current risk management standard.



Significant non-compliance Elements of Core Requirement	Policy Reference	Result
The Enterprise Risk Management ('ERM') process must give regard to specified risk management review and revaluation requirements.	Section 5.6.1	50% indicated the ERM process did not give regard to specified risk management review and revaluation requirements.
The ERM process must give regard to specified risk management culture requirements.	Section 5.7.1	49% indicated the ERM process implemented did not give regard to specified risk management culture requirements.

Agencies indicated reasonable compliance with the other elements of this core requirement.

**Core requirement 6 - The operation of the internal audit function is consistent with IIA International Standards for the Professional Practice of Internal Auditing and additional practice requirements as set in the policy.**



Significant non-compliance Elements of Core Requirement	Policy Reference	Result
The policy requires that the department head or governing board of a statutory body must ensure that all agreed actions are implemented within agreed timeframes.	Section 6.6.1	35% indicated there is limited focus on implementation of agreed action plans for issues and recommendations identified during the conduct of the internal audit program.
The policy requires the development, implementation and maintenance of Internal audit manuals.	Section 6.7.1	54% had not developed, implemented or maintained internal audit manuals.
The policy requires that outsourced arrangements be contracted.	Section 6.7.2	58% had not drafted contracts for outsourced arrangements to ensure agency obligations are accepted by the service provider.
The policy requires that Internal audit manuals be approved by the Audit & Risk Committee.	Section 6.7.3	80% had not sought approval of the internal audit manual by the Audit & Risk Committee.
The policy requires that Internal audit manuals are consistent with IIA Professional Standards.	Section 6.7.4	48% of internal audit manuals are not consistent with IIA Professional Standards.
The policy requires that appropriate document storage and retention procedures be implemented by agencies.	Section 6.7.5	31% did not have sufficient document storage and retention procedures.

Agencies indicated reasonable compliance with the other elements of this core requirement.

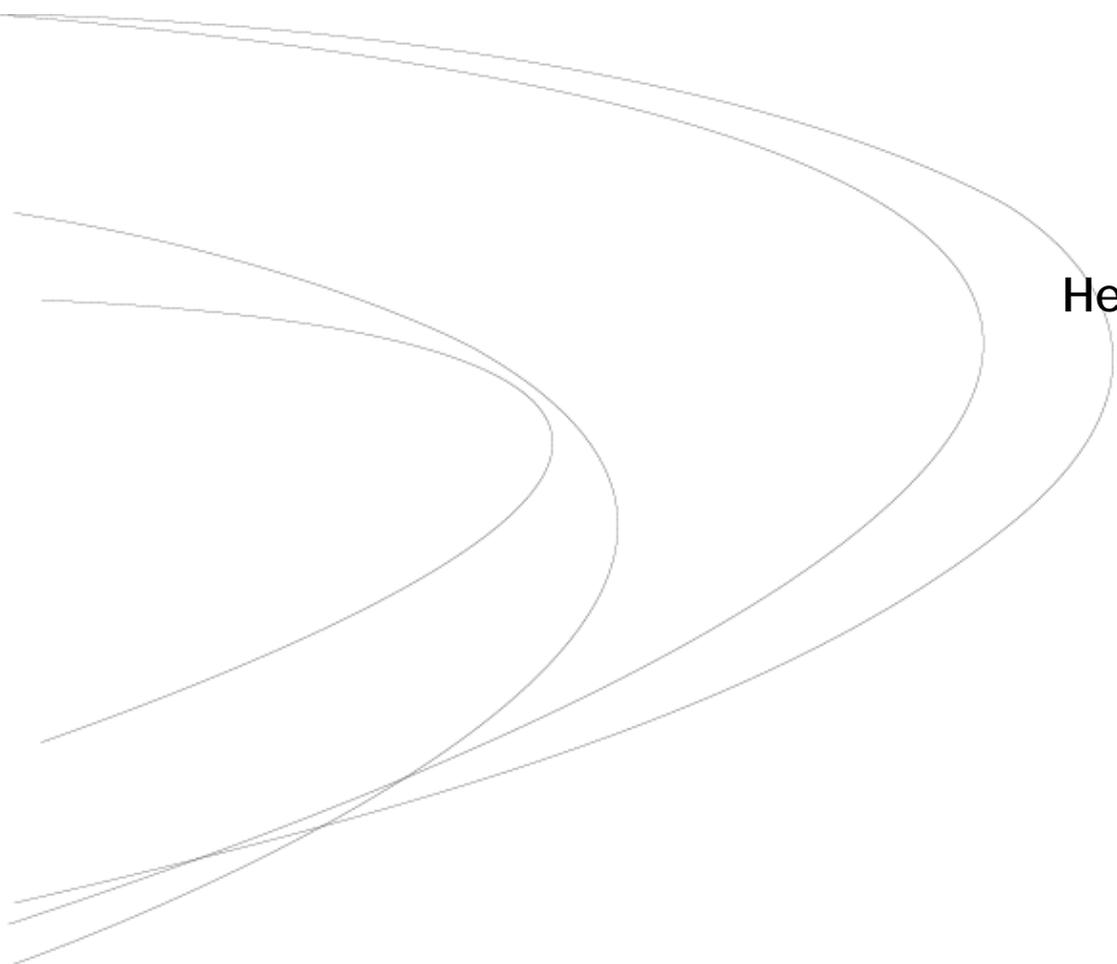
## APPENDIX A - AGENCIES THAT DID NOT RESPOND TO THE SURVEY

- Aboriginal Housing Office
- Cobar Water Board
- Hunter Region Sporting Venues Authority
- Jenolan Caves Reserve Trust
- Mine Subsidence Board
- New South Wales Institute of Sport
- State Management Council of Livestock Health and Pest Authorities constituted under the Rural Lands Protection Act 1998
- Statutory Trustees or a Statutory Trustee of a Fund within the meaning of the Technical Education Trust Funds Act 1967
- Sydney Cricket and Sports Ground Trust
- Upper Parramatta River Catchment Trust
- Wild Dog Destruction Board

Note: The Building Professionals Board, although originally named in this appendix, was removed as the Board did not have an opportunity to complete the survey.



# Section Two

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**Health Overview**



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# Health Overview

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## 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 (AHS)	Other Entities
Greater Southern (GSAHS)	Clinical Excellence Commission
Greater Western (GWAHS)	Justice Health
Hunter New England (HNEAHS)	Royal Alexandra Hospital for Children (CHW)
North Coast (NCAHS)	Bureau of Health Information
Northern Sydney and Central Coast (NSCCAHS)	Albury Base Hospital
South Eastern Sydney and Illawarra (SESAHS)	Albury Wodonga Health Special Purpose Service Entity
Sydney South West (SSWAHS)	The Graythwaite Trust
Sydney West (SWAHS)	Agency for Clinical Innovation
	Health Administration Corporation (HAC) comprising:
	- Ambulance Service of New South Wales
	- Health Support Services
	- Health Infrastructure
	- NSW Institute of Medical Education and Training

The audits of the Department and its controlled entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

The abridged financial statements for the Department and consolidated entity are included under the Department of Health comments elsewhere in this Volume. 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 advises it is in varying stages of implementing the recommendations made by the Garling Inquiry. Contrary to last year's advice that it had completed Stage One of Caring Together at 30 June 2009, the Department now advises it had completed only 80.0 per cent of Stage One and 75.0 per cent of Stage Two at 30 June 2010.

The Garling Report 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 has provided the following information about progress.

In March 2009, the New South Wales Government committed to implementing 137 of the 139 recommendations.

The recommendations not supported were:

- 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 responsible for performing non-treatment duties, which presently a two person team attends to, such as driving and attending to radio transmissions and paperwork.

Since signing up to the Australian Health and Hospitals Network Agreement, the Government has begun major structural reform with the creation of 18 Local Health Networks, to be managed by a Governing Council. The new structure will be implemented from 1 January 2011. This has resulted in two additional Garling recommendations no longer being supported, namely:

- '...but for the institution of NSW Kids, there be no other alterations to the current area health service governance structure
- there be reinstated boards of directors whose task it is to govern the various area health services as board governed health corporations within the meaning of the *Health Services Act 1997*'.

Further commentary on Local Health Networks is included later in this Overview.

The Government has set up a three stage response to the Report supported by additional funding of \$485 million over four years. An Independent Panel of clinicians as well as experts 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.

Most responses to the recommendations (the Health Action Plan), are driven locally through Area Health Advisory Councils by local expert implementation teams/councils. These are supported by state-wide, theme based implementation groups where required, the Caring Together Implementation Leadership Group and the NSW Community and Clinicians Expert Advisory Council (CCEAC).

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, the Independent Panel has released two, six-monthly progress reports, and its third report was released in November 2010.

The Stage One progress report, released in November 2009, noted that for the most part AHS were quick to recognise the importance of Caring Together and change was happening. The audit was also to assess the completeness and accuracy of the reporting system for the Health Action Plan. However, the early view of the Panel was that while implementation was occurring, the Plan initially focused on process and lacked a central strategic vision.

Following the Stage One report, the monitoring and reporting on Caring Together was improved with definitions written for each progress milestone for each of the 134 recommendations, with the aim of improving the consistency of reporting across AHS.

The second progress report, released in July 2010, reviewed data and the reporting framework. It noted that significant progress had been made since the first report, and commented favourably on the strategic approach being taken to monitoring progress, including the greater consistency of reporting following introduction of milestone definitions.

Since my 2009 Report to Parliament, the Department has noted the following with respect to stages one and two:

### Stage One

- There are 316 hospital wards in New South Wales participating in the *Essentials of Care* program which provides clinicians with a method to explore and understand current clinical practice and practice environments, and to develop ways to further enhance them. Nursing/Midwifery Unit Managers in *Essentials of Care* sites have reported significant improvements in hand washing, team work, staff participation in decision-making and documentation (R38).
- Auditing of Discharge Summaries is included in internal audit plans and undertaken in some AHS (R58).
- 45,000 clinicians have been provided with an awareness program which aims to improve the way clinicians identify and respond to patients when their clinical condition begins to deteriorate. A further 20,000 clinicians have completed targeted training in the new system. Paediatric and maternity observation charts are also being developed (R91).
- Forty two Executive Clinical Directors have been appointed across the AHS to improve communication between clinicians and managers, and to strengthen adoption of improved models of care (R137).
- Over 500 Clinical Support Officers have been appointed across all AHS. These positions assist in freeing up clinical staff to spend more time with patients (R40).
- A Performance Audit Tool to monitor complaints regarding bullying has been sent to AHS to implement and data is being reported in the NSW Health Annual Report (R44a&b). The Anti-Bullying Advice Line is a toll free advice line and became operational in April 2010 to provide confidential advice to staff on managing and overcoming bullying and harassment. Some 12 full time equivalent Anti-Bullying Management Advisors have also been appointed (R43e&g).
- A Clinical Handover Toolkit, Principles and Policy Directive was released in September 2009. This helps ensure effective, concise and complete communication in clinical handover. The Acute Care Taskforce has undertaken implementation-monitoring site visits during 2010, and all Health Services have submitted Implementation Plans for assessment (R56a&c).
- Appointments were made to the Bureau of Health Information in October 2009. The Bureau released its first report, *Insights into Care: Patients' Perspectives on NSW Public Hospitals* in May 2010. The first quarterly report on hospital performance for the period April to June 2010 was published in September 2010, with a particular focus on emergency department waiting times (R75&76).
- Progress with the *Severe Chronic Disease Management* program included work undertaken in partnership with General Practice to develop Regional Implementation Plans. The program provides support to older people with chronic conditions to coordinate care and reduce admissions to hospital. At June 2010, over 1,600 people had enrolled in the program. At the current rate of enrolment approximately 12,000 clients will be enrolled by June 2011 (R3).
- *Caring Together, Working Together: Workplace Culture Framework* was released in September 2010 and sets out a state wide framework of shared, positive workplace characteristics. The Framework is both state-wide and flexible, in recognition that different health services are at different stages of workplace change. A survey to assess the current workplace culture within the New South Wales Health System is being developed and will establish the baseline for evaluating the success of the planned culture change program, and support measures to improve workplace culture and prevent bullying (R42).

## Stage Two

- The Agency for Clinical Innovation (ACI) was established in December 2009. The Agency will develop new models of care in consultation with clinicians and members of Health Priority Taskforces. In August 2010, ACI launched a new model of care for managing orthopaedic procedures for older people (R67).
- A central register has been established to assist in filling vacancies for doctors and casual medical staff for AHS (R19a&b).
- The Clinical Education and Training Institute (CETI) commenced operations on 1 July 2010 and will support innovative multi-disciplinary training, and provide leadership in addressing the workforce challenges faced by AHS.
- An Education and Training Review, currently being conducted by KPMG, will establish the baseline level of delivery of postgraduate clinical education and training which will assist in identifying areas of future focus for CETI. The review was anticipated to be released in November/December 2010.

The implementation of Local Health Networks and Governing Councils from 1 January 2011 will impact the monitoring and reporting of Caring Together. The Department advised it is putting a framework in place to maintain focus on those recommendations yet to be completed and those requiring ongoing monitoring to ensure they are embedded into standard practice, and maintain a focus on patient care.

### Local Health Networks

In April 2010, the New South Wales Government entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government, having agreed on national health reforms to establish Local Health Networks in New South Wales, and to introduce national standards for timely access to emergency care and elective surgery.

Under the Agreement, the New South Wales Government will remain responsible for system-wide planning, performance and purchasing of public hospital services. The New South Wales Government will also support the transition process for the Australian Government to assume full funding and policy responsibility for general practice, primary health care and the national aged care system.

This agreement will result in structural and corporate changes, including the establishment of Local Health Networks in 2010-11. A professional Governing Council will be constituted for each Local Health Networks and will result in significant changes to the current establishment and operations of AHS.

This is a significant restructure creating challenges for the Department and its stakeholders.

### Internal Control Deficiencies across the Health Sector

I recommend Health Support Services agree the respective responsibilities for implementing effective standardised internal controls with its customers and the Department. Control deficiencies have increased the risk that irregularities are not prevented or detected. The standardised internal controls should be implemented at Health Support Services and its customers as soon as practicable.

Health Support Services (HSS), amongst other things provides financial and payroll support to AHS and other health entities. HSS began processing transactions for health entities in 2007, and now provides the financial transaction processing and payroll functions for the majority of AHS.

I found a significant number of weaknesses in internal controls in our audit of the HSS service centres. In some cases, HSS has advised that the deficiencies in its processes are an AHS or other health entity responsibility, while the customers consider them to be an HSS responsibility. As a result, certain controls are often not operating at either HSS, the AHS or other health entities.

Further information on this issue is included in the Health Administration Corporation comment later in this Volume.

### Fully Depreciated Plant and Equipment (Repeat Issue)

I recommend the Department finalise its review of the continued use of fully depreciated plant and equipment. Actions emanating from the completed review should be implemented in a timely manner.

Plant and equipment at AHS contain significant numbers of fully depreciated items:

Plant and Equipment	2010	2009	2008	2007
Total plant and equipment-at cost (\$'000)	1,508,274	1,556,089	1,538,513	1,603,510
Fully depreciated plant and equipment-at cost (\$'000)	453,015	562,742	579,226	668,210
Fully depreciated plant and equipment as a percentage of total (%)	30.0	36.2	37.6	41.7

In my 2007 report to Parliament, I recommended the Department review the useful lives of fully depreciated assets, which continue to be used. This was to ensure not only the accounting assessment of the useful lives was appropriate, but more importantly to determine if they need to be replaced, particularly where continued use might affect the efficient and effective provision of health services. The Department advised it was developing a medical equipment strategic framework for the procurement and management of such equipment at hospitals.

I again reported this matter in 2008 and 2009 and recommended the Department commission an independent expert to help review the useful lives, particularly for critical plant and equipment. I had expected conclusive action would have been taken on this important issue by now. The Department has advised this is a complex and far-reaching matter. Although progress on some of these actions has been made, there is still some way to go. The two programs referred to below need to be completed in a timely manner and associated actions need to be effectively implemented across AHS.

### *Medical Equipment Asset Management Program*

The Department advised a consulting firm was engaged in 2009 to review its approach to equipment management. As a result the Department established a Business Unit to manage assets on a whole-of-life-cycle basis. In late 2010, HSS developed a proposal to expand its medical equipment purchasing section to incorporate a centralised, state-wide asset management system involving improved aggregated purchasing, management, maintenance, and reporting of assets.

At the same time, the Department is investigating the use of a private sector service provider, targeted at improving the whole-of-life-cycle management of medical equipment. Meetings are currently being held with shortlisted medical equipment service providers and a clinician user group to determine the commercial and service feasibility of the pilot proceeding.

**Health Asset Management and Maintenance System**

The Department advised various versions of an Asset Management and Maintenance System (AMMS) exist across the health sector, predominantly designed and focussed on supporting the management of built assets, rather than equipment. Equipment asset registers are largely related to the finance systems and/or specific segments (e.g. biomedical equipment). The various asset systems: are not integrated; reporting capacities are limited; cannot be used as a planning, benchmarking or management tool; and are becoming progressively obsolete.

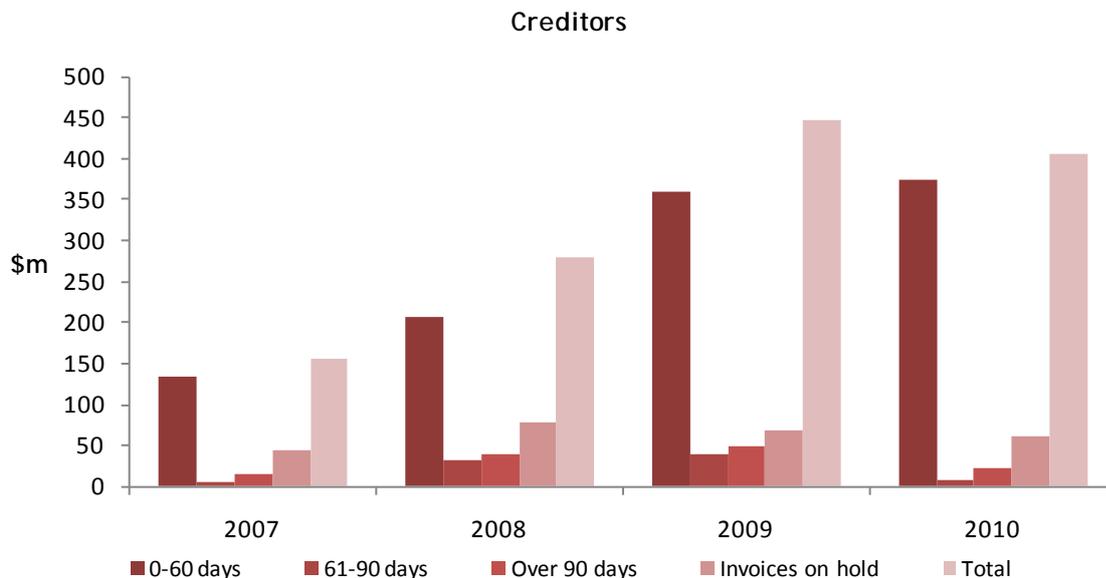
The Department has a long term project in place to update and standardise its asset management reporting systems, and to comprehensively extend their application to all equipment assets. The Department considers the AMMS investment will provide the essential tool for supporting the efficient use of assets, and maximise opportunities for savings on procurement, maintenance and disposal. The initial stage of reviewing product options for implementation has been completed and this has confirmed the new generation systems now available are likely to better fit Health’s needs. A tender for the replacement system, with an initial phase being the equipment asset register is proposed to be issued in early December 2010.

**Accounts Payable (Repeat Issue)**

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

Some improvement has been made by the Department and AHS to improve the level of long outstanding creditors at year end. Total creditors amounted to \$406 million at 30 June 2010 (\$447 million in 2008-09) for all eight AHS, a 9.2 per cent decrease.

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



Note: Total column is comprised of the 3 ageing columns, as they include the amounts for invoices on hold or in dispute. The 0-60 day columns for 2010 and 2009 include accruals (not included for 2008 and 2007)

Commentary on individual AHS' creditor levels and ageing is included elsewhere in this Volume. Some capital works creditors and non-trade creditors are not included in the graph as no ageing analysis was available. The total of these creditors for 2010 was \$40 million (\$42 million).

Total creditors (excluding capital works and non-trade creditors) decreased during the year for four of the eight AHS. SWAHS had the highest level of creditors (SESIAHS in 2008-09) and NCAHS had the lowest (GSAHS).

### *Ageing of Trade Creditors*

A review of creditors' ageing at 30 June 2010 showed that seven AHS had a lower level of creditors over 90 days compared to the prior year. SWAHS increased slightly over the prior year.

The Department requires creditors to be paid within contract terms and it monitors performance against a benchmark target of 45 days for invoices ready for payment. The performance statistics are for general trade creditors and do not include liabilities to visiting medical officers or certain government agencies. According to information provided by the Department, all AHS (two) achieved this target for 2009-10. However, this benchmark does not include creditors on hold or in dispute.

Although most AHS showed a decrease in creditors at year end, creditor balances were consistently higher throughout the year. The benchmark target of 45 days for creditor payments was not met by any AHS in the 11 months prior to 30 June 2010. The Department advised that during 2009-10 (as part of the normal budget management processes) it provided funding to AHS, which specifically targeted the payment of creditor invoices within contract terms. An example was SESIAHS, where \$41.7 million was provided by the Department for creditor payments. The Department also advised that AHS are substantially achieving the benchmark in 2010-11.

### *Disputed or On Hold Invoices*

For several AHS, I found the value of disputed or on hold creditors of \$61.6 million (\$67.5 million) made up a significant proportion of the total value of creditors at 30 June 2010. SESIAHS had the largest amount at \$15.8 million. The AHS with the largest proportion of its total creditors on hold or in dispute was SSWAHS at 27.0 per cent, or \$14.1 million.

More than 40.0 per cent of invoices were on hold because purchase orders were not raised for the invoices. This is significant and the Department, in consultation with AHS, needs to address this issue urgently.

The Department reminded AHS in 2008-09 of the need to ensure purchases were supported by valid orders. The Department also wrote to its major suppliers advising that AHS requests should not be filled without a valid purchase order. These actions do not seem to have been effective for some AHS. The use of purchase orders is an important internal control designed to ensure expenditure is approved before it is incurred and to prevent waste of public funds.

## Contract Staff (Repeat Issue)

I recommend the Department develop a system to monitor the number of contractors who provide personal or professional services and the length of time they have done so. The review should identify contractors whose services are no longer required. Internal controls over the use of contractors need to be strengthened. A similar exercise should be performed at AHS for non-medical contractors.

For the last two years, I reported 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. I formally requested from the Department in June this year, for the parent entity and one sample AHS (SSWAHS), contractor statistics at 30 April 2010.

The Department provided this information in November, just prior to finalising this report. These statistics are included in the Department and SSWAHS comments later in this Volume. However, due to the late receipt of this information, I was unable to finalise my analysis of the data to ensure accuracy and to consider whether the information identified any issues.

The information had to be manually compiled, and I understand it was a difficult process. Without such information being monitored periodically, it is unclear how the Department is able to effectively manage its contract staff.

The Department advised it believes it complies with Premier's Memorandum 2009-15 relating to the engagement and retention of agency and contract staff. As mentioned above, I have not been able to confirm this.

The Department undertook several internal audits of the use of contract staff in various branches at its head office during the year. The Department advised some of the findings were interim, and included instances of:

- lack of evidence to confirm payments to contractors were for services actually provided
- lack of evidence of evaluation of contractor performance
- overcharging by agencies rounding up work hours
- contract staff being provided with pay increases without appropriate approval, and not supported by a business case
- inappropriate approval for exemption from a tender process for the engagement of contractors
- engagement of contractors not being in accordance with the Department's contract management guidelines.

The Department advised it is considering the findings, including appropriate action in respect of interim findings.

## OTHER INFORMATION

### Budget to Actual Comparison

I recommend the Department finalise the implementation of recommendations from the NSW Health Independent Financial Management Review of its budget setting and monitoring processes.

The Department has made significant improvements to its budget monitoring processes and performance over the past two years.

As previously reported a consultant was engaged to review the Department's budget setting and monitoring processes. The review led to 37 recommendations being made to address activity pressure, control issues and financial discipline. Significant progress has been made in implementing these recommendations, and as advised by the Department:

- 30 recommendations have been implemented, substantially implemented or deemed to require no further action
- 6 are partially implemented, but are behind original schedule
- one is behind schedule and is being reassessed as part of the National Health and Hospital Reforms.

The recommendations not fully implemented generally relate to improvements required in IT systems to enable more timely production of financial management information.

### Compliance with Treasurer's Directions (Repeat Issue)

I recommend the Department ensure AHS policies agree with all requirements of the Treasurer's Directions.

In prior years, I reported apparent non-compliance by AHS with the Public Finance and Audit Regulation 2005, Treasurer's Directions and annual reporting legislation. Several years ago, the Department came to a view that Treasurer's Directions did not apply to AHS, and at the time, undertook to obtain legal advice to clarify the matter.

This year, the Department sought advice from The Treasury, which concluded that Treasurer's Directions do apply to AHS. The Department advised that AHS policies comply with the majority of Treasurer's directions and only a few minor variations have been identified. The Department is currently liaising with The Treasury to determine whether any amendments need to be made to its policies for those variations.

### Special Purpose and Trust Funds (Repeat Issue)

I recommend the Department, in conjunction with the AHS, finalise the review of 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 Public Contributions Trust Fund account, to assist in the delivery of health services.

In my 2008 report I first recommended the Department, in conjunction with AHS, review all special purpose and trust funds to confirm their nature and intended purpose, as this was not apparent for some funds.

In May 2009, the Department requested a report from each AHS confirming:

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

In May 2010, the Department followed up its request as only three AHS had completed the review. Further progress has since been made, with four AHS having now completed the review. The remaining four (SWAHS, SESIAHS, SSWAHS and GWAHS) were in the process of performing the review at 30 June 2010.

The results from the reviews varied. Only a few trust funds had been dormant for a number of years. One AHS was unable to locate the source documents for a number of its trust funds. I found some funds were being overdrawn throughout the year, with monies only recouped at year end in most cases.

My other findings are included in individual AHS comments.

The value of Special Purpose and Trust funds at 30 June 2010, for the eight AHS, was \$508 million (\$468 million).

#### Asset Stock Takes (Repeat Issue)

I recommend the Department reinforce compliance with its policies and procedures for plant and equipment stock takes, to ensure all AHS perform effective stock takes each year. Accountability for non-compliance with the Department's policies should be made clearer to senior AHS officers.

Last year, I reported AHS had not completed full stock takes of plant and equipment and recommended policies and procedures be improved for these stock takes. I reviewed the results of stock takes across all AHS this year and found:

- five AHS performed complete stock takes
- the remaining three have completed partial stock takes during the year.

This is a significant improvement over the previous year. The risk of theft or misappropriation of assets increases significantly if appropriate controls, including asset stock takes, are not in place to safeguard assets. The Department's policy is for AHS to complete stock takes of plant and equipment each year. It should ensure AHS that do not comply with this policy can adequately explain their non-compliance. Greater accountability for effective stock takes should reside with relevant senior AHS officers.

### Long-term maintenance benchmarking (Repeat Issue)

I recommend the Department establish and monitor appropriate targets for ensuring asset maintenance levels are adequate. This should be done in conjunction with the reviews being performed on fully depreciated plant and equipment referred to earlier.

Last year, I recommended the Department improve its asset maintenance so benchmark maintenance levels are met. The Department advised that the benchmark it had been using was not appropriate, as it was for equipment only rather than buildings, infrastructure and equipment.

The Department advised that state-wide maintenance expenditure, as a percentage of gross asset values, has remained constant at 1.1 per cent for the past two years. It is reviewing these levels and strategies to ensure appropriate maintenance levels are met, in conjunction with the Medical Equipment Services program discussed earlier.

### Information Technology Projects

The following table outlines major information technology projects in progress and which are in excess of \$50.0 million.

Project Description	Original Budgeted Cost (\$000)	Revised Budgeted Cost (\$000)	Original Estimated Completion Year	Revised Completion Year (if applicable)
Patient and Clinical Systems Phase 2	115,000	115,000	2010	2011
Patient Administration System	89,719	89,719	2010	2010*
Medical Imaging Picture Archiving and Communications System and Radiology (MIPACSR)	62,867	63,103	2011	2011
Human Resources Information System (HRIS)	50,728	See below	2012	See below
Community Health Outpatient system	104,793	104,793	2015	2015
Corporate System Stage 2a	107,716	107,716	2014	2014

Source: Department information (unaudited)

\*The majority of this project was completed in 2007-08. Some necessary integration with the electronic medical recording system was completed in 2010.

The HRIS project's original budgeted cost was \$50.7 million and completion was planned for 2012. A revised estimated cost to complete is in the process of being agreed with The Treasury. A revised timeframe is also being assessed. The Department has advised the reasons for the delays and changes in estimated cost stem from:

- additional work to build common integration deliverables required by other IT programs
- the complexity of testing Health employee awards, and
- work required to re-configure the system to operate for Local Health Networks.

## Payments to Visiting Medical Officers and Medical Staff

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

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007* \$'000
Medical staff**	1,337,962	1,245,073	1,067,381	967,860
VMOs	544,548	523,634	455,710	358,846

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

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

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

Over the last four years, medical staff expenses have increased by 38.2 per cent, compared to a 51.7 per cent increase in VMO costs.

VMOs are 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 and other medical staff employed directly by AHS. At other times they work in private practice.

## Human Resources

This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- extent of overtime
- extent of use of contract staff - see 'Key Issues' earlier in this Overview
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities.

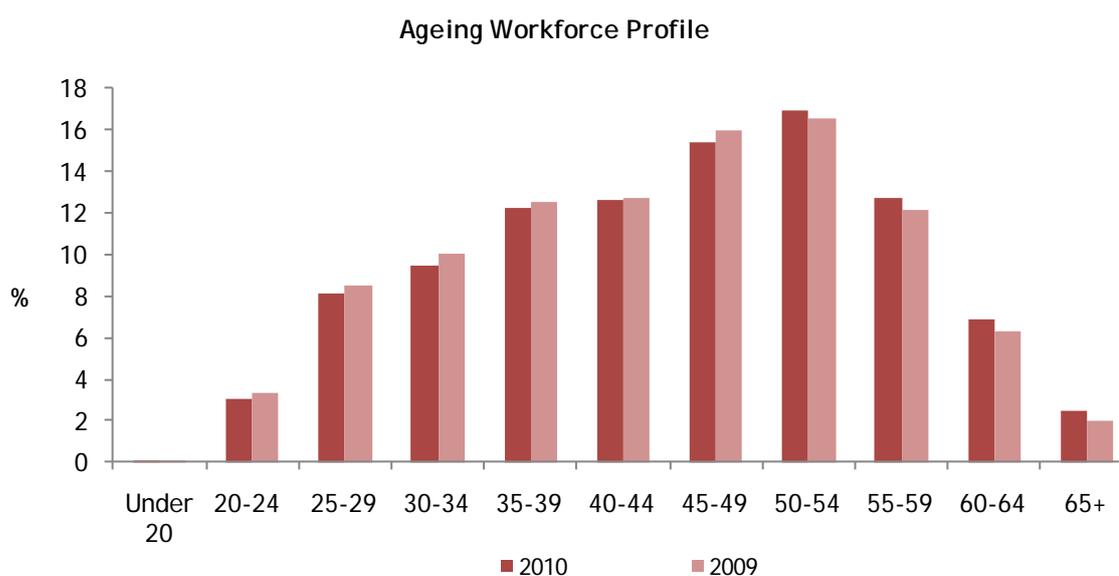
The following information is for the consolidated entity unless stated otherwise. Commentary on individual AHS and other health entity human resources are included in the individual comments elsewhere in this Volume.

## Workforce Ageing

I recommend the Department develop and implement effective policies to address and manage its ageing workforce.

The Department is facing challenges from the potential loss of thousands of staff over the next few years, as indicated by the following statistics:

- 22.1 per cent of staff are aged 55 years and over
- 39.0 per cent are aged 50 years and over.



The age profile for all permanent staff of the consolidated entity is shown below:

At 30 June Age Group	2010 No. of Employees	% of total employees	2009 No. of Employees	% of total employees
Under 20	54	0.1	77	0.1
20-24	2,802	3.1	3,215	3.3
25-29	7,601	8.1	8,014	8.5
30-34	8,885	9.5	9,461	10.0
35-39	11,430	12.2	11,824	12.5
40-44	11,799	12.6	12,045	12.7
45-49	14,330	15.4	15,147	16.0
50-54	15,764	16.9	15,640	16.5
55-59	11,869	12.7	11,453	12.1
60-64	6,451	6.9	6,015	6.3
65 and above	2,350	2.5	1,940	2.0
<b>Total</b>	<b>93,335</b>	<b>100</b>	<b>94,831</b>	<b>100</b>

Source: Department statistics (unaudited).

To ensure an adequate supply of staff in the future, the Department should actively monitor its workforce age profile and ensure strategies are in place to develop, attract and retain staff. This is particularly important for front line staff including doctors, nurses etc. Some AHS have advised they have strategies in place to address this issue.

**Annual Leave Balances**

I recommend each health entity review the effectiveness of its policies for managing excessive annual leave balances.

The following table shows the number of staff with leave in excess of 40 days.

Annual Leave Days Accrued	Health Staff	
	2010	2009
41-60	12,564	12,856
61-80	5,981	6,085
81-100	2,668	2,807
Over 100	2,620	2,728
<b>Total</b>	<b>23,833</b>	<b>24,476</b>

Managing excessive annual leave balances remains a challenge for most Health entities. At 30 June 2010, 23,833 employees or 25.5 per cent of all staff had accrued more than the general public service benchmark of 40 days annual leave (25.8 percent at 30 June 2009). The Department advised that a significant number of staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased depending on the incidence of time worked on Sundays and public holidays. The Department further advised in such instances, and using the public sector benchmark of two years' accrual as a guide, Health staff may not in fact have excess leave until the accrued value exceeds 70 days. The table above shows that many staff have accumulated leave beyond industry norms.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

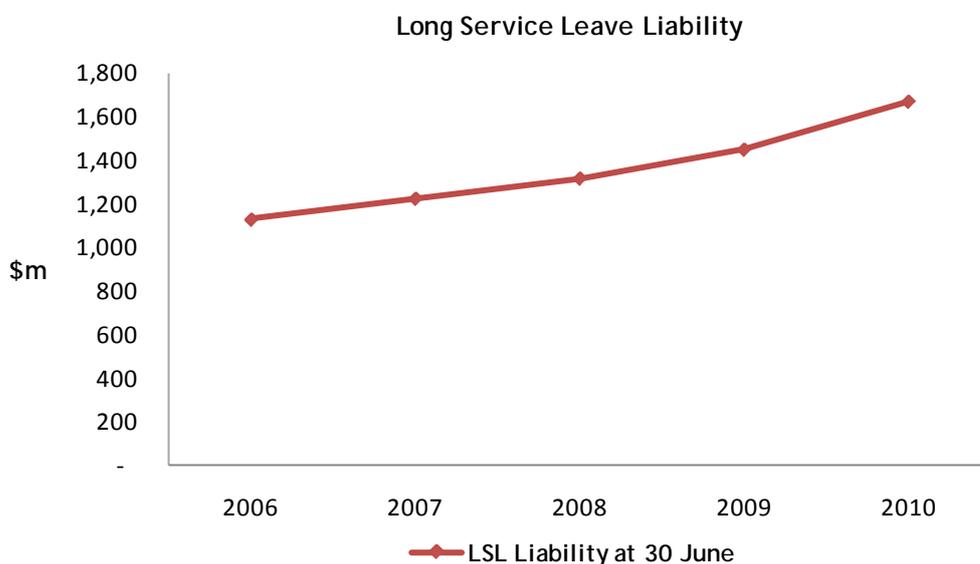
I understand the Department, including AHS, have implemented various strategies to reduce excessive annual leave. The Department should continue to monitor and implement such strategies to ensure excessive annual leave is minimised.

**Overtime**

Overtime payments in 2009-10 amounted to \$341 million (\$335 million in 2008-09), 4.8 per cent (5.0 per cent) of total base salary expense for the year. On average, employees received \$5,909 (\$5,610) in overtime payments and 61.8 per cent (62.9 per cent) received a payment for working overtime. The highest amount paid to a single employee in 2009-10 was \$348,686 (\$294,462).

### Long Service Leave Liability

The table below shows the consolidated entity's long service leave liability for the years 2005-06 to 2009-10. Long service leave entitlements at 30 June 2010 amounted to \$1,668 million (\$1,129 million at 30 June 2006), an increase of 47.7 per cent over the last five years.



Reasons for the increase in the liability include changes in actuarial factors used to determine long service leave liabilities, including changes in the government bond rates and increases in on-costs and salary rates.

This is a significant liability. The Department will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

The Department has advised it is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity in order to bring the Department into line with other New South Wales Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

## 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 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, the 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 2010.

	Area Health Service					
	Greater Southern		Greater Western		Hunter New England	
	2010	2009	2010	2009	2010	2009
<b>Abridged Statements of Comprehensive Income (Year ended 30 June) - \$million</b>						
Employee related	395.6	440.6	415.6	409.3	1,031.3	994.4
Other expenses	555.0	473.8	404.5	380.5	789.1	722.0
Total expenses	950.6	914.4	820.1	789.8	1,820.4	1,716.4
Total revenues	138.8	137.2	100.7	85.5	385.9	306.4
Other (losses)/gains	(1.3)	(1.5)	(0.5)	(1.5)	(4.2)	(0.2)
Net cost of services	813.1	778.7	719.9	705.8	1,438.7	1,410.2
Government contributions	811.5	758.6	779.4	715.4	1,421.3	1,358.3
Surplus/(deficit)	(1.6)	(20.1)	59.5	9.6	(17.4)	(51.9)
<b>Abridged Statements of Financial Position (at 30 June) - \$million</b>						
Total assets	486.1	620.7	622.6	574.1	1,384.4	1,291.4
Total liabilities	208.6	210.4	204.5	214.4	616.3	590.0
Net assets	277.5	410.3	418.1	359.7	768.1	701.4
<b>Performance Indicators - unaudited</b>						
Average available beds (June)	1,914	2,023	1,860	1,852	3,232	3,202
Bed occupancy (%) (June)	73.8	72.8	72.6	70.2	81.3	81.7
Average length of stay (days)	2.6	2.7	2.9	3.0	3.6	3.8
Staff numbers (FTE) at 30 June	4,524	4,628	4,884	4,863	11,022	11,771
Emergency triage treatment categories (a)						
T1 (benchmark 100%)	100	100	100	100	100	100
T2 (benchmark 80%)	79	81	75	83	81	85
T3 (benchmark 75%)	74	76	74	78	71	75
T4 (benchmark 70%)	77	76	78	82	75	77
T5 (benchmark 70%)	90	90	92	93	91	92
Emergency admission performance (b)	81	81	77	83	83	83
Elective surgery categories (c)						
Category 1 (%)	92	93	95	95	89	88
Category 2 (%)	80	83	89	85	89	86
Category 3 (%)	84	90	91	94	89	93

Key: Performance Indicators data 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	
	2010	2009	2010	2009	2010	2009
<b>Abridged Statements of Comprehensive Income (Year ended 30 June) - \$million</b>						
Employee related	552.0	534.4	1,082.8	1,053.8	1,380.7	1,322.9
Other expenses	501.1	467.6	746.1	696.2	1,032.0	1,004.0
Total expenses	1,053.1	1,002.0	1,828.9	1,750.0	2,412.7	2,326.9
Total revenues	155.1	132.2	357.5	342.5	641.8	566.2
Other ( losses)/gains	(1.6)	(1.4)	(24.7)	(2.9)	(2.3)	(6.9)
Net cost of services	899.6	871.2	1,496.1	1,410.4	1,773.1	1,767.6
Government contributions	915.1	846.0	1,454.6	1,402.9	1,737.1	1,702.8
Surplus/(deficit)	15.5	(25.2)	(41.5)	(7.5)	(36.0)	(64.8)
<b>Abridged Statements of Financial Position (at 30 June) - \$million</b>						
Total assets	680.1	649.2	1,674.4	1,544.3	1,701.5	1,600.8
Total liabilities	225.5	232.9	581.1	486.2	623.4	609.1
Net assets	454.6	416.3	1,093.3	1,058.1	1,078.1	991.7
<b>Performance Indicators - unaudited</b>						
Average available beds (June)	1,652	1,625	2,737	2,771	3,524	3,501
Bed occupancy (%) (June)	85.6	83.8	89.8	88.3	93.3	93.3
Average length of stay (days)	3.7	3.7	4.3	4.4	3.6	3.6
Staff numbers (FTE) at 30 June	6,099	5,987	11,326	11,443	14,567	14,205
Emergency triage treatment categories (a)						
T1 (benchmark 100%)	100	100	100	100	100	100
T2 (benchmark 80%)	65	77	80	75	88	88
T3 (benchmark 75%)	59	61	72	67	67	72
T4 (benchmark 70%)	64	65	73	70	72	74
T5 (benchmark 70%)	87	88	85	86	90	91
Emergency admission performance (b)	71	75	71	70	74	74
Elective surgery categories (c)						
Category 1 (%)	87	84	96	99	90	91
Category 2 (%)	74	75	79	85	87	83
Category 3 (%)	81	90	89	96	91	94

Key: Performance Indicators data 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	
	2010	2009	2010	2009	2010	2009
<b>Abridged Statements of Comprehensive Income (Year ended 30 June) - \$million</b>						
Employee related	1,613.5	1,560.5	1,202.0	1,186.2	7,673.5	7,502.1
Other expenses	1,049.4	992.7	867.8	827.0	5,945.0	5,563.8
Total expenses	2,662.9	2,553.2	2,069.8	2,013.2	13,628.5	13,065.9
Total revenues	634.5	553.3	375.1	329.5	2,789.4	2,452.8
Other (losses)/gains	(14.5)	(5.9)	(6.8)	(16.5)	(55.9)	(36.8)
Net cost of services	2,042.9	2,005.8	1,701.5	1,700.2	10,884.9	10,649.9
Government contributions	2,140.7	2,029.2	1,676.3	1,639.7	10,936.0	10,452.9
Surplus/(deficit)	97.8	23.4	(25.2)	(60.5)	51.1	(197.0)
<b>Abridged Statements of Financial Position (at 30 June) - \$million</b>						
Total assets	2,183.2	2,067.9	1,688.0	1,663.4	10,420.3	10,011.8
Total liabilities	697.6	653.9	589.8	549.2	3,746.8	3,546.1
Net assets	1,485.6	1,414.0	1,098.2	1,114.2	6,673.5	6,465.7
<b>Performance Indicators - unaudited</b>						
Average available beds (June)	4,032	3,958	2,905	2,888	22,421 <sup>e</sup>	22,311 <sup>e</sup>
Bed occupancy (%) (June)	92.6	90.7	91.5	92.8	88.3 <sup>d</sup>	87.4 <sup>d</sup>
Average length of stay (days)	3.6	3.7	3.4	3.5	3.6 <sup>d</sup>	3.7 <sup>e</sup>
Staff numbers (FTE) at 30 June	17,680	17,459	12,550	13,422	82,652	83,778
Emergency triage treatment categories (a)						
T1 (benchmark 100%)	100	100	100	100	100 <sup>d</sup>	100 <sup>d</sup>
T2 (benchmark 80%)	88	79	80	81	81 <sup>d</sup>	81 <sup>d</sup>
T3 (benchmark 75%)	77	63	65	65	70 <sup>d</sup>	68 <sup>d</sup>
T4 (benchmark 70%)	77	72	68	70	73 <sup>d</sup>	73 <sup>d</sup>
T5 (benchmark 70%)	92	89	85	88	89 <sup>d</sup>	89 <sup>d</sup>
Emergency admission performance (b)	71	65	66	69	73 <sup>d</sup>	73 <sup>d</sup>
Elective surgery categories (c)						
Category 1 (%)	95	95	91	96	92 <sup>d</sup>	93 <sup>d</sup>
Category 2 (%)	92	90	77	91	84 <sup>d</sup>	85 <sup>d</sup>
Category 3 (%)	94	97	84	96	89 <sup>d</sup>	94 <sup>d</sup>

Key: Performance Indicators data 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

Two of the 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 SSWAHS and HNEAHS achieved both benchmarks in 2010 (SSWAHS in 2009). The general creditors benchmark was achieved by all AHS in 2010 (two AHS in 2009), a significant improvement. However, this performance indicator excludes creditors with invoices on hold or in dispute and other creditors, such as those for capital projects, certain government agencies and intra health entities. Achievement of creditors' benchmarks was discussed in detail earlier under Key Issues.

### *Net Cost of Services*

The net cost of services for five (six) of the eight AHS were higher than the budget approved by the Department. The over-runs ranged from \$1.8 million for SWAHS to \$8.5 million for GSAHS. This was an improvement over the prior year where the overruns ranged from \$13.0 million for SESIAHS to \$40.7 million for SWAHS.

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

Area Health Service Year ended 30 June	Budget* 2010 \$m	Actual* 2010 \$m	(Over)/Under Budget \$m
Greater Southern	804.6	813.1	(8.5)
Greater Western	714.6	719.9	(5.3)
Hunter New England	1,452.0	1,438.7	13.3
North Coast	900.4	899.6	0.8
Northern Sydney and Central Coast	1,488.9	1,496.1	(7.2)
South Eastern Sydney and Illawarra	1,767.6	1,773.1	(5.5)
Sydney South West	2,086.8	2,042.9	43.9
Sydney West	1,699.7	1,701.5	(1.8)

\*Includes Special Purpose and Trust Funds and special projects. These are not included in the Department key indicators mentioned above.

## 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 (SESAHS) to a low of 72.6 per cent (GWAHS). 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 3.6 days, slightly lower than the prior year of 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 constant across the majority of AHS, with only a slight increase in the overall number of available beds in June 2010 being 22,421 (22,311).

### *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 the 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 earlier table for explanations of T1 to T3). All AHS met the T1 benchmark. Performance in T2 remained consistent while T3 worsened this year. Three AHS did not achieve the T2 benchmark and seven AHS did not meet the other life threatening category T3 in 2009-10.

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

Triage Category Year ended 30 June	Target %	2010	2009
Triage Category 1	100	8	8
Triage Category 2	80	5	5
Triage Category 3	75	1	3
Triage Category 4	70	6	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 recorded the lowest emergency admission performance at 66.0 per cent. The highest was HNEAHS at 83.0 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 1 - surgical procedure to occur within 30 days of booking for surgery. Condition has the potential to deteriorate quickly to the point that it may become an emergency.
- Category 2 - surgical procedure to occur within 90 days of booking for surgery. Conditions that cause some pain, dysfunction or disability, but are not likely to deteriorate quickly or become an emergency.
- Category 3 - surgical procedure to occur within 365 days of booking for surgery. Conditions that cause a 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 who have waited longer than the benchmark waiting time.

There has been a slight reduction in the percentage of patients admitted within the targets in all three categories. The Department advised that:

#### *Category 1*

- 92.0 per cent of patients in the most urgent category were admitted within the target of 30 days (93.0 per cent in 2008-09)
- the best percentage was NSCCAHS at 96.0 per cent
- the lowest percentage was NCAHS at 87.0 per cent.

#### *Category 2*

- patients admitted within the target of 90 days were 84.0 per cent (85.0 per cent)
- SSWAHS had the best percentage at 92.0 per cent
- NCAHS had the lowest percentage at 74.0 per cent.

#### *Category 3*

- patients admitted within the target of 365 days were 89.0 per cent (94.0 per cent)
- SSWAHS had the highest percentage at 94.0 per cent
- NCAHS had the lowest percentage at 81.0 per cent.

The Department advised there was a significant increase in the median waiting time for Category 3 patients, who waited an average of 205 days in the April to June 2010 quarter (134 days for April to June 2009). The median waiting time for Category 2 patients improved slightly at 49 (51) days for the April to June 2010 quarter. Category 1 patients waited an average of 11 days (10).

The Australian Government commenced a program to provide additional funding to States provided they met certain targets for elective surgery. The first target set for the six months ended 31 December 2009 was for 100,507 elective surgery admissions. The Department achieved the target. The Department advised that provisional targets for the six months to 30 June 2010 have been achieved, subject to review by the COAG Reform Council.

The Department advised:

- the number of patients on the surgical waiting list has increased from 64,512 as at 30 June 2009 to 66,817 as at 30 June 2010.
- the number of surgical urgent overdue patients reduced significantly in Category 1 to two at 30 June 2010 (74 at 30 June 2009)
- the Category 2 overdue waiting list has decreased significantly to 138 at 30 June 2010 (839)
- Category 3 overdue patients has increased to 1,057 at 30 June 2010 (674).

At 30 June	No. of patients on surgical waiting list		Number overdue	
	2010	2009	2010	2009
<b>Surgical Waiting List</b>				
Category One	1,983	2,210	2	74
Category Two	11,103	11,407	138	839
Category Three	53,731	50,895	1,057	674
<b>Total</b>	<b>66,817</b>	<b>64,512</b>	<b>1,197</b>	<b>1,587</b>

Source: Department of Health (unaudited)

An audit was recently conducted by an external consultant on SWAHS elective surgery waiting lists to examine whether SWAHS complied with waiting time and patient management policies set by the Department. This review stemmed from concerns over waiting list performance and management at SWAHS.

As a result of this review, ten recommendations were made. Further information on this is included in SWAHS comment later in this volume.

### Interstate Comparisons

The following information, based on 2008-09 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.

2008-09 Statistics		NSW*	National
Average available beds per 1,000 population		2.7	2.5
Average length of stay (including day surgery)(days)		3.9	3.5
Emergency department waiting times by Triage category (percentage of patients treated within benchmark time)	T1	100	100
	T2	80	77
	T3	68	64
	T4	73	67
	T5	90	88

Source: Australian Institute of Health and Welfare (AIHW) - Australian Hospital Statistics 2008-09.

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

The AIHW continues to maintain its belief in '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 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 3.9 days (3.6) while the national average increased to 3.5 days (3.3).

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 Department has increased steadily over the past five years from \$10.3 billion in 2004-05 to \$14.5 billion in 2009-10. As a percentage of total budgeted State spending, health expenditure reduced marginally from 27.0 per cent in 2004-05 to 26.4 per cent in 2009-10.

A review of Commonwealth Budget Papers showed the New South Wales proportion of the total Commonwealth Health budget in 2009-10 increased slightly to 33.1 per cent (33 per cent).

#### **Royal North Shore Redevelopment Project**

On 28 October 2008, the Government entered into a \$722 million public private partnership project to consolidate 53 outdated buildings into modern purpose built facilities for acute hospital care and community health, and construction of a new car park.

Provision of facilities maintenance commenced in October 2009. Construction of new facilities is progressing well, with completion of the community health building expected in the first quarter of 2011. The new main hospital is scheduled for completion by the end of 2012 with remaining development to be finalised in 2014.

#### **Liverpool Hospital Redevelopment**

Stage two of the Liverpool Hospital redevelopment is progressing well with completion scheduled for the end of 2011. The redeveloped Liverpool Hospital will feature 855 beds, 20 operating rooms and 3 interventional suites, 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 2010, \$253 million of project costs had been incurred. The current forecast total cost on completion is \$397 million, which is tracking well against the current approved budget of \$396 million.

## 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, the Clinical Excellence Commission, the Bureau of Health Information (established 1 July 2009) and the Agency for Clinical Innovation (established 11 January 2010) 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. SHC are also Public Health Organisations constituted under the *Health Services Act 1997*.

The Ambulance Service of New South Wales is an administrative unit of HAC 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 24 April 2007 from the merger of the HealthTechnology and HealthSupport business units. HSS provides financial, payroll, linen, food, warehousing and other health support services to public health organisations
- NSW Institute of Medical Education and Training, 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.

The Graythwaite Trust was established 1 July 2009 to construct a rehabilitation facility to be operated by NSCCAHS on completion.

Albury Base Hospital and the Albury Wodonga Health (Employment Division) were established 1 July 2009. Albury Base Hospital was separated from GSAHS under the *Health Services Act 1997* and reports directly to the Minister for Health and (by delegation) the Director-General. Both of these entities were established to provide services to Albury Wodonga Health, an entity established under Victorian legislation.



# Section Three



Commentary on Government Agencies



# Minister for Finance

WorkCover Authority of New South Wales  
Workers' Compensation (Dust Diseases) Board  
Workers Compensation Nominal Insurer

Refer to Appendix 1 for:

Compensation Authorities Staff Division



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# WorkCover Authority of New South Wales

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## AUDIT OPINION

The audits of the Authority and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

## KEY ISSUES

### 'Be Aware Take Care' advertising campaign, WorkCover Authority of NSW

I received correspondence complaining that advertisements by the WorkCover Authority titled 'Be Aware Take Care' were an inappropriate use of tax payers' money. I assessed the compliance of this campaign with the Government's 2008 and 2010 advertising guidelines. My findings were:

- the campaign was approved by a Minister of the Crown, not the Chief Executive Officer of the Authority
- there was no cost benefit analysis of the advertising budget
- some statements in the advertisements were not substantiated.

One of my main concerns was that a Minister approved the campaign and made key decisions affecting the design and direction of the campaign. The involvement of a Minister reinforces findings in my 2009 report that there is an unacceptable risk that a reasonable person could judge the campaign as serving party political interests.

### *Background*

The important role played by government advertising can be undermined by any suggestion that it serves party political interests.

Government advertising is a perennial issue for Auditors-General. Of all the things that agencies spend public funds on, advertising is one that attracts controversy and public debate.

The New South Wales Government Advertising Guidelines published in 2008 (the 2008 Guidelines) incorporated recommendations from earlier audit reports, and were a positive step towards reducing the risk that publicly funded advertising could be used inappropriately.

Nevertheless, concerns remained about whether campaigns complied with the 2008 Guidelines.

In December 2009, I published my second report on government advertising in which I reviewed four of the Government's advertising campaigns:

- the New South Wales Public Sector Cadetship (NSW Cadetship) campaign and the Investing in a Better Future (Better Future) campaign, both undertaken by the Department of Premier and Cabinet (DPC)
- the Winter 2009 (Influenza) campaign and the Tobacco legislation change (Smoking in Cars with Kids) campaign, both undertaken by NSW Health.

I found that the two New South Wales Health campaigns had followed the required approval processes and were appropriate. I had some concerns with the two DPC campaigns.

I found that there were still parts of the 2008 Guidelines that required a subjective judgement and therefore did little to help manage the risk that publicly funded advertising could be used inappropriately.

There were three reasons:

- the 2008 Guidelines did not hold department Directors General and agency Chief Executives accountable for making key decisions and ensuring that campaigns comply with the Guidelines
- the roles and responsibilities of the various parties, particularly Ministers and their staff, were not well defined
- the 2008 Guidelines were not clear about demonstrating value for money using cost benefit analysis.

In response to my 2009 report, the Government revised the New South Wales Government Advertising Guidelines in May 2010 (the 2010 Guidelines).

#### *'Be Aware Take Care' advertising campaign*

In April 2010 a series of advertisements by the WorkCover Authority titled 'Be Aware Take Care' began with the purpose of ensuring safety around school construction sites.

The Authority received \$1.3 million during 2009-10 from NSW Treasury to fund the campaign.

I received correspondence complaining that the advertisements were an inappropriate use of tax payers' money because the safety message was not delivered until the end. The advertisements began with emphasis on the Australian and State Government investments in the Building the Education Revolution (BER) program.

In light of the findings in my 2009 report, I decided to assess the compliance of this campaign with the 2008 and 2010 Guidelines.

Similar to my findings with the *Better Future* campaign, there are risks that the 'Be Aware Take Care' campaign may be seen as inappropriate. The campaign was approved by a Minister not the Chief Executive Officer of the Authority, there was no cost benefit analysis of the advertising budget, and some statements in the advertisements were not substantiated.

While these were not requirements of the 2008 Guidelines that were in effect when the campaign was initiated, these were issues that I highlighted in my 2009 report. The 2010 Guidelines now makes these explicit requirements.

One of my main concerns with this campaign is that a Minister approved the campaign and made key decisions affecting the design and direction of the campaign. The following emails between persons involved in the campaign indicate the involvement of the Minister:

'As it stands this afternoon we are still trying to finalise the script with the [Minister's] office ...'

12/3/10 15:37

'Hi there' Here's the final script from the [Minister's] office ...'

12/3/10 18:40

'... we have not included a 15 second TVC due to the fact that the 30 second has 5 messages in it (at the request of the [Minister]) and this will not work in a 15 second format.'

14/3/10 15:02

'the [Minister's] office is liaising with DET to select suitable school sites for the campaign. In addition to Newcastle/Hunter, Illawarra, Sydney and Central Coast the [Minister] also asked for a separate ad for Sutherland Shire. For Sydney the school is to be in Western Sydney.'

15/3/10 15:10

'the content of the online ads was approved by the [Minister]'

16/4/10 09:45

The involvement of a Minister reinforces findings in my 2009 report that there is an unacceptable risk that a reasonable person could judge the campaign as serving party political interests.

Ministers or their staff should not be making key decisions about campaigns. This is to ensure that publicly funded advertising campaigns do not promote party political interests, and advertising is presented in a manner free from partisan promotion of government policy or political argument.

Although the *Be Aware Take Care* campaign generally met the requirements of the 2008 Guidelines that were in place at the time it was initiated, it would not meet the new standards in the 2010 Guidelines that were implemented in response to the recommendations of my 2009 report.

The 2010 Guidelines now include more details on the role and responsibility of Ministers. However it does not refer to Ministers' staff and it does not exclude Ministers or their staff from making key decisions.

However, I believe this weakness is counteracted by another of my key recommendations that was implemented in the 2010 Guidelines. Departmental Directors General and agency Chief Executives are now required to certify that the advertising complies with the Guidelines and other policies, is accurate, and provides value for money and that the certification reflects their own views, independent of any Ministerial direction on campaign design or implementation as it relates to method, medium and volume of advertising.

In my 2009 report I stated:

There is another good reason for conducting this audit now. My earlier report highlighted an increase in the amount spent on government advertising leading up to the 2007 State election. This contributes to the perception that Government advertising may inappropriately serve the political interests of the party in Government.

This review provides an opportunity for the Government to strengthen the Guidelines to prevent the inappropriate use of publicly funded advertising in the lead-up to the next State election.

Indeed, the 2010 Guidelines implement a more transparent regime in New South Wales that should reduce the risk of publicly funded advertising inappropriately serving party political interests.

Given the ongoing public interest in this topic, I will continue to examine publicly funded advertising and related issues as part of my audit programs in the future.

## PERFORMANCE INFORMATION

## Workplace Injury Rates

Year ended 30 June	Workplace Injuries			
	2009	2008	2007	2006
Incidence rate <sup>a</sup>	10.0	10.0	9.9	11.0
Frequency rate <sup>b</sup>	6.0	5.8	5.8	6.4
Fatalities	75	53	69	75
Permanent disability	4,302	4,775	5,205	6,686

Source: New South Wales Workers Compensation Statistical Bulletin 2008-09 and WorkCover Authority (unaudited).

(a) incidence rate measure the number of injuries per 1,000 employees.

(b) frequency rate is the number of injuries per million hours worked.

To measure the effectiveness of its activities to minimise workplace injury, the Authority looks at changes in the incidence rates for major injuries and workplace fatalities. The Authority advised that the most recent figures available are for 2008-09 and show that work related injury rates continue to be close to their lowest levels since the workers compensation scheme commenced in 1987.

In 2009, the industries that experienced the highest rate of work related fatalities were mining (24.0 per 100,000 employees), agriculture, forestry and fishing (11.9 per 100,000 employees) and construction (11.8 per 100,000 employees). In 2008, the industries with the highest rates were agriculture, forestry and fishing (22.9 per 100,000 employees), transport and storage (12.0 per 100,000 employees) and construction (10.3 per 100,000 employees).

Male employees represented the majority of work related fatalities in 2009 with 89.0 per cent while female employees accounted for 11.00 per cent.

## Enforcement Activity

Year ended 30 June	Notices Issued		
	2010	2009	2008
Penalty notices <sup>a</sup>	688	690	619
Prohibition notices <sup>b</sup>	856	769	994
Improvement notices <sup>c</sup>	12,161	10,863	13,109
Confirmation of advice records <sup>d</sup>	2,486	2,460	3,919

Source: WorkCover Authority Annual Report (unaudited).

(a) issued for offences under the *Occupational Health and Safety Act 2000*, *Occupational Health and Safety Regulation 2001* and the *Occupational Health and Safety (Clothing Factory Registration) Regulation 2001* where it appears that a person has committed an offence.

(b) issued in response to an immediate risk to the health or safety of any person and prohibits the activity until the risk is remedied. These will usually, but not always, constitute a breach of the OHS Act or OHS Regulation 2001.

(c) issued in response to apparent breaches of the OHS Act, the OHS Regulation or the OHS (Clothing Factory Registration) Regulation 2001 or for administrative breaches of legislation, to rectify systems of work or hazards which do not pose an immediate risk to the health or safety of any person.

(d) encourage employers to examine how they can make improvements to the way they are managing workplace safety.

The Authority focuses on providing information and advice to ensure employers meet their workplace safety obligations, and attributes this to the general reduction in the number of prohibition and penalty notices issued.

## OTHER INFORMATION

### Establishment of Compensation Authorities Staff Division (CASD) and Shared Services Model

CASD was created effective 1 July 2009 by merging the former Office of the WorkCover Authority and Office of the Motor Accidents Authority. CASD provides personnel services to the following agencies:

- WorkCover Authority of New South Wales
- Workers Compensation Commission
- Workers Compensation (Dust Diseases) Board
- Lifetime Care and Support Authority
- Building and Construction Industry Long Service Payments Corporation
- Motor Accidents Authority
- Sporting Injuries Committee.

The Authority is moving to a shared corporate services model for these agencies. This will involve the alignment of systems and restructure of back office functions.

### Human Resources

This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- extent of contract staff.

Issues identified from my review will be reported in a management letter to the Authority. A summary of the results of my review follows.

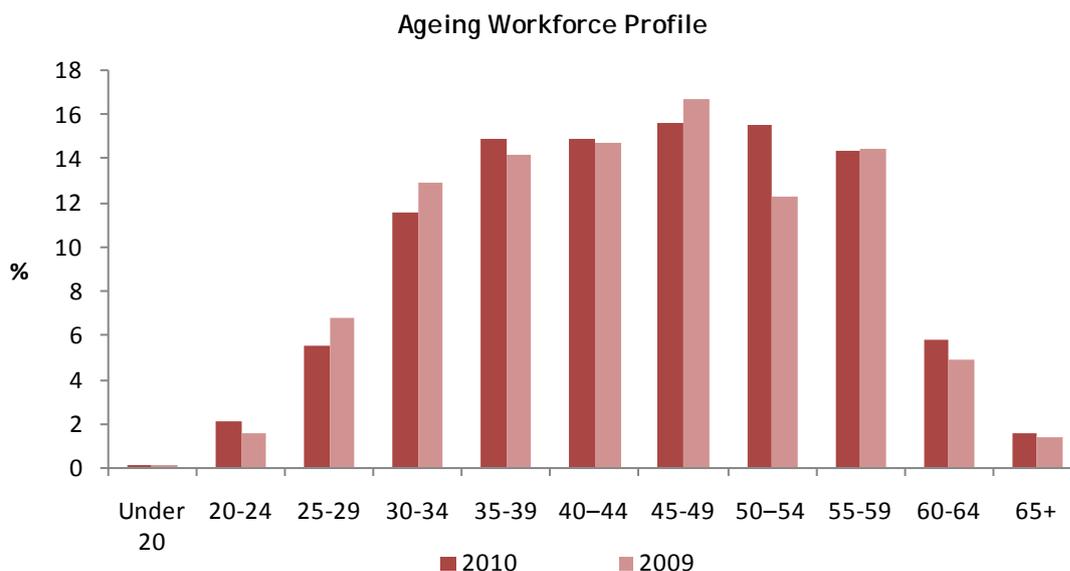
### Workforce Ageing

The WorkCover Group has 22.0 per cent of its employees over 55 years of age and 36.0 per cent over 50 years of age.

As at 30 June Age Group	2010		2009	
	No. Of Employees	%	No. Of Employees	%
Up to 49	841	64	886	68
50-54	176	14	163	12
55-59	187	14	191	14
60-64	76	6	65	5
65+	21	2	18	1
<b>Total</b>	<b>1,301</b>	<b>100</b>	<b>1,323</b>	<b>100</b>

Source: Information provided by the Authority (Unaudited).  
Includes staff of the Authority's controlled entity, the Workers Compensation Commission

The graph below further demonstrates the age profile of employees.



### Annual Leave Balances

There were 44 employees at 30 June 2010 (95 employees at 30 June 2009) that had annual leave balances in excess of the 40 day maximum threshold, up to a maximum of 63 days (84 days). The decrease is due to active management to reduce excess leave balances.

### Employment of Contractors

I recommend the entities within the WorkCover Group create and maintain a single record of all contractors engaged by them.

The entities should also periodically review the roles and responsibilities of all their contractors to ensure:

- reliance on contractors is not excessive
- use of contractors instead of permanent employees is appropriate
- contractors do not become de facto employees by virtue of being with an entity for an extended period of time
- use of contractors continues to represent value for money.

The entities within the group do not maintain a central registry for all contractors engaged and couldn't provide the following information at 30 June 2010:

- the number of contractors engaged
- the period of service of contractors engagement
- individual contractor payments made during the year.

## FINANCIAL INFORMATION

## Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Contributions	199,544	259,744	199,544	259,744
Investment Revenue/(Expense)	14,130	(2,943)	14,130	(2,943)
Other	29,643	29,242	30,468	30,077
<b>TOTAL REVENUE</b>	<b>243,317</b>	<b>286,043</b>	<b>244,142</b>	<b>286,878</b>
<b>TOTAL EXPENSES</b>	<b>269,167</b>	<b>339,145</b>	<b>269,992</b>	<b>339,980</b>
<b>DEFICIT</b>	<b>25,850</b>	<b>53,102</b>	<b>25,850</b>	<b>53,102</b>
<b>OTHER COMPREHENSIVE EXPENSE</b>				
Revaluation of land and buildings - decrement	1,704	427	1,704	427
<b>TOTAL COMPREHENSIVE EXPENSE</b>	<b>27,554</b>	<b>53,529</b>	<b>27,554</b>	<b>53,529</b>

Contributions decreased by \$60.2 million mainly as a result of reduced contributions from the Workers Compensation Nominal Insurer of \$37.0 million, and a \$25.9 million decrease from the Insurers Guarantee Fund which is operated by the Authority.

Investment revenue improved as financial markets recovered from the global financial crisis.

Expenses decreased by \$70.0 million mainly as a result of reduced transfers of surplus funds to the Workers Compensation Nominal Insurer and reduced actuarially measured defined benefit superannuation expense.

## Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash and investments	180,684	168,940	180,683	168,939
Other	92,162	89,701	90,581	87,662
<b>TOTAL ASSETS</b>	<b>272,846</b>	<b>258,641</b>	<b>271,264</b>	<b>256,601</b>
Outstanding claims	109,828	110,192	109,828	110,192
Other	202,284	160,161	200,702	158,121
<b>TOTAL LIABILITIES</b>	<b>312,112</b>	<b>270,353</b>	<b>310,530</b>	<b>268,313</b>
<b>NET LIABILITIES</b>	<b>39,266</b>	<b>11,712</b>	<b>39,266</b>	<b>11,712</b>

The increase in other liabilities of \$42.1 million is mainly due to an increase in trade and other payables associated with the Insurer's Guarantee Fund, a one-off \$10.5 million that was owed to the Workers Compensation Nominal Insurer, and an increase of \$12.3 million in defined benefit superannuation obligations.

Although the net liability position increased by \$27.6 million the financial statements were prepared on a going concern basis. The *Workplace Injury Management and Workers Compensation Act 1998* allows for additional funding for the Authority to be provided from the Workers Compensation Nominal Insurer, subject to Minister's approval.

## AUTHORITY ACTIVITIES

The WorkCover Authority of New South Wales is constituted under the *Workplace Injury Management and Workers Compensation Act 1998*.

The Authority:

- promotes the prevention of work-related injuries and diseases and assists workplaces to become healthier and safer
- promotes prompt, efficient and effective management of injuries to persons at work
- ensures efficient operation of workers compensation insurance arrangements
- co-ordinates the administration of schemes relating to workers compensation and occupational health and safety legislation.

The Authority directs, controls and manages four active funds, namely the WorkCover Authority Fund; the Insurers' Guarantee Fund; the Emergency and Rescue Workers Compensation Fund; and the Bush Fire Fighters Compensation Fund. The Authority's financial report combines the results and financial positions of these funds. The NSW WorkCover Scheme's operations are not included in the financial report. The Chief Executive Officer of the Authority and the Board of Directors are subject to the control and direction of the Minister for Finance.

For further information on the Authority, refer to [www.workcover.nsw.gov.au](http://www.workcover.nsw.gov.au).

## CONTROLLED ENTITY

## Workers Compensation Commission of New South Wales

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	33,098	33,138
Personnel services expenses	11,914	12,076
Other expenses	21,184	21,062
Total Comprehensive income	--	--
Net assets (at 30 June)	--	--

The Commission's operations are funded by the Authority.

The Commission is constituted under the *Workplace Injury Management and Workers Compensation Act 1998*. The Commission is an independent statutory tribunal that resolves workers' compensation disputes between injured workers and employers.

For further information on the Commission, refer to [www.wcc.nsw.gov.au](http://www.wcc.nsw.gov.au).

# Workers' Compensation (Dust Diseases) Board

## AUDIT OPINION

The audit of the Board's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUES

### Dust Diseases Levy paid by the NSW Self Insurance Corporation

In the prior year's report I recommended the Board liaise with the NSW Self Insurance Corporation (the Corporation) to ensure the dust diseases levy applied by the Corporation complies with the *Workers' Compensation (Dust Diseases) Act 1942* (the Act).

In previous years the Corporation was applying the lowest dust diseases levy rate to calculate the levy payable. The Act required a range of levy rates to be applied by self-insurers depending on the business classification of their employees. From 2009-10, the Corporation has commenced applying the range of levy rates set out in the Act. The issue of whether an adjustment is required for previous years remains unresolved.

## PERFORMANCE INFORMATION

Year ended 30 June	Actual Performance		
	2010	2009	2008
Compensation applications received	758	808	837
Medical Authority certificates issued for dust diseases	262	336	301
Compensation awards approved (a)	475	480	406
Compensation paid (\$m)	66.5	62.8	56.8

Source: Dust Diseases Board (unaudited except for compensation paid figures).

(a) Includes awards to workers and dependants.

## Investment Performance of the Board

The following table compares the returns earned on the Board's investments against similar New South Wales Treasury Corporation (TCorp) investments:

Type of Investment	TCorp 2010 %	The Board's Return		
		2010 %	2009 %	2008 %
0 - 2 years Cash Plus	4.46	4.54	5.09	6.42
2 - 7 years Bond Market	8.69	12.17	8.05	4.74
7+ years Long Term	11.28	8.27	(25.99)	(18.16)

Source: Dust Diseases Board (unaudited).

The Board's investments are held with 10 fund managers, including TCorp, across cash, bond market and long term growth facilities. The bond market facility has an investment horizon of two to seven years, while the long term growth facility has an investment horizon of seven years and over. These facilities have the potential to earn higher returns over the long term than cash based facilities, but can experience greater volatility in the short to medium term.

The performance of the long term sector improved from the prior year as equity markets started to recover from the global financial crisis. All types of investments contributed positive returns during the year.

## FINANCIAL INFORMATION

### Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Dust diseases levy	84,445	85,616
Investment income/(loss)	52,818	(59,293)
Contributions receivable increase/(decrease)	(59,770)	24,396
Other	627	728
<b>TOTAL REVENUE</b>	<b>78,120</b>	<b>51,447</b>
Outstanding claims liability decrease	(23,461)	(44,054)
Finance cost	94,360	89,128
Other	7,221	6,373
<b>TOTAL EXPENSES</b>	<b>78,120</b>	<b>51,447</b>
<b>SURPLUS</b>	<b>--</b>	<b>--</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>--</b>	<b>--</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>--</b>	<b>--</b>

The positive investment income reflects the recovery of financial markets from the global financial crisis, as noted above.

The Board's income and expenditure are subject to large variations driven by movements in the outstanding claims liability. In 2009-10, the outstanding claims liability expense for the year was a decrease of \$23.5 million compared to a decrease of \$44.1 million in the previous year. The expense is a function of claims paid and awarded during the year, and actuarially assessed movements in the liability. Changes in economic and other actuarial assumptions can significantly change the outcome.

The cost of compensation claims and other costs of the Board are recovered from employers through the dust diseases levy. The movement in outstanding contributions represents the change in future levies required to fund these costs. The decrease in outstanding contributions of \$59.8 million largely reflects the increase in investment income and decrease in the outstanding claims liability expense compared to the prior year.

## Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Contributions receivable	979,800	1,039,570
Investments	540,469	430,227
Other assets	100,810	158,836
<b>TOTAL ASSETS</b>	<b>1,621,079</b>	<b>1,628,633</b>
Outstanding claims	1,605,032	1,616,039
Other liabilities	14,421	10,968
<b>TOTAL LIABILITIES</b>	<b>1,619,453</b>	<b>1,627,007</b>
<b>NET ASSETS</b>	<b>1,626</b>	<b>1,626</b>

The Board's placement of funds in growth investments increased during the year but is still below the approved limit of 65.0 per cent.

The decrease in other assets, which includes cash and cash equivalents, and the increase in investments reflects the reallocation of cash to investments.

As noted above, contributions receivable represents the current shortfall in outstanding claims to be funded through future levies.

## BOARD'S ACTIVITIES

The Board administers fortnightly compensation payments as well as medical expense payments to eligible disabled workers who contract a specified dust disease. Workers' dependants receive lump sum payments as well as fortnightly compensation payments where the worker subsequently dies as a result of a dust disease. Rates of compensation are adjusted periodically to account for increases in the cost of living.

The Board administers funds held in trust on behalf of dependant beneficiaries. The Board is also responsible for meeting the operating cost of the Dust Diseases Tribunal, which was created to expedite the common law claims of dust disease sufferers. The *Workers' Compensation (Dust Diseases) Act 1942*, gives the Board authority to impose levies each year to meet its annual operating costs.

The Board is a statutory authority established under the Act. It is subject to the direction and control of the Minister for Finance. For further information on the Workers' Compensation (Dust Diseases) Board, refer to [www.ddb.nsw.gov.au](http://www.ddb.nsw.gov.au).

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# Workers Compensation Nominal Insurer (trading as The NSW WorkCover Scheme)

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## AUDIT OPINION

The audit of the Scheme's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUES

### Financial Position of the Scheme

The Scheme's net asset deficiency increased by \$101 million to \$1.6 billion at 30 June 2010. The majority of the deficiency was incurred in the previous year during the global financial crisis. The global financial crisis reduced the Scheme's investment returns, while changes in assumptions applied by the Scheme's actuary (including discount and inflation rates) increased the outstanding claims liability.

The Scheme aims to maintain an asset to liability ratio greater than 100 per cent, but for the reasons stated above, this ratio decreased to 89.0 per cent at 30 June 2009 and remained at this level at 30 June 2010.

The Scheme's actuary has projected the Scheme's asset to liability ratio will improve over the next eight years as follows:

At 30 June	2011 \$m	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m
Total Assets	13,140	13,948	14,850	15,838	16,923	18,108	19,396	20,790
Total Liabilities	14,472	15,079	15,771	16,570	17,483	18,496	19,599	20,789
<b>DEFICIT</b>	<b>1,332</b>	<b>1,131</b>	<b>922</b>	<b>732</b>	<b>560</b>	<b>388</b>	<b>203</b>	<b>1</b>
Funding Ratio (%)	91	93	94	96	97	98	99	100

Source: Scheme Actuary Report 30 June 2010 (unaudited).

By 30 June 2018, the Scheme's actuary estimates the Scheme will be fully funded without having to increase premium rates or reduce compensation benefits paid. As with any actuarial estimate, there is inherent uncertainty as to whether actual investment returns and claims experience, which emerge in the future, will differ from the estimate. Last year, the Scheme's actuary estimated the Scheme would return to full funding by 30 June 2014, but this was revised based on actual experience during 2009-10.

## PERFORMANCE INFORMATION

### Investment Performance of the Scheme

The following table shows the Scheme's actual and benchmark investment return percentages for the last three years:

Year ended 30 June	Investment Performance per annum		
	2010 %	2009 %	2008 %
Investment return/(loss)	11.0	(7.9)	(0.5)
Benchmark return/(loss)	11.3	(8.7)	(1.5)

Source: WorkCover New South Wales Annual Report (unaudited).

The Scheme slightly underperformed against its benchmark this year. Since the Scheme's commencement, its investments have returned 4.6 per cent and outperformed the benchmark by 0.6 per cent. Investment losses incurred in previous years were consistent with the poor performance in global financial markets.

### Creditworthiness of the Scheme's Investments

Indexed and interest bearing investments comprise 66.0 per cent of the Scheme's investments. An investment's credit rating is a key measure of its creditworthiness (or likelihood of default). Credit ratings of the Scheme's cash and interest bearing investments at 30 June were:

At 30 June	2010 %	2009 %
<b>RATING:</b>		
AAA/aaa	74	64
AA/Aa	8	13
A/A	15	20
BBB	3	3
<b>Total</b>	<b>100</b>	<b>100</b>

Source: WorkCover New South Wales Annual Report.

Investments rated BBB and above are considered investment grade. The Scheme increased its AAA rated securities by increasing its holdings of Australian fixed interest bonds, most of which are high quality AAA rated bonds.

Lower rated investments are more susceptible to adverse changes in issuer circumstances and economic conditions, which may impact the value of the investment.

## OTHER INFORMATION

### Inadequate Processes within a Scheme Agent

The Scheme operates through seven Scheme Agents who issue policies, collect premiums and process claims. Financial information from the Scheme Agents is aggregated and included in the Nominal Insurer's financial statements.

The auditors of one of the Scheme Agents were unable to confirm that exceptions identified during the prior year audit did not have a material impact on some of this Agent's current year balances.

The Scheme is continuing to monitor the corrective action taken by the Scheme Agent to address the causes of these exceptions. The exceptions were not material to the Scheme's financial statements.

## FINANCIAL INFORMATION

### Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$m	2009 \$m
Net earned premiums	2,395	2,572
Investment income/(loss)	1,080	(798)
Other income	26	80
<b>TOTAL REVENUE</b>	<b>3,501</b>	<b>1,854</b>
Net claims incurred	2,978	3,237
Management fees	328	309
Statutory levies	228	267
Other expenses	68	148
<b>TOTAL EXPENSES</b>	<b>3,602</b>	<b>3,961</b>
<b>DEFICIT</b>	<b>101</b>	<b>2,107</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>--</b>	<b>--</b>
<b>TOTAL COMPREHENSIVE EXPENSE</b>	<b>101</b>	<b>2,107</b>

Investment returns improved as financial markets recovered from the global financial crisis. This year, within investment income, the Scheme had realised and unrealised investment gains of \$842 million compared to realised and unrealised losses of \$1.3 billion in 2008-09.

The decrease in net claims incurred of \$259 million was due to a smaller increase in the outstanding claims liability this year. This reflects changes in the assumptions used by the Scheme's actuary, including assumed discount and inflation rates.

### Abridged Statement of Financial Position

At 30 June	2010 \$m	2009 \$m
Investments	10,719	9,480
Other	1,745	2,116
<b>TOTAL ASSETS</b>	<b>12,464</b>	<b>11,596</b>
Outstanding claims	13,152	12,002
Other	895	1,076
<b>TOTAL LIABILITIES</b>	<b>14,047</b>	<b>13,078</b>
<b>NET LIABILITIES</b>	<b>1,583</b>	<b>1,482</b>

Investments increased by \$1.2 billion due to increases in the value of the Scheme's investments as financial markets recovered from the global financial crisis.

Outstanding claims increased by \$1.1 billion largely due to changes in discount and inflation rates \$660 million and other assumptions used by the Scheme's actuary \$524 million. New claims incurred in 2010 were \$1.8 billion (\$1.7 billion in 2009), while claims payments were \$1.8 billion (\$1.6 billion).

## Investments

At 30 June	2010 \$m	2009 \$m
Indexed and interest bearing securities	7,037	5,834
Australian equities	487	398
International equities	1,465	1,145
Unit trusts	1,479	2,007
Derivative assets	251	96
<b>TOTAL INVESTMENTS</b>	<b>10,719</b>	<b>9,480</b>
Derivative liabilities	286	103
<b>NET INVESTMENTS</b>	<b>10,433</b>	<b>9,377</b>

The Scheme's strategic asset allocation was changed during the year. The Scheme increased defensive asset holdings such as bonds by two per cent, with the corresponding decrease being in growth assets.

## SCHEME ACTIVITIES

The Scheme was established under the *Workers Compensation Act 1987*. It comprises two entities, the Workers Compensation Nominal Insurer and the Workers Compensation Insurance Fund. The Nominal Insurer manages the Insurance Fund.

The Nominal Insurer operates as a licensed workers compensation insurer. The Insurance Fund holds premiums, investment funds and all other funds received. Effective operation of the Nominal Insurer and Insurance Fund commenced on 1 July 2005 when the assets and liabilities of the former WorkCover Scheme Statutory Funds were transferred to the Insurance Fund and the Nominal Insurer.

The WorkCover Authority does not control, but does act, for the Nominal Insurer.

The *Workplace Injury Management and Workers Compensation Act 1998* established the Workers Compensation Insurance Fund Investment Board to determine investment policies for Insurance Fund assets. The Investment Board reports to the Minister on the investment performance of the Insurance Fund.

For further information on the Scheme, refer to [www.workcover.nsw.gov.au](http://www.workcover.nsw.gov.au).

# 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

Bureau of Health Information

Cancer Institute NSW

Health Administration Corporation

Health Care Complaints Commission

Justice Health

New South Wales Health Foundation

Royal Alexandra Hospital for Children



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# Department of Health

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## AUDIT OPINION

The audits of the Department and its controlled entities' financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

Controlled entities are listed in the 'Controlled Entities' section. Separate comment is included in this Volume for each entity other than the Clinical Excellence Commission, the Bureau of Health Information, the Albury Wodonga Health Special Purpose Service Entity, the Albury Base Hospital, the Agency for Clinical Innovation (ACI) and the Graythwaite Trust.

ACI obtained an exemption from The Treasury for preparing financial statements for the year ended 30 June 2010. Its first reporting period will be the 18 months ending 30 June 2011.

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

## KEY ISSUES

### Intra Health Receivables and Payables

I recommend the Department, in conjunction with Area Health Services, confirm all intra health agency balances regularly during the year, and in particular at year end to ensure eliminations are accurate.

Some receivable and payable balances between controlled entities, including Area Health Services could not be agreed. On consolidation, the Department eliminates intra health receivables and payables. There were unexplained variances between these balances amounting to \$23.0 million. The Department has advised balances will be reconciled regularly during the year, so problems are addressed in a timely manner.

## OTHER INFORMATION

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

### Human Resources

This year I reviewed the following areas of the Department's Head Office (HO) in relation to human resources:

- age profile of HO employees to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- extent of overtime
- extent of use of contract staff.

I did not identify significant issues with the age profile or overtime trends for employees. A summary of the results of my review follows.

### Annual Leave Balances

The Department has actively managed its HO employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has declined from 166 employees at 30 June 2009 to 126 employees at 30 June 2010, being 20.3 per cent of total HO employees at 30 June 2010 (29.1 per cent at 30 June 2009).

The following table shows the number of HO staff with leave in excess of 40 days.

Annual Leave Entitlement (Days)	2010	2009
	No. of Staff	No. of Staff
41-60	111	108
61-80	13	38
81-100	2	13
100 +	--	7
<b>Total</b>	<b>126</b>	<b>166</b>

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

### Use of Contract Staff at Head Office

I made recommendations on the use of contract staff earlier in the Overview section of this Report. Those recommendations are equally applicable for the Department's HO.

The information below was provided by the Department and has not been audited. It is based on the number of HO contractors at 30 April 2010. Due to delays in obtaining the information from the Department I have not been able to complete my review of the data.

The Department advised that contractor payments at 30 April 2010 amounted to \$7.5 million, being 7.7 per cent of the total HO salary expense for the year. The Department had 141 contractors at 30 April 2010, representing approximately 18.0 per cent of the total HO workforce. On average, contractors received \$53,855 in payments in 2009-10, being less than half the average salary of permanent employees. The highest amount paid to a single contractor in 2009-10 was \$216,574. The main reason for the use of contractors was for project works. There were 66 contractors at 30 April 2010 working on projects who were hired mainly through employment agencies.

The following table shows the number of HO contractors hired through agencies at 30 April 2010.

Reason for Hiring	No. of contractors
Meet urgent workload	4
Project work	66
Other	6
Position substantively vacant	38
Position temporarily vacant - annual leave	2
Position temporarily vacant - employed elsewhere	20
Position temporarily vacant - maternity leave	3
Position temporarily vacant - other leave	2
<b>Total</b>	<b>141</b>

## FINANCIAL INFORMATION

## Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	8,885,670	8,546,559	124,834	127,243
Grants and subsidies	939,307	957,980	11,909,030	11,283,779
Other expenses	4,655,814	4,336,891	460,895	466,904
<b>OPERATING EXPENSES</b>	<b>14,480,791</b>	<b>13,841,430</b>	<b>12,494,759</b>	<b>11,877,926</b>
<b>OPERATING REVENUE</b>	<b>2,180,374</b>	<b>1,864,206</b>	<b>175,736</b>	<b>172,239</b>
Other losses	54,051	64,408	1,351	3,042
<b>NET COST OF SERVICES</b>	<b>12,354,468</b>	<b>12,041,632</b>	<b>12,320,374</b>	<b>11,708,729</b>
Government contributions	12,311,294	11,886,145	12,168,895	11,735,501
<b>(DEFICIT)/SURPLUS</b>	<b>(43,174)</b>	<b>(155,487)</b>	<b>(151,479)</b>	<b>26,772</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Increase/(decrease) in Asset Revaluation Reserves	280,948	121,585	21,498	(2,277)
<b>TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>280,948</b>	<b>121,585</b>	<b>21,498</b>	<b>(2,277)</b>
<b>TOTAL COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>237,774</b>	<b>(33,902)</b>	<b>(129,981)</b>	<b>24,495</b>

The increase in the consolidated entity's employee related expenses is mainly due to award rate increases and increases in employee entitlements.

Government contributions increased largely in response to the increasing demand for, and rising costs of the New South Wales health care system.

For the parent entity, the increase in grants and subsidies predominantly comprises increased payments to controlled entities, mainly the Area Health Services.

## Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	1,587,902	1,416,781	250,531	233,782
Non-current assets	10,347,042	9,991,673	194,178	209,086
<b>TOTAL ASSETS</b>	<b>11,934,944</b>	<b>11,408,454</b>	<b>444,709</b>	<b>442,868</b>
Current liabilities	3,760,695	3,526,185	201,536	124,582
Non-current liabilities	494,886	420,454	69,477	2,083
<b>TOTAL LIABILITIES</b>	<b>4,255,581</b>	<b>3,946,639</b>	<b>271,013</b>	<b>126,665</b>
<b>NET ASSETS</b>	<b>7,679,363</b>	<b>7,461,815</b>	<b>173,696</b>	<b>316,203</b>

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.

The increase in non-current liabilities mainly reflects the recognition of \$64.0 million received for the licensing rights for future use of the Royal North Shore Hospital car park.

## Abridged Service Group Information

The Department's consolidated net cost of services and net assets on a service group basis is detailed below:

Year ended 30 June	Net Cost of Services			Net Assets	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Overnight acute inpatient services	5,026,957	4,857,967	4,805,199	3,442,520	3,376,585
Outpatient services	1,087,113	1,292,616	1,306,730	964,793	953,626
Rehabilitation and extended care services	914,626	910,512	923,444	626,323	528,513
Primary and community based services	1,021,990	1,056,199	852,930	449,421	432,335
Aboriginal health services	89,608	66,193	52,759	10,682	18,182
Emergency services	1,382,929	1,341,402	1,398,246	625,177	643,580
Same day acute inpatient services	765,309	695,383	683,514	474,343	482,828
Mental health services	1,096,646	1,139,551	1,058,519	658,288	491,289
Population health services	470,708	526,781	465,586	137,245	151,792
Teaching and research	446,965	467,864	494,705	290,571	383,085
<b>Total all programs</b>	<b>12,302,851</b>	<b>12,354,468</b>	<b>12,041,632</b>	<b>7,679,363</b>	<b>7,461,815</b>

The budget figures are as shown in the 2009-10 Budget Papers, and do not include additional supplementations approved throughout the year. The Department provided the following explanations for variances between budgeted and actual net cost of services for the service groups.

Outpatient Services exceeded the budget principally because some budgeted revenues were allocated to other programs, for example the recovery of Highly Specialised Drugs.

Aboriginal Health was less than budget due to lower recruitment/program expenditures and the rollover of protected funds to the following year. This was as a result of community consultation.

Same Day Acute was under budget because of significant restatement of expenditure by Area Health Services, consistent with the implementation of improved reporting processes.

Population Health Services exceeded the initial budget due to transfers within the overall Net Cost of Services performance of the Department. The transfers reflect the concerted efforts of Area Health Services and the Department to ensure that cancer grants are appropriately and consistently classified, both in terms of the revenues received from the Cancer Institute and the expenditures which have subsequently occurred.

## DEPARTMENT ACTIVITIES

For further information on the Department of Health, refer to [www.health.nsw.gov.au](http://www.health.nsw.gov.au).

## CONTROLLED ENTITIES

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

Area Health Services	Other Entities
Greater Southern	Health Administration Corporation (HAC) comprising:
Greater Western	- Ambulance Service of New South Wales
Hunter New England	- Health Support Services
North Coast	- Health Infrastructure
Northern Sydney and Central Coast	- NSW Institute of Medical Education and Training
South Eastern Sydney and Illawarra	Justice Health
Sydney South West	Royal Alexandra Hospital for Children (CHW)
Sydney West	
	Agency for Clinical Innovation **
	Albury Base Hospital *
	Albury Wodonga Health Special Purpose Service Entity *
	Bureau of Health Information *
	- Bureau of Health Information Special Purpose Service Entity *
	Clinical Excellence Commission *
	- Clinical Excellence Commission Special Purpose Service Entity *
	Graythwaite Trust *

\* This 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.

\*\* This entity has not yet prepared financial statements for the year ended 30 June 2010. Refer page 67 of this Volume.

For further information on these entities, refer to:

Entity Name	Website
Albury Base Hospital	*
Albury Wodonga Health Special Purpose Service Entity	*
Bureau of Health Information	<a href="http://www.bhi.nsw.gov.au">www.bhi.nsw.gov.au</a>
- Bureau of Health Information Special Purpose Service Entity	<a href="http://www.bhi.nsw.gov.au">www.bhi.nsw.gov.au</a>
Clinical Excellence Commission	<a href="http://www.cec.health.nsw.gov.au">www.cec.health.nsw.gov.au</a>
- Clinical Excellence Commission Special Purpose Service Entity	*
Graythwaite Trust	<a href="http://www.graythwaite.org.au">www.graythwaite.org.au</a>

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\* This entity does not have a website.

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# Greater Southern Area Health Service

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## AUDIT OPINION

The audits of the Service and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

## KEY ISSUES

### Management of Albury Base Hospital

The Victorian Government now manages the provision of acute services at Albury Base Hospital. This arrangement commenced on 1 July 2009 following the signing of the Inter Governmental Agreement (the Agreement) between the New South Wales and Victorian governments. The transfer is to enable integrated health services in the Albury and Wodonga areas.

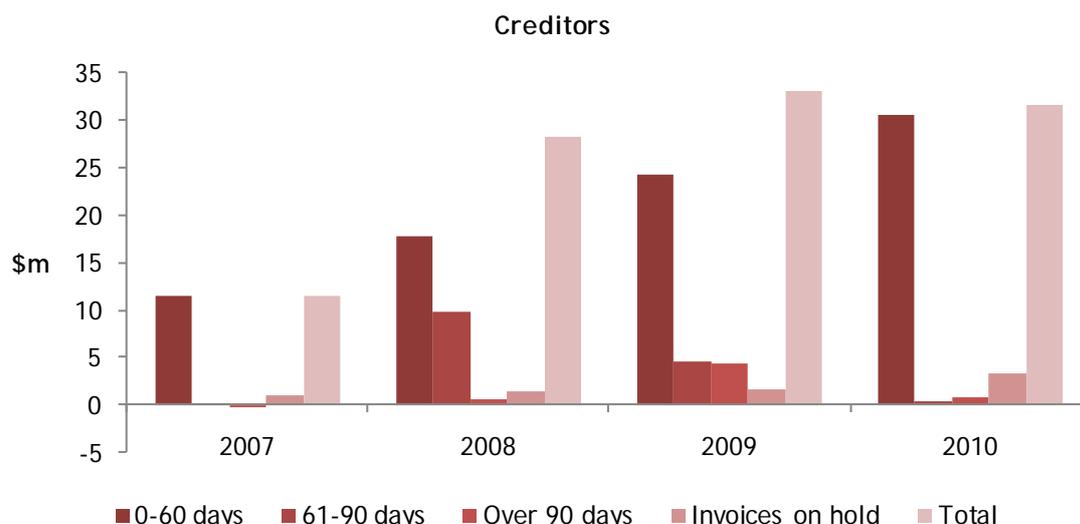
Under the Agreement, the Victorian Government will operate the hospital for eight years and both governments will work towards integrating mental health, sub acute and community health services for the period of the agreement. Albury Base Hospital employees were seconded to Albury Wodonga Health, the Victorian Government agency responsible for running the hospital.

In accordance with the Agreement, the Service provided funding of \$64.5 million to Albury Wodonga Health in 2009-10. This funding was based on the actual cost of running the hospital for 2008-09, adjusted for changes in salary awards and cost indexation applied to goods and services.

### Accounts Payable (Repeat issue)

I recommend the Service ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and it follows up disputed invoices in a timely manner.

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



Note: Total column comprises the three ageing columns, and include invoices on hold or in dispute. The 0-60 day columns for 2010 and 2009 include accruals (not included for 2008 and 2007).  
 Source: Greater Southern Area Health Service (the ageing profile and invoices on hold have not been audited)

The timely payment of accounts during the year continues to be an issue for the Service. The Service’s outstanding trade creditors (including accruals) had slightly improved at 30 June 2010 largely due to cash assistance provided by the Department of Health late in the financial year.

Trade creditors and accruals outstanding at 30 June 2010 totalled \$31.6 million (\$33.0 million at 30 June 2009), of which \$3.3 million (\$1.7 million) related to invoices on hold. The Service advises invoices can be placed on hold for a number of reasons, including the absence of a purchase order in support of the invoice.

Intra Health creditors (amounts owed by one Area Health Service or other Health entity to another Health Service or entity) at 30 June 2010 amounted to \$9.7 million (\$4.9 million) and are not included in the above graph, as normal credit terms are not applicable. In addition, some capital works creditors and non-trade creditors are excluded from the graph as no ageing analysis was available. The total of these creditors was \$0.4 million (nil).

**Budget to Actual Comparison (Repeat Issue)**

I again 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 exceeded the budget by \$11.1 million. In comparison, the 2009 result was \$22.3 million worse than the budget. The Service advised some of the reasons for the improved result include:

- implementation of episode funding initiatives
- better monthly cost monitoring practices including a review of site activity
- improved contract management practices
- additional short and long term revenue enhancements.

The Department of Health advised it has commenced implementing the recommendations from the Independent Financial Management Review, and an independent review of progress has been completed. Further comment is included in the Overview earlier in this Volume.

### Fully Depreciated Plant and Equipment (Repeat issue)

I again recommend the Service 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 established the Medical Equipment Asset Management Program (MEAM) to determine the feasibility of an external private sector partnership in the provision of a whole-of-life asset management facility. A tender document was issued by the Department in 2009-10, and it is currently assessing the tenders received.

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

At 30 June	2010	2009	2008	2007
Total Plant and Equipment - at cost (\$'000)	51,588	57,840	75,558	73,526
Fully depreciated Plant and Equipment - at cost (\$'000)	9,792	15,654	34,992	32,031
Fully depreciated Plant and Equipment as a percentage of total (per cent)	19.0	27.1	46.3	43.6

The Service continues to use a high proportion of fully depreciated plant and equipment, although this has reduced to 19.0 per cent (27.1 per cent) of all plant and equipment at 30 June 2010. The Service advises it conducts routine reviews to ensure the use of equipment does not pose a risk to either patient or staff safety.

### Special Purpose and Trust Funds

In past years, I recommended the Service review all special purpose and trust funds (SP&T funds) to confirm each fund's intended purpose, as the nature and intended use of some funds was not apparent.

The Service advised it reviewed all SP&T funds in 2009-10 and found each had a specific, known purpose. The value of SP&T funds at 30 June 2010 was \$7.4 million (\$9.2 million). The table below shows the number and value of SP&T funds at 30 June 2010.

At 30 June 2010	Number of SP&T accounts
Overdrawn	19
\$0-\$9,999	367
\$10,000 - \$99,999	126
\$100,000 - \$499,999	12
\$500,000 - \$999,999	2
\$1,000,000 and over	--
<b>Total</b>	<b>526</b>

Source: Greater Southern Area Health Service (unaudited).

The Service advised that on limited occasions some SP&T accounts were overdrawn. At 30 June 2010, the Service had overdrawn 19 of the 526 SP&T accounts. The total amount overdrawn was \$176,000. In all cases this resulted from the Service incurring expenditure before receiving the promised donations.

## Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government. Further comment is included in the 'Health Overview' section earlier in this Volume.

## 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 2.6 days (2.7 days), the lowest in the State.

The Service's bed occupancy rate was 73.8 per cent (72.8 per cent), the second lowest in the State.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in three of the five triage categories (met or exceeded in all five triage categories in 2009). However, the Service failed to meet two benchmarks, including the requirement to treat 80.0 per cent of imminently life threatening patients within ten minutes.

The Service's emergency admissions performance of 81.0 per cent exceeded the Department's benchmark of 80.0 per cent and was one of the highest in the State.

## OTHER INFORMATION

### Asset Stock Take

Last year I recommended the Department of Health, in consultation with the Area Health Services, improve plant and equipment stocktake policies and procedures. During 2009-10, the Service conducted a stocktake of all plant and equipment and advised it did not identify any significant discrepancies. However, the stocktake did identify the Service was no longer using plant and equipment with a gross cost of \$6.5 million. Most of these assets were fully depreciated.

### Comparison of Payments to Visiting Medical Officers and Medical Staff

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

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Total Medical Staff*	44,024	42,959	**	**	**
VMOs	51,108	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.

Source: Greater Southern Area Health Service (total medical staff figures unaudited)

VMO costs are a substantial portion of the overall medical costs for the Service, although they reduced by 8.5 per cent from the previous year to \$51.1 million. The Service advised the reduction in VMO costs was largely due to realigning VMO budgets and contracts with site activity targets and the Albury Base Hospital management arrangement, which commenced on 1 July 2009.

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.

**Human Resources**

This year, I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

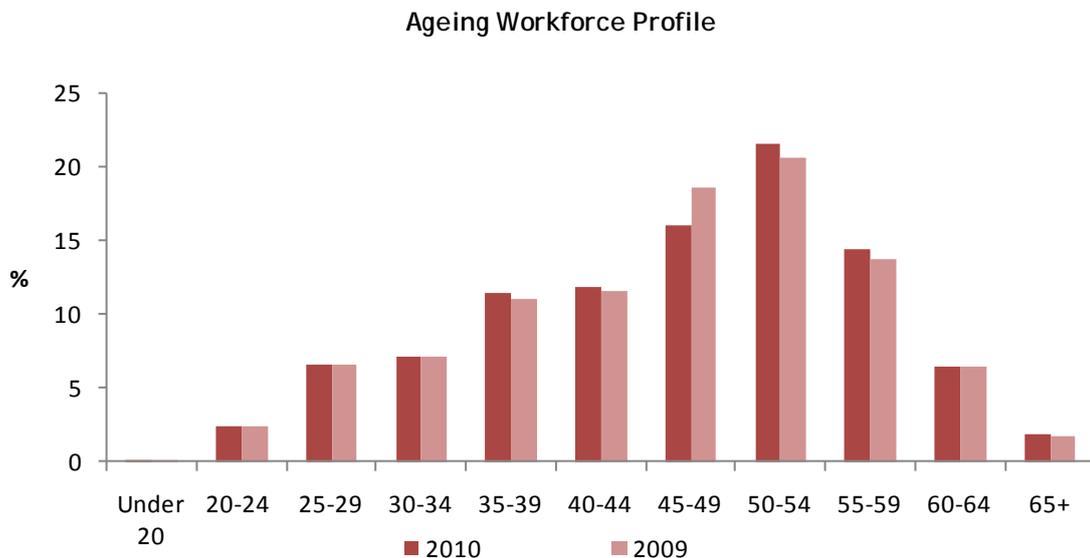
A summary of the results of my review follows.

**Workforce Ageing**

I recommend the Service review the effectiveness of its policies for managing its ageing workforce.

At 30 June 2010, 22.7 per cent (22.0 per cent) of the Service’s employees were 55 years of age or older and 44.3 per cent (42.5 per cent) were 50 or older. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

The age profile of the Service’s employees is shown below. It excludes contract, temporary, casual, sessional and seasonal staff.



Source: Greater Southern Area Health Service (unaudited).

At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Under 20	4	0.1	3	0.1
20-24	115	2.4	130	2.4
25-29	311	6.6	353	6.6
30-34	343	7.2	377	7.1
35-39	546	11.5	585	11.0
40-44	557	11.8	617	11.6
45-49	764	16.1	986	18.6
50-54	1,023	21.6	1,094	20.6
55-59	680	14.4	732	13.8
60-64	301	6.4	340	6.4
65+	89	1.9	93	1.8
<b>Total</b>	<b>4,733</b>	<b>100</b>	<b>5,310</b>	<b>100</b>

Source: Greater Southern Area Health Service (unaudited)

To ensure sufficient availability of experienced staff in the future, the Service should actively monitor its workforce age profile and develop and implement appropriate strategies to attract and retain staff whose skills are aligned with strategic direction of the Service.

### Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Service. The Service's long service leave liabilities increased by 13.3 per cent over the last three years to \$71.0 million at 30 June 2010. The graph below demonstrates the movement in the liability.



The Department of Health advised it is finalising arrangements to transfer employee long service leave entitlements to the Crown Entity, to bring Area Health Services into line with other New South Wales Government budget dependant agencies. The effective date of the transfer is expected to be 31 December 2010.

### Annual Leave Balances

I recommend the Service should continue its efforts in managing excessive leave balances and continuously reassess the effectiveness of its policies.

Managing excessive annual leave balances remains a challenge for the Service. While the Service is actively managing this issue, there are a high number of employees who have excessive annual leave balances. At 30 June 2010, 790 employees (1,171 employees) had accrued annual leave balances in excess of 40 days, representing 16.7 per cent (22.1 per cent) of total employees. The table below shows excessive annual leave balances.

Annual Leave Entitlement (Days)	2010	2009
	No. of Staff	No. of Staff
41-45	147	169
46-50	117	159
51-60	167	229
61-80	179	294
81-100	86	145
100 +	94	175
<b>Total</b>	<b>790</b>	<b>1,171</b>

Source: Greater Southern Area Health Service (unaudited).

Some staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased depending on the incidence of time worked on Sundays and public holidays. The Service advised that in such cases, and using the public sector benchmark of two years' accrual as a guide, its staff may not in fact have excess leave until the accrued value exceeds 70 days. As shown in the table above, some staff have accumulated leave beyond industry norms.

As leave entitlements are paid at rates applicable at the time the leave is taken, excessive leave balances place financial pressures on the Service as they will be paid at higher remuneration rates. The health and welfare of employees can also be adversely affected if they do not take sufficient leave during the year.

### Overtime

The Department advised the Service's overtime payments in 2009-10 amounted to \$11.8 million (\$11.2 million), 3.7 per cent (3.5 per cent) of base salary expense for the year. On average, Service employees who worked overtime received \$3,545 (\$3,441) in overtime payments. The highest amount paid to a single employee in 2009-10 was \$163,865 (\$155,027).

### Internal Controls

I identified some opportunities for improvement to accounting and internal control procedures and have reported them to management. For example the Service is not regularly reconciling intra-health balances, resulting in differences between its records and balances recorded by other entities in the health sector.

## FINANCIAL INFORMATION

## Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	395,619	440,582	--	--
Personnel services	--	--	395,619	440,582
Visiting medical officers	51,108	55,835	51,108	55,835
Other expenses	503,826	418,015	503,826	418,015
<b>OPERATING EXPENSES</b>	<b>950,553</b>	<b>914,432</b>	<b>950,553</b>	<b>914,432</b>
<b>OPERATING REVENUE</b>	<b>138,750</b>	<b>137,195</b>	<b>146,024</b>	<b>144,746</b>
Loss on disposal of non-current assets	1,326	1,445	1,326	1,445
<b>NET COST OF SERVICES</b>	<b>813,129</b>	<b>778,682</b>	<b>805,855</b>	<b>771,131</b>
Government contributions	811,476	758,617	804,202	751,066
<b>DEFICIT</b>	<b>1,653</b>	<b>20,065</b>	<b>1,653</b>	<b>20,065</b>
<b>OTHER COMPREHENSIVE INCOME/(EXPENSE)</b>				
Asset revaluation (decrement)/increment	(55,717)	43,930	(55,717)	43,930
<b>TOTAL COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>(57,370)</b>	<b>23,865</b>	<b>(57,370)</b>	<b>23,865</b>

The decrease in employee related expenses was primarily due employees attached to the Albury Base Hospital transferring to a newly created New South Wales Government employment division. This new employment division is controlled by the Department of Health and excluded from the Service's consolidated employee related expenses. This decrease is, however, offset by the Service funding this cost, which largely explains the increase in other expenses. The overall increase in operating expenses is primarily due to a general rise in activity, salary award rate increases and an increase in interstate patient outflows.

## Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	34,118	29,703	34,118	29,703
Non-current assets	452,029	591,044	452,029	591,044
<b>TOTAL ASSETS</b>	<b>486,147</b>	<b>620,747</b>	<b>486,147</b>	<b>620,747</b>
Current liabilities	182,094	185,994	182,094	185,994
Non-current liabilities	26,503	24,429	26,503	24,429
<b>TOTAL LIABILITIES</b>	<b>208,597</b>	<b>210,423</b>	<b>208,597</b>	<b>210,423</b>
<b>NET ASSETS</b>	<b>277,550</b>	<b>410,324</b>	<b>277,550</b>	<b>410,324</b>

The decrease in non-current assets was largely due to a revaluation of land and buildings, resulting in a \$55.7 million decrement, and \$75.4 million of assets transferred to Albury Base Hospital.

## 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 (sub acute services provided by Albury Wodonga Health)
- 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](http://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	Website
Greater Southern Area Health Service Special Purpose Service Entity	*

\* This entity does not have a website.

# Greater Western Area Health Service

## AUDIT OPINION

The audits of the Service and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

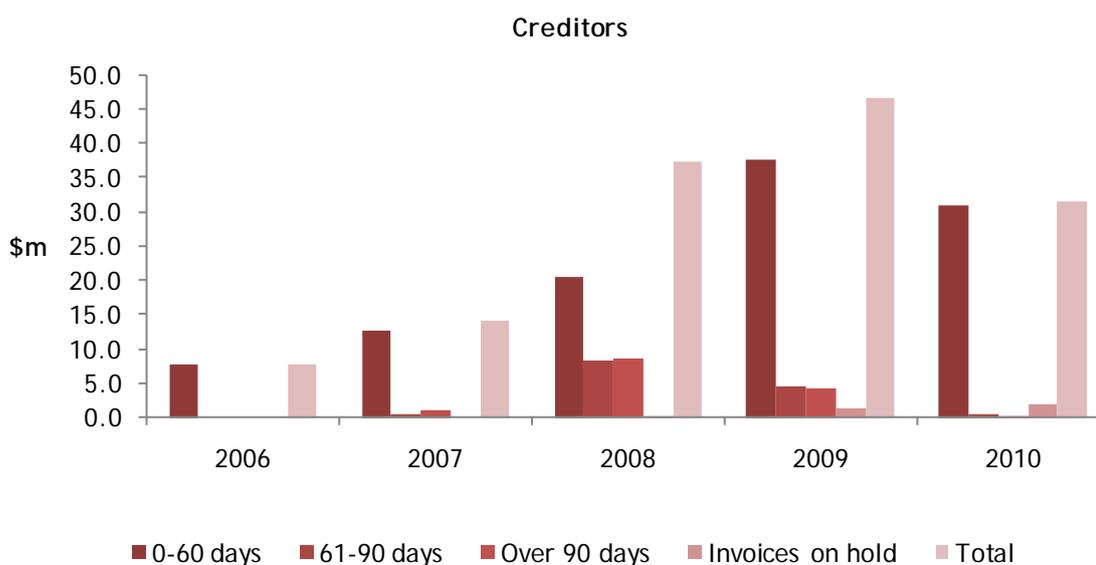
Unless otherwise stated, the following commentary relates to the consolidated entity.

## KEY ISSUES

### Accounts Payable (Repeat issue)

I again recommend the Service pays its creditors within agreed payment terms and follows up disputed invoices in a timely manner.

The following chart shows ageing of trade creditors for the past five 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. The 0-60 days column for 2010 and 2009 include accruals, which are not included in 2008, 2007 and 2006. Source: Greater Western Area Health Service (unaudited).

Total creditors have marginally decreased to \$31.5 million from \$46.5 million in 2008-09. At 30 June 2010 \$1.9 million or six per cent of total creditors were either on hold or in dispute (\$1.2 million in 2008-09).

Intra Health creditors at 30 June 2010 amounted to \$5.1 million (\$2.9 million) and are not included in the above graph as the normal credit terms do not apply.

In addition, some capital works creditors and non-trade creditors are not included in the graph as no ageing analysis was available. The total of these creditors at 30 June 2010 was \$600,000 (nil).

**Budget to Actual Comparison (Repeat Issue)**

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

The Service's surplus for the year was \$4.6 million below the budget of \$5.6 million.

The Service advised that the Department has commenced the implementation of recommendations from the Independent Financial Management Review and an independent review of progress has been completed. Further comment is included in the 'Overview' earlier in this Volume.

**Fully Depreciated Plant and Equipment (Repeat Issue)**

I again recommend the Service 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 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	2010	2009	2008
Total Plant and Equipment - at cost (\$'000)	83,840	78,113	78,336
Fully Depreciated Plant and Equipment - at cost (\$'000)	26,957	27,000	28,200
Fully depreciated Plant and Equipment as a percentage of total (%)	32.2	34.6	36.0

The Service continues to use a high proportion of fully depreciated plant and equipment. Although this reduced from 34.6 per cent in 2008-09 to 32.2 per cent in 2009-10, it is still significant.

Last year, I recommended the Service, in conjunction with the Department, implement recommendations from a pilot review the Department conducted into whole of lifecycle management of medical equipment.

The Service advised that all bio medical equipment is periodically inspected by technicians for service delivery capabilities.

**Asset Stock Take (Repeat Issue)**

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

Last year, I recommended the Service strengthen its policies and procedures of plant and equipment stock takes. Following our recommendation, the Service commenced a stock take of all plant and equipment in 2009-10. The Service advised the stock take will be completed in 2010-11.

## Special Purpose and Trust Funds (Repeat Issue)

I recommend the Service continues reviewing 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 completed the review for a majority of funds in 2009-10 and aims to complete the rest in 2010-11. The total value of all these funds at 30 June 2010 was \$6.5 million (\$6.6 million).

The table below shows the dissection of Special Purpose and Trust Funds at 30 June 2010.

At 30 June 2010	Number of SP&T accounts
\$1 - \$9,999	313
\$10,000 - \$99,999	139
\$100,000 - \$499,999	9
\$500,000 - \$999,999	1
\$1,000,000 and over	--
<b>Total</b>	<b>462</b>

Source: Greater Western Area Health Service (unaudited).

## Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government. Further comment is included in the 'Overview' earlier in this Volume.

## 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 2.9 days (3.0 days). This is lower than the State average of 3.6 days and is the second lowest in the State.

The Service's bed occupancy rate increased to 72.6 per cent (70.2 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 three of the five triage categories (all five triage categories in 2009). However, the Service failed to meet two benchmarks including the requirement to treat 80.0 per cent of imminently life threatening patients within ten minutes.

The Service's emergency admission performance decreased from 83.0 per cent in 2009 to 77.0 per cent in 2010. This is lower than the Department's benchmark of 80 per cent.

## OTHER INFORMATION

### Payments to Visiting Medical Officers and Medical Staff

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

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Total medical staff*	42,559	41,677	37,818	**
VMOs	52,432	53,889	53,613	45,347

\* 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 other staff in 2007.

Source: Greater Western Area Health Service (unaudited)

VMO costs are a substantial part of the overall medical costs for the Service. They are specialist medical staff working as independent contractors for an average of six to eight hours per week in the public health system. At other times they work in private practice. They supplement staff specialists and other staff employed directly by the Service (medical staff).

### Human Resources

This year I reviewed the following areas relating to human resources:

- workforce ageing profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

A summary of the results of my review follows.

### Workforce Ageing

I recommend the Service review the effectiveness of its policies for managing its ageing workforce.

The Service has 24.5 per cent of its employees over 55 years of age and 43.4 per cent over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

The graph below further demonstrates the age structure of staff.



At 30 June Age Group	2010		2009	
	No. of Permanent Staff *	%	No. of Permanent Staff *	%
20 - 49	2,622	56.6	2,710	58.0
50 - 54	874	18.9	863	18.5
55 - 59	689	14.9	663	14.2
60 - 64	341	7.3	329	7.0
65+	107	2.3	110	2.3
<b>Total</b>	<b>4,633</b>	<b>100</b>	<b>4,675</b>	<b>100</b>

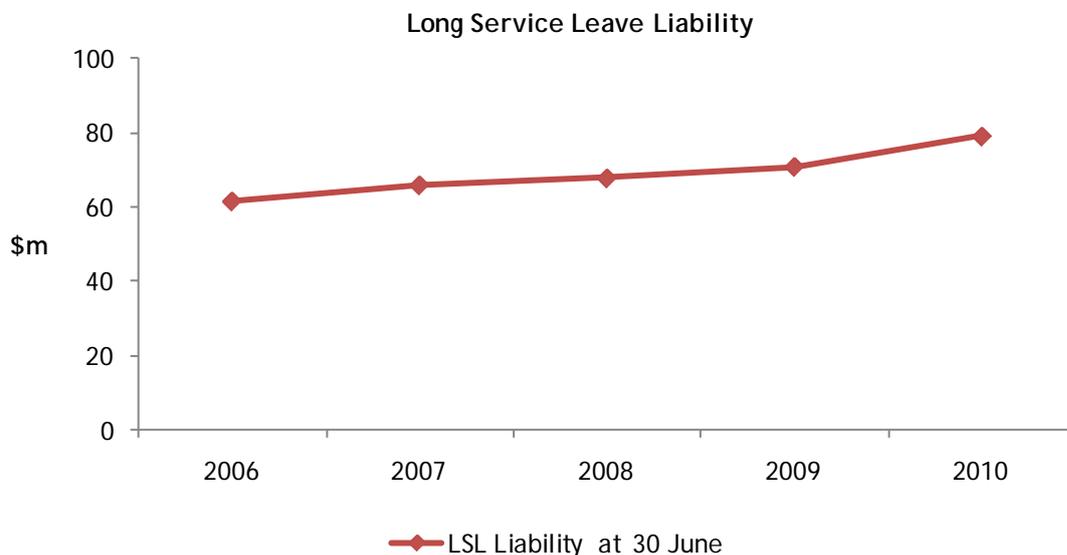
\* Permanent staff includes staff employed under Crown Employee Award but excludes contract, temporary and casual staff

Source: Greater Western Area Health Service (unaudited)

To ensure sufficient availability of experienced staff in the future, the Service should actively monitor its workforce age profile and develop and implement appropriate strategies to attract and retain staff whose skills are aligned with the strategic direction of the Service.

## Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Service. Long service leave liabilities increased by 11.4 per cent to \$79.0 million in 2010 (\$70.9 million).



The Service advised that the Department of Health is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity, to bring the Department into line with other Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

## Annual Leave Balances

I recommend the Service review the effectiveness of its policies for managing excess annual leave.

Managing excessive annual leave balances remains a challenge for the Service. Of the Service's total workforce of 4,633 at 30 June 2010, 1,013 employees or 21.9 per cent (23.0 percent) had accrued more than the general public service benchmark of 40 days annual leave. The highest employee annual leave balance was 164 days (169 days). The total number of staff with annual leave balances exceeding 40 days decreased by 64 employees this year.

The Department advised that a significant number of staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased depending on the incidence of time worked on Sundays and public holidays. The Department advised in such instances, and using the public sector benchmark of two years' accrual as a guide, Health staff may not be in an excess leave position until the accrual exceeds 70 days.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave. The Service should continue to apply the measures it has implemented to reduce leave balances focussing on staff at the high end of the excessive leave range.

**Overtime**

Overtime paid to staff in 2009-10 was \$14.4 million (\$14.5 million).

During 2009-10, overtime was paid to approximately 68.0 per cent of all permanent staff, which is slightly less than in the prior year. The average overtime paid to staff who worked overtime during 2009-10 was \$4,570. There were isolated incidences of overtime payments totalling in excess of \$120,000.

**FINANCIAL INFORMATION****Abridged Statements of Comprehensive Income**

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	415,527	409,284	--	--
Personnel services	--	--	415,527	409,284
Visiting medical officers	52,432	53,889	52,432	53,889
Grants and subsidies	10,411	10,417	10,411	10,417
Other expenses	341,720	316,243	341,720	316,243
<b>TOTAL EXPENSES</b>	<b>820,090</b>	<b>789,833</b>	<b>820,090</b>	<b>789,833</b>
<b>TOTAL REVENUE</b>	<b>100,672</b>	<b>85,525</b>	<b>108,685</b>	<b>94,032</b>
Loss on disposal of non-current assets and other losses	446	1,510	446	1,510
<b>NET COST OF SERVICES</b>	<b>719,864</b>	<b>705,818</b>	<b>711,851</b>	<b>697,311</b>
Government contributions	779,322	715,438	771,309	706,931
<b>SURPLUS FOR THE YEAR</b>	<b>59,458</b>	<b>9,620</b>	<b>59,458</b>	<b>9,620</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Gain on asset revaluation	--	19,167	--	19,167
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>--</b>	<b>19,167</b>	<b>--</b>	<b>19,167</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>59,458</b>	<b>28,787</b>	<b>59,458</b>	<b>28,787</b>

Employee related expenses have increased mainly due to increases in award rates from 1 July 2009.

Increased government contributions contributed to a larger surplus for the year.

## Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	35,605	33,090	35,605	33,090
Non-current assets	587,004	540,996	587,004	540,996
<b>TOTAL ASSETS</b>	<b>622,609</b>	<b>574,086</b>	<b>622,609</b>	<b>574,086</b>
Current liabilities	185,007	192,322	185,007	192,322
Non-current liabilities	19,461	22,108	19,461	22,108
<b>TOTAL LIABILITIES</b>	<b>204,468</b>	<b>214,430</b>	<b>204,468</b>	<b>214,430</b>
<b>NET ASSETS</b>	<b>418,141</b>	<b>359,656</b>	<b>418,141</b>	<b>359,656</b>

The increase in non-current assets is mainly attributed to the construction in progress for the Orange Hospital and acquisition of plant and equipment.

The decrease in payroll and other accruals reduced the current liabilities.

## 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](http://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	Website
Greater Western Area Health Service Special Purpose Service Entity	*

\* This entity does not have a website.

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# Hunter New England Area Health Service

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## AUDIT OPINION

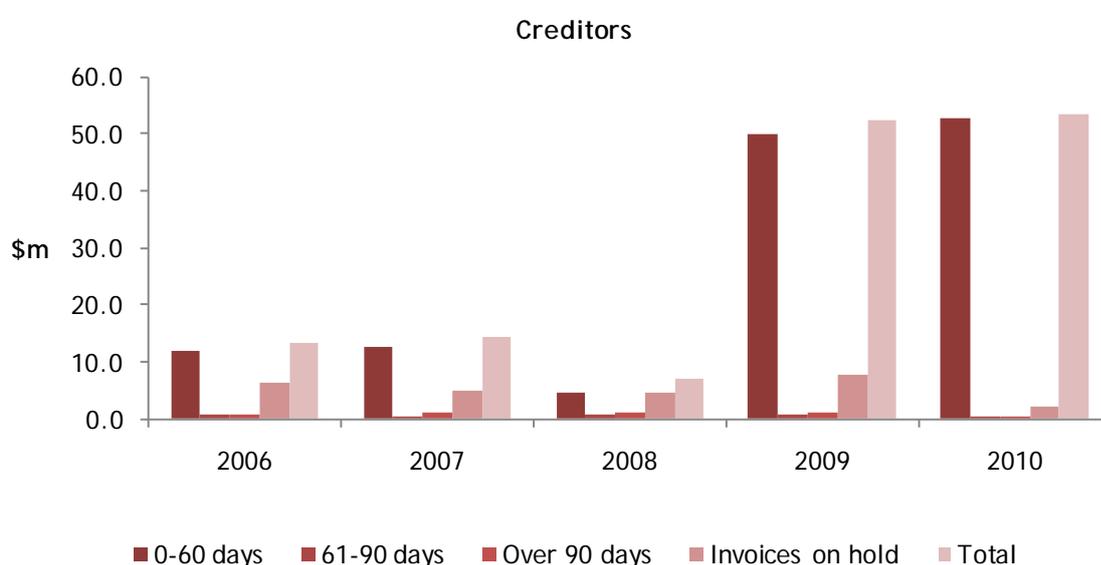
The audits of the Service and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

## KEY ISSUES

### Accounts Payable (Repeat Issue)

The following chart shows ageing of trade creditors for the past five 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. The 0-60 days column for 2010 and 2009 include accruals, which are not included in 2008, 2007 and 2006.

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

Total creditors at 30 June 2010, \$53.3 million, were slightly higher than the previous year's balance of \$52.2 million. The Service has investigated and resolved on hold invoices and reduced the balance significantly from \$7.6 million to \$2.2 million.

Intra Health creditors at 30 June 2010 amounted to \$3.4 million (\$10.3 million) and are not included in the above graph as the normal credit terms are not applicable.

In addition, some capital works creditors and non-trade creditors are not included in the graph as no ageing analysis was available. The total of these creditors at 30 June 2010 was \$4.2 million (\$890,000).

## Budget to Actual Comparison

The Service's result for the year, a deficit of \$17.4 million, was \$11.7 million better than the budgeted deficit of \$29.1 million. In comparison, the 2009 result was \$6.7 million better than the budgeted deficit of \$58.7 million.

The Service advised that the Department has started implementing recommendations from the Independent Financial Management Review, and has completed an independent review of progress. Further comment is included in the Overview earlier in this Volume.

## Fully Depreciated Plant and Equipment (Repeat issue)

I again recommend the Service 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 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	2010	2009	2008
Total Plant and Equipment - at cost (\$'000)	234,479	212,709	201,179
Fully depreciated Plant and Equipment - at cost (\$'000)	67,800	61,400	56,700
Fully depreciated Plant and Equipment as a percentage of total (%)	28.9	28.9	28.2

Following my recommendation in 2008-09, the service conducted physical stock takes of fully depreciated plant and equipment. The cost of fully depreciated assets increased from \$61.4 million to \$67.8 million at 30 June 2010. The service advised that all bio medical equipment is periodically inspected by technicians for service delivery capabilities. The review resulted in \$2.8 million of assets being removed from the general ledger and fixed assets register.

## Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government. Further comment is included in the 'Overview' earlier in this Volume.

## 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 decreased to 3.6 days (3.8 days in 2009). This is equal to the State average.

The Service's bed occupancy rate decreased to 81.3 per cent (81.7 per cent). This is still lower than the State average of 88.3 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 2009).

The Service's emergency admission performance of 83.0 per cent exceeded the Department's benchmark of 80.0 per cent and was the highest in the State.

## OTHER INFORMATION

### Asset Stock Take

Last year, I recommended the Service strengthen its policies and procedures of plant and equipment stock takes. In 2009-10, the Service performed a stock take of all plant and equipment. A final summary report was provided to Health Support Services to update the Service's fixed assets register.

The stock takes resulted in a total of \$6.5 million (cost) of assets with a carrying value of \$1.0 million being removed from the general ledger and fixed assets register.

### Payments to Visiting Medical Officers and Medical Staff

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

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Total medical staff*	169,696	160,900	144,038	128,052
VMOs	72,876	68,681	67,130	59,476

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

Source: Hunter New England Area Health Service (unaudited)

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

### Human Resources

This year I reviewed the following areas relating to human resources:

- workforce ageing profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

A summary of the results of my review follows.

## Workforce Ageing

I recommend the Service review the effectiveness of its policies for managing its ageing workforce.

Just over 21.0 per cent of the Service's employees are over 55 years of age and 39.5 per cent are over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

The age profile of the Service employees is shown below:



At 30 June Age Group	2010		2009	
	No. of Permanent Staff *	%	No. of Permanent Staff *	%
20 - 49	6,320	60.5	6,825	61.1
50 - 54	1,920	18.4	2,038	18.2
55 - 59	1,333	12.8	1,424	12.8
60 - 64	663	6.3	680	6.1
65+	205	2.0	198	1.8
<b>Total</b>	<b>10,441</b>	<b>100</b>	<b>11,165</b>	<b>100</b>

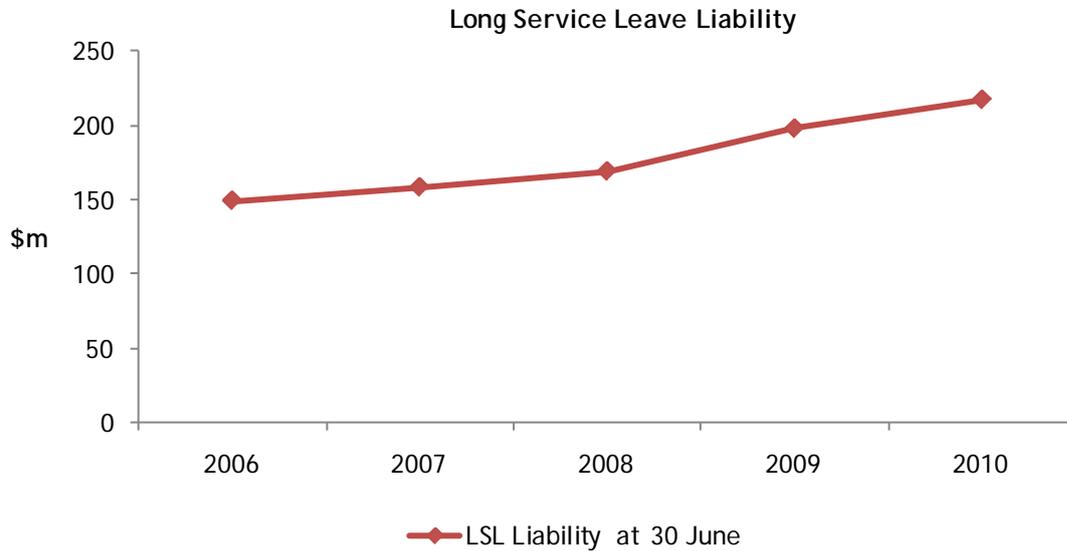
\* Permanent staff includes staff employed under Crown Employee Award but excludes contract, temporary and casual staff

Source: Hunter New England Area Health Service (unaudited)

To ensure sufficient availability of experienced staff in the future, the Service should actively monitor its workforce age profile and develop and implement appropriate strategies to attract and retain staff whose skills are aligned with the strategic direction of the Service.

### Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Service. Long service leave liabilities increased by 28.7 per cent over the past three years to \$217 million in 2010 (\$198 million in 2009).



The Service advised that the Department of Health is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity, to bring the Department into line with other Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

### Annual Leave Balances

I recommend the Service review the effectiveness of its policies for managing excess annual leave.

Managing excessive annual leave balances remains a challenge for the Service. Out of its total workforce of 10,441 at 30 June 2010, 2,292 employees or 22.0 per cent (22.6 per cent) had accrued more than the general public service benchmark of 40 days annual leave. The highest annual leave balance was 328 days (317 days). The total number of staff with annual leave balances exceeding 40 days decreased by 236 this year.

The Department advised that a significant number of staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased depending on the incidence of time worked on Sundays and public holidays. The Department advised in such instances, and using the public sector benchmark of two years' accrual as a guide, Health staff may not be an excess leave position until the accrual exceeds 70 days.

The Service should continue to apply the measures it has implemented to reduce leave balances focussing on staff at the high end of the excessive leave range.

## Overtime

Overtime paid to staff in 2009-10 was \$28.1 million (\$25.8 million).

During 2009-10, overtime was paid to approximately 63.0 per cent of all permanent staff, which is slightly more than in the prior year. The average overtime paid to staff who worked overtime during 2009-10 was \$4,254. There were incidences of overtime payments totalling in excess of \$115,000.

## FINANCIAL INFORMATION

### Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	1,031,266	994,381	--	--
Personnel services	--	--	1,031,266	994,381
Visiting medical officers	72,876	68,681	72,876	68,681
Grants and subsidies	9,235	9,882	9,235	9,882
Other expenses	707,046	643,476	707,046	643,476
<b>TOTAL EXPENSES</b>	<b>1,820,423</b>	<b>1,716,420</b>	<b>1,820,423</b>	<b>1,716,420</b>
<b>TOTAL REVENUE</b>	<b>385,899</b>	<b>306,408</b>	<b>405,748</b>	<b>326,075</b>
Loss on disposal of non-current assets and other losses	4,212	233	4,212	233
<b>NET COST OF SERVICES</b>	<b>1,438,736</b>	<b>1,410,245</b>	<b>1,418,887</b>	<b>1,390,578</b>
Government contributions	1,421,319	1,358,287	1,401,470	1,338,620
<b>DEFICIT</b>	<b>17,417</b>	<b>51,958</b>	<b>17,417</b>	<b>51,958</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Asset revaluation increment	83,845	--	83,845	--
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>83,845</b>	<b>--</b>	<b>83,845</b>	<b>--</b>
<b>TOTAL COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>66,428</b>	<b>(51,958)</b>	<b>66,428</b>	<b>(51,958)</b>

Employee related expenses rose due to an award rate increase.

The increase in other expenses was mainly due to the first full year of operation of the Pathology North and management charge for food service from the Health Support Food Services.

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

The increase in Government contributions reflects a general rise in the budget allocation and a \$39.6 million supplementation for employee award increases.

## Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	172,873	163,630	172,873	163,630
Non-current assets	1,211,572	1,127,758	1,211,572	1,127,758
<b>TOTAL ASSETS</b>	<b>1,384,445</b>	<b>1,291,388</b>	<b>1,384,445</b>	<b>1,291,388</b>
Current liabilities	451,589	426,389	451,589	426,389
Non-current liabilities	164,712	163,564	164,712	163,564
<b>TOTAL LIABILITIES</b>	<b>616,301</b>	<b>589,953</b>	<b>616,301</b>	<b>589,953</b>
<b>NET ASSETS</b>	<b>768,144</b>	<b>701,435</b>	<b>768,144</b>	<b>701,435</b>

The increase in non-current assets is mainly due to revaluation increments in land and buildings of \$83.8 million.

## 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](http://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	Website
Hunter New England Area Health Service Special Purpose Service Entity	*

\* This entity does not have a website.

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# North Coast Area Health Service

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## AUDIT OPINION

The audits of the Service and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

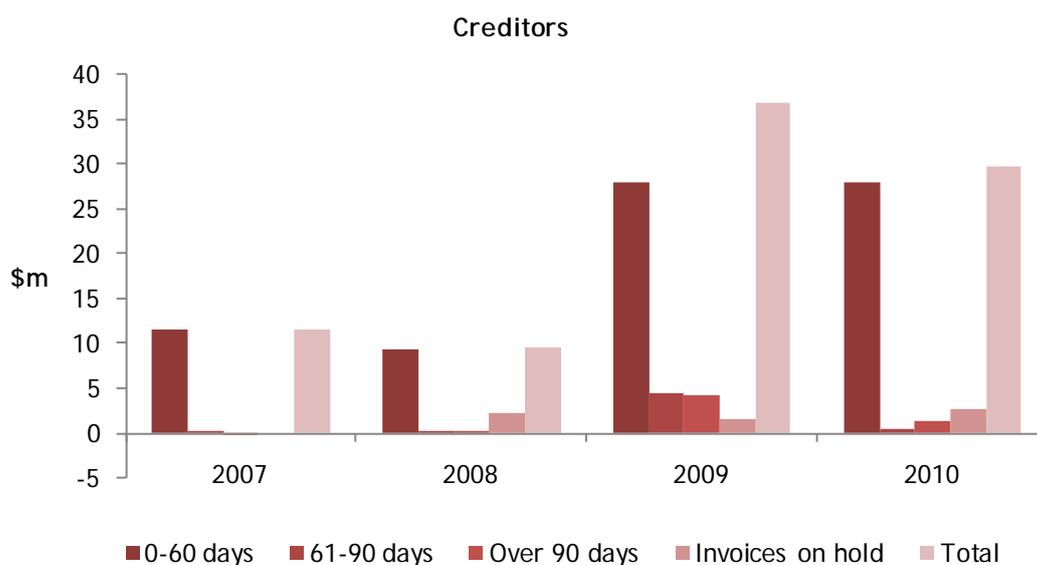
Unless otherwise stated, the following commentary relates to the consolidated entity.

## KEY ISSUES

### Accounts Payable (Repeat issue)

I recommend the Service ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and it follows up disputed invoices in a timely manner.

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



\* 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. The 0-60 day columns for 2010 and 2009 include accruals (not included for 2008 and 2007).

Source: North Coast Area Health Service (the ageing profile and invoices on hold have not been audited)

The timely payment of accounts during the year continues to be an issue for the Service. The Service's outstanding trade creditors (including accruals) position had improved at 30 June 2010 largely due to cash assistance provided by the Department of Health late in the financial year.

Trade creditors and accruals outstanding at 30 June 2010 totalled \$29.6 million (\$36.7 million at 30 June 2009). Of this amount \$2.8 million (\$1.7 million) related to invoices on hold. The Service advises invoices can be placed on hold for a number of reasons, including the absence of a purchase order in support of the invoice.

Intra Health creditors at 30 June 2010 amounted to \$3.9 million (\$5.0 million) and are not included in the above graph as normal credit terms do not apply.

In addition, some capital works creditors and non-trade creditors are not included as no ageing analysis was available. The total of these creditors at 30 June 2010 was \$3.8 million (\$1.7 million).

### Budget to Actual Comparison

The Service's result for the year was \$1.4 million below the budget, which is significantly better than the previous year. Last year the Service's result was \$24.6 million worse than budget. The Service advises some of the reasons for the improved result include:

- a reduction in full time equivalent staff
- improved procurement practices
- additional revenue enhancements from patient fees.

The Department of Health advised it has started implementing the recommendations from the Independent Financial Management Review, and has completed an independent review of progress. Further comment is included in the Overview earlier in this Volume.

### Fully Depreciated Plant and Equipment

I again recommend the Service 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 established the Medical Equipment Asset Management Program (MEAM) to determine the feasibility of an external private sector partnership in the provision of a whole-of-life asset management facility. A tender document was issued by the Department in 2009-10, and it is currently assessing the tenders received.

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

At 30 June	2010	2009	2008	2007
Total plant and equipment - at cost (\$'000)	60,749	70,360	76,272	77,248
Fully depreciated plant and equipment - at cost (\$'000)	12,066	20,141	24,247	25,517
Fully depreciated plant and equipment as a percentage of total (per cent)	19.9	28.6	31.8	33.0

The Service continues to use fully depreciated plant and equipment. However, this has reduced to 19.9 per cent (28.6 per cent) of all plant and equipment at 30 June 2010. The Service advises it conducts routine reviews to ensure the use of equipment does not pose a risk to either patient or staff safety.

## Special Purpose and Trust Funds

In past years, I recommended the Service review all special purpose and trust funds (SP&T funds) to confirm each fund's intended purpose, as the nature and intended use of some funds was not apparent.

The Service advised it substantially completed its review, with only some minor administrative matters outstanding. The total value of SP&T funds at 30 June 2010 was \$11.4 million (\$9.3 million). The table below shows the number and value of SP&T funds at 30 June 2010.

At 30 June 2010	Number of SP&T accounts
Overdrawn	9
\$1 - \$9,999	454
\$10,000 - \$99,999	92
\$100,000 - \$499,999	19
\$500,000 - \$999,999	2
\$1,000,000 and over	3
<b>Total</b>	<b>579</b>

Source: North Coast Area Health Service (unaudited)

The Service advised that on limited occasions some SP&T accounts were overdrawn, but the overdrawn amount did not exceed \$20,000. In most cases this resulted from the Service incurring the expenditure before receiving the promised donations. Most overdrawn accounts were corrected in the following month.

## Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government. Further comment is included in the 'Health Overview' section earlier in this Volume.

## 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 remained consistent at 3.7 days (3.7 days). This is above the State average of 3.6 days.

The Service's bed occupancy rate increased to 85.6 per cent (83.8 per cent). This is below the State average of 88.3 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 Service failed to meet three benchmarks including the requirement to treat 80.0 per cent of imminently life threatening patients within ten minutes.

The Service had a decrease in its emergency admissions performance from 75.0 per cent in 2009 to 71.0 per cent in 2010. This is below its target of 80.0 per cent.

## OTHER INFORMATION

### Asset Stock Take

Last year I recommended the Department of Health, in consultation with the Area Health Services, improve the plant and equipment stocktake policies and procedures. During 2009-10, the Service conducted a stocktake of all plant and equipment, which resulted in the Service writing off plant and equipment with a gross cost of \$14.8 million. This explains the decrease in fully depreciated assets reported earlier. The written down value of plant and equipment written off was \$1.0 million.

### Comparison of Payments to Visiting Medical Officers and Medical Staff

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

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Total Medical Staff*	63,391	59,472	52,640	46,737	39,262
VMOs	93,285	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.

Source: North Coast Area Health Service (total medical staff figures are unaudited)

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

### Human Resources

This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

A summary of the results of my review follows.

#### *Workforce Ageing*

At 30 June 2010, 25.1 per cent (22.7 per cent) of the Service's employees were 55 years of age or older and 48.1 per cent (45.0 per cent) were 50 or older. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

The age profile of the Service's employees is shown below. It excludes contract, temporary, casual, sessional and seasonal staff.



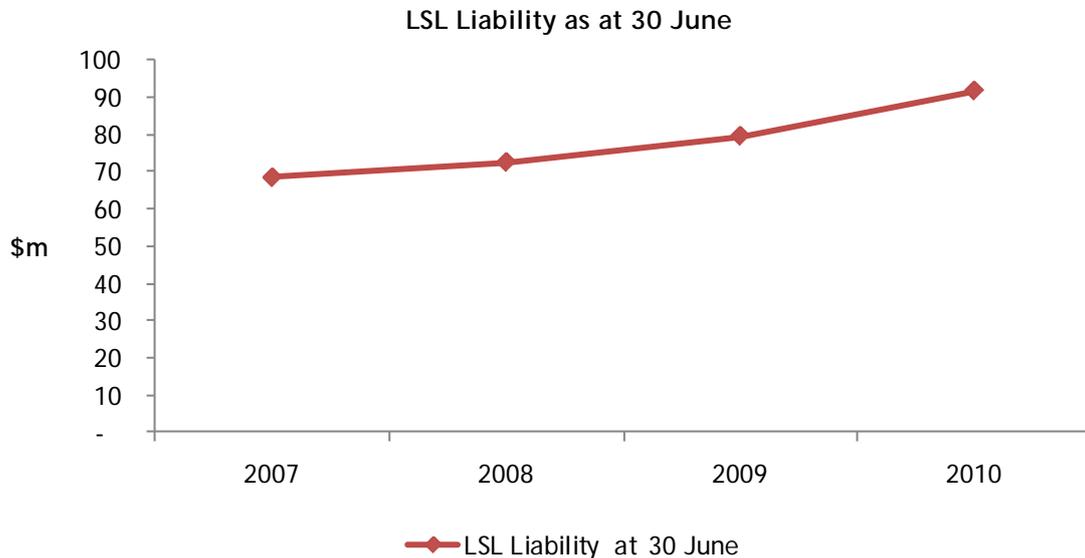
At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
20-24	56	0.9	53	0.8
25-29	234	3.7	242	3.9
30-34	372	5.9	421	6.7
35-39	625	10.1	677	10.8
40-44	816	13.0	822	13.1
45-49	1,151	18.3	1,234	19.7
50-54	1,444	23.0	1,395	22.3
55-59	991	15.8	918	14.7
60-64	464	7.4	399	6.4
65+	122	1.9	98	1.6
<b>Total</b>	<b>6,275</b>	<b>100</b>	<b>6,259</b>	<b>100</b>

Source: North Coast Area Health Service (unaudited)

The Service advised it has implemented a number of initiatives to ensure it has appropriate strategies to attract, retain and develop staff to minimise the challenges of an ageing workforce. I will review this data again next year to assess the effectiveness of the initiatives.

### Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Service. The Service's long service leave liabilities increased by 33.9 per cent over the last three years to \$91.6 million at 30 June 2010. The graph below demonstrates the increasing liability.



The Department of Health advised it is finalising arrangements to transfer employee long service leave entitlements to the Crown Entity, to bring the Area Health Services into line with other New South Wales Government budget department agencies. The effective date of the transfer is expected to be 31 December 2010.

### Annual Leave Balances

I recommend the Service review the effectiveness of its policies for managing excessive leave balances.

Managing excessive annual leave balances remains a challenge for the Service. At 30 June 2010, 1,298 employees (1,322 employees) had accrued annual leave balances in excess of 40 days. This represents 20.7 per cent (21.1 per cent) of total employees at 30 June 2010. The table below shows the number of staff with excessive annual leave balances.

Annual Leave Entitlement (Days)	2010	2009
	No. of Staff	No. of Staff
41-45	201	234
46-50	201	179
51-60	306	347
61-80	346	343
81-100	133	129
100+	111	90
<b>Total</b>	<b>1,298</b>	<b>1,322</b>

Source: North Coast Area Health Service (unaudited)

Some staff attract award entitlements of six weeks annual leave per annum, with entitlements increasing further depending on the incidence of time worked on Sundays and public holidays. The Service advised that in such instances, and using the public sector benchmark of two years' accrual as a guide, staff may not be in an excess leave position until the accrual exceeds 70 days. As shown in the table above, some staff have accumulated leave above the industry norm.

As leave entitlements are paid at rates applicable at the time the leave is taken, excessive leave balances place additional financial pressures on the Service. The health and welfare of employees can also be adversely affected if they do not take sufficient leave during the year.

### ***Overtime***

The Department advised the Service's overtime payments in 2009-10 amounted to \$16.0 million (\$16.6 million), 3.6 per cent (3.8 per cent) of base salary expense for the year. On average, Service employees who worked overtime received \$4,145 (\$4,111) in overtime payments in 2009-10. The highest amount paid to a single employee was \$102,042 (\$179,597).

### **Internal Controls**

I identified some opportunities for improvement to accounting and internal control procedures and have reported them to management. One observation is that the Service continues to acquire a high percentage of goods or services outside its electronic procurement system. This exposes it to a higher level of fraud risk because employees only approve purchases after they have occurred.

## FINANCIAL INFORMATION

## Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	552,012	534,369	--	--
Personnel services	--	--	552,012	534,369
Visiting medical officers	93,285	87,732	93,285	87,732
Grants and subsidies	8,201	7,652	8,201	7,652
Other expenses	399,574	372,277	399,574	372,277
<b>OPERATING EXPENSES</b>	<b>1,053,072</b>	<b>1,002,030</b>	<b>1,053,073</b>	<b>1,002,030</b>
<b>OPERATING REVENUE</b>	<b>155,069</b>	<b>132,228</b>	<b>163,248</b>	<b>140,712</b>
Loss on disposal of non-current assets	171	44	171	44
Other losses	1,435	1,335	1,435	1,335
<b>NET COST OF SERVICES</b>	<b>899,609</b>	<b>871,181</b>	<b>891,430</b>	<b>862,697</b>
Government contributions	915,089	846,032	906,910	837,548
<b>SURPLUS/(DEFICIT)</b>	<b>15,480</b>	<b>(25,149)</b>	<b>15,480</b>	<b>(25,149)</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Asset revaluation increment/(decrement)	22,855	(50,739)	22,855	(50,739)
<b>TOTAL COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>38,335</b>	<b>(75,888)</b>	<b>38,335</b>	<b>(75,888)</b>

The increase in employee related expenses was primarily due to increases in actuarially assessed long service leave entitlements, annual leave entitlements, and award rate increases.

The increase in revenue and other expenses was due to a general rise in activity. The change in high cost drug funding also contributed to the increase in revenue.

## Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	32,150	34,272	32,150	34,272
Non-current assets	647,967	614,896	647,967	614,896
<b>TOTAL ASSETS</b>	<b>680,117</b>	<b>649,168</b>	<b>680,117</b>	<b>649,168</b>
Current liabilities	216,957	220,898	216,957	220,898
Non-current liabilities	8,532	11,977	8,532	11,977
<b>TOTAL LIABILITIES</b>	<b>225,489</b>	<b>232,875</b>	<b>225,489</b>	<b>232,875</b>
<b>NET ASSETS</b>	<b>454,628</b>	<b>416,293</b>	<b>454,628</b>	<b>416,293</b>

The increase in non-current assets was primarily due to a revaluation of land and buildings. The revaluation resulted in a \$22.9 million increment. The decrease in current liabilities was mainly due to a reduction in trade creditors.

## 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](http://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.

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Entity Name	Website
North Coast Area Health Service Special Purpose Service Entity	*

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\* This entity does not have a website.

# Northern Sydney and Central Coast Area Health Service

## AUDIT OPINION

The audits of the Service and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

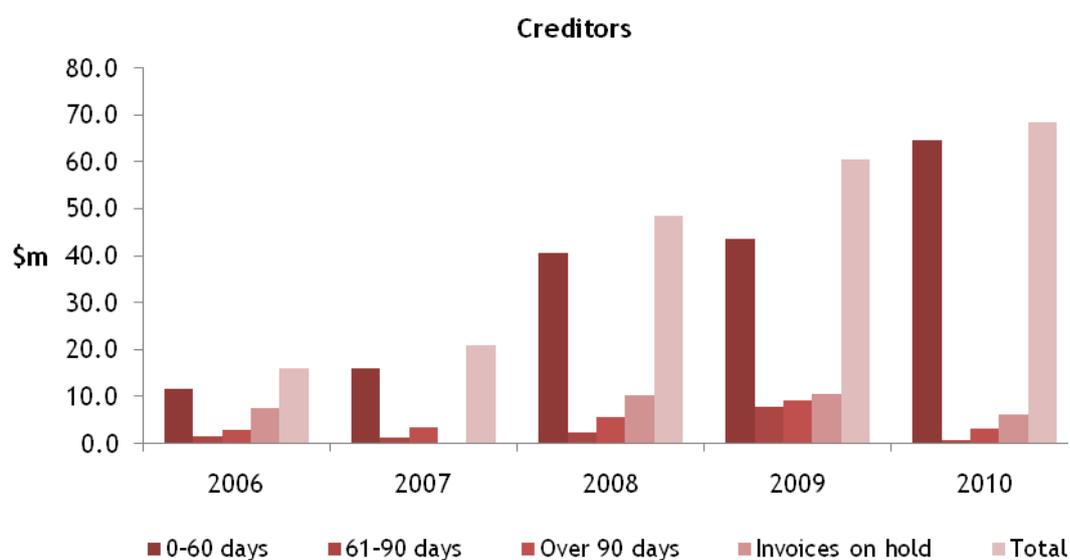
Unless otherwise stated, the following commentary relates to the consolidated entity.

## KEY ISSUES

### Accounts Payable (Repeat issue)

I again recommend the Service pays its creditors within agreed payment terms and follows up disputed invoices in a timely manner.

The following graph shows the ageing of trade creditors for the past five years and the invoices on hold or in dispute:



Note: Total column is the aggregate of the three ageing columns, as they include invoices on hold or in dispute.  
The 0-60 days column for 2010 and 2009 include accruals, which are not included in 2008, 2007 and 2006.  
Source: Northern Sydney and Central Coast Area Health Service (unaudited).

The Service has reduced the time it takes to pay its creditors. Creditors older than 90 days have decreased by 67.0 per cent. Total creditors increased to \$68.3 million at 30 June 2010 from \$60.5 million at 30 June 2009. During the year, the Service received \$62.3 million in additional funding from the Department of Health (the Department) to help pay outstanding creditors.

In each of the past five years, the amounts on hold or in dispute have constituted a significant portion of total trade creditors. At 30 June 2010, \$6.1 million, 14.0 per cent (20.0 per cent) of total creditors, were either on hold or in dispute. A significant amount of the on hold balance, \$3.0 million, was older than 90 days, with some invoices dating back more than two years.

Intra Health creditors at 30 June 2010 amounted to \$3.0 million (\$4.3 million) and are not included in the above graph as the normal credit terms do not apply.

In addition, some capital works creditors and non-trade creditors are not included in the graph as no ageing analysis was available. The total of these creditors at 30 June 2010 was \$4.8 million (\$430,000).

#### Budget to Actual Comparison (Repeat Issue)

I recommend the Service continue to 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 \$41.4 million, was \$15.7 million worse than the budgeted deficit of \$25.7 million. In comparison, the 2009 result was \$39.7 million worse than the budgeted surplus of \$32.2 million. Although there has been an improvement in 2009-10, the continued budget overruns should be appropriately addressed.

The Service advised that the Department has started implementing recommendations from the Independent Financial Management Review, and has completed an independent review of progress. Further comment is included in the 'Overview' earlier in this Volume.

#### Fully Depreciated Plant and Equipment (Repeat Issue)

I recommend the Service continue to 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.

Following my recommendation in 2008-09, the Service conducted physical stock takes of fully depreciated plant and equipment and reduced the cost of fully depreciated assets from \$92.0 million to \$33.7 million at 30 June 2010. The Service advised all equipment is periodically inspected by technicians for service delivery capabilities.

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 Volume).

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

At 30 June	2010	2009	2008
Total Plant and Equipment - at cost (\$'000)	181,576	204,940	221,961
Fully Depreciated Plant and Equipment - at cost (\$'000)	33,700	92,000	83,600
Fully depreciated Plant and Equipment as a percentage of total (%)	18.6	44.9	37.7

The Service plans to review the lives of these assets on an ongoing basis.

### Special Purpose & Trust Funds (Repeat Issue)

I recommend the Service continue to institute a process to locate the source documentation for a number of trust funds.

Last year, I recommended the Service review all special purpose and trust funds to confirm each fund's intended purpose. The Service has completed this review and found the source documentation for some trust funds was incomplete. The Service has instituted a process to locate these documents. It had \$35.9 million of these funds at 30 June 2010 (\$38.4 million).

The table below shows the dissection of Special Purpose and Trust Funds at 30 June 2010.

At 30 June 2010	Number of SP&T accounts
\$1 - \$9,999	404
\$10,000 - \$99,999	247
\$100,000 - \$499,999	57
\$500,000 - \$999,999	10
\$1,000,000 and over	5
<b>Total</b>	<b>723</b>

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

### Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government. Further comment is included in the 'Overview' earlier in this Volume.

### 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 decreased slightly to 4.3 days (4.4 days). This is well above the state average of 3.6 days (3.7 days) and the highest in the state.

The Service's bed occupancy rate increased to 89.8 per cent (88.3 per cent). This was higher than the State average of 88.3 per cent (87.4 per cent).

The Service has met or exceeded the Department's benchmarks for timeliness in treating emergency patients in four of the five triage categories (met or exceeded three of the five triage categories in 2009).

The Service's emergency admission performance slightly increased to 71.0 per cent (70.0 per cent). This was less than its 80.0 per cent target.

## OTHER INFORMATION

## Asset Stock Take (Repeat issue)

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

Last year, I recommended the Service strengthen its policies and procedures of plant and equipment stock takes. Following my recommendation, the Service performed a stock take of all plant and equipment in 2009-10. All cost centres returned complete stock take sheets and total of \$2.6 million of plant and equipment was written off.

## Payments to Visiting Medical Officers and Medical Staff

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

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Total Medical Staff*	192,392	190,039	174,491	160,951
VMOs	65,467	58,884	57,629	49,363

\* 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. At other times they work in private practice. They supplement staff specialists and other staff employed directly by the Service (medical staff).

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

## Human Resources

This year I reviewed the following areas relating to human resources:

- workforce ageing profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities .
- management of annual leave balances in excess of threshold policies
- extent of overtime.

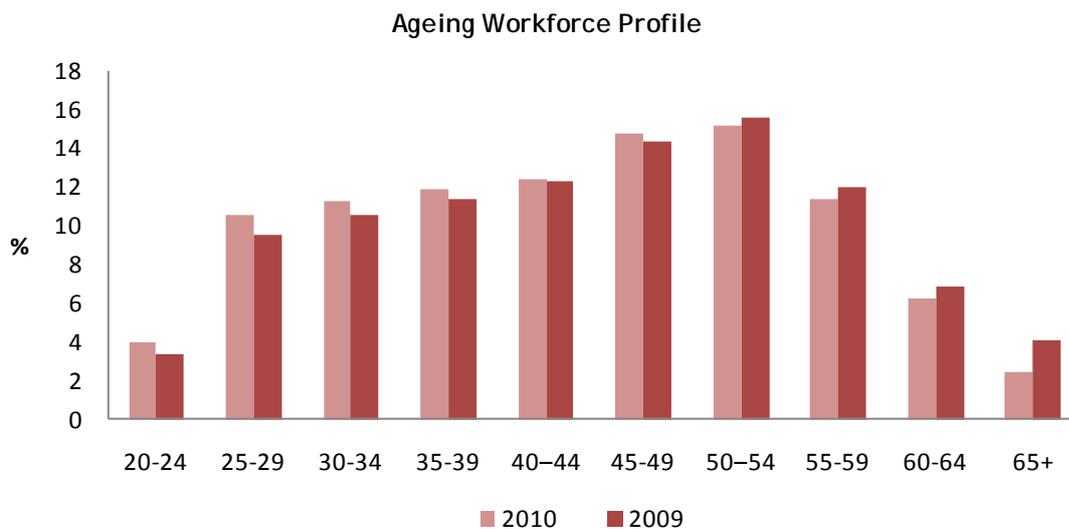
A summary of the results of my review follows.

## Workforce Ageing

I recommend the Service review the effectiveness of its policies for managing its ageing workforce.

Twenty three percent of the Services employees are over 55 years of age and 38.5 per cent are over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

The age profile of the Service employees is shown below:



At 30 June Age Group	2010		2009	
	No. of Permanent Staff *	%	No. of Permanent Staff *	%
20 - 49	7,093	61.5	7,836	64.7
50 - 54	1,795	15.5	1,837	15.2
55 - 59	1,382	12.0	1,377	11.4
60 - 64	792	6.9	750	6.2
65+	470	4.1	302	2.5
<b>Total</b>	<b>11,532</b>	<b>100</b>	<b>12,102</b>	<b>100</b>

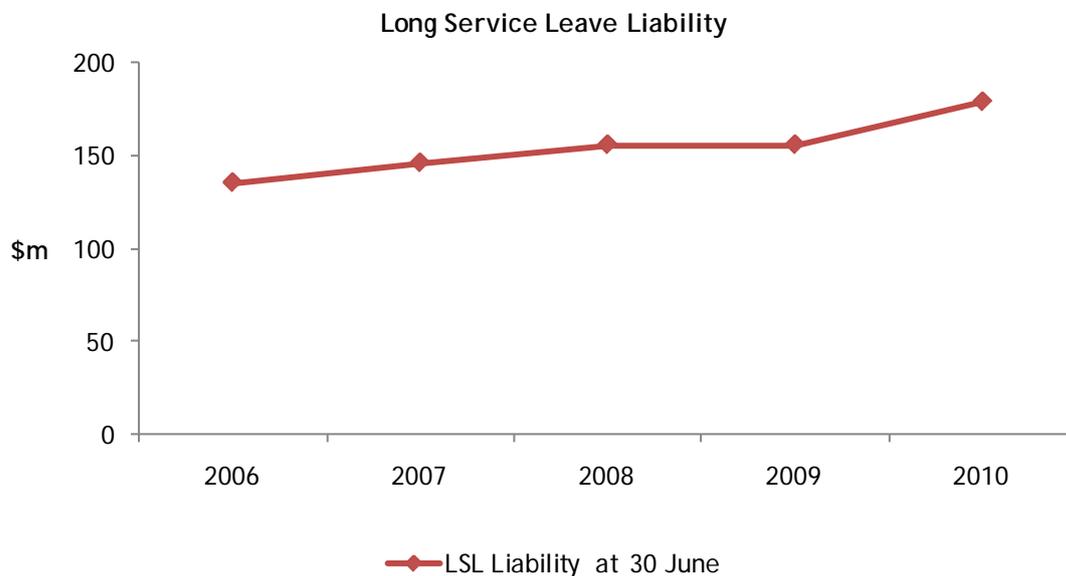
\* Permanent staff includes staff employed under Crown Employee Award but excludes contract, temporary and casual staff

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

To ensure sufficient availability of experienced staff in the future, the Service should actively monitor its workforce age profile and develop and implement appropriate strategies to attract and retain staff whose skills are aligned with the strategic direction of the Service.

### Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Service. Long service leave liabilities increased by 14.8 per cent to \$179 million in 2010 (\$156 million).



The Service advised that the Department of Health is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity, to bring the Department into line with other Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

### Annual Leave Balances

I recommend the Service review the effectiveness of its policies for managing excess annual leave.

Managing excessive annual leave balances remains a challenge for the Service. Of its total workforce of 11,532, 2,366 employees or 20.5 per cent (22.8 percent) had annual leave balances in excess of 40 days. The highest employee annual leave balance was 421 days (422 days). The total number of staff with annual leave balances exceeding 40 days decreased by 405 employees this year.

The Department advised a significant number of staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased depending on the incidence of time worked on Sundays and public holidays. The Department advised in such instances, and using the public sector benchmark of two years' accrual as a guide, Health staff may not be in an excess leave position until the accrual exceeds 70 days.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

The Service should continue to apply the measures it has implemented to reduce leave balances focussing on staff at the high end of the excessive leave range.

## Overtime

Overtime paid to staff in 2009-10 was \$38.4 million (\$39.3 million). Overtime was paid to approximately half of all permanent staff, slightly less than in the prior year. The average overtime paid over to people who worked overtime was \$5,899. There were incidences of overtime payments totalling in excess of \$130,000.

## FINANCIAL INFORMATION

## Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related Personnel services	1,082,833	1,053,759	--	--
Visiting medical officers	65,467	58,884	65,467	58,884
Other expenses	680,578	637,287	680,578	637,287
<b>TOTAL EXPENSES</b>	<b>1,828,878</b>	<b>1,749,930</b>	<b>1,828,878</b>	<b>1,749,930</b>
<b>TOTAL REVENUE</b>	<b>357,477</b>	<b>342,491</b>	<b>373,537</b>	<b>359,944</b>
Loss on disposal of non-current assets and other losses	24,666	2,965	24,666	2,965
<b>NET COST OF SERVICES</b>	<b>1,496,067</b>	<b>1,410,404</b>	<b>1,480,007</b>	<b>1,392,951</b>
Total government contributions	1,454,624	1,402,860	1,438,564	1,385,407
<b>DEFICIT</b>	<b>41,443</b>	<b>7,544</b>	<b>41,443</b>	<b>7,544</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Asset revaluation increment/(decrement)	77,933	(30)	77,933	(30)
<b>TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>77,933</b>	<b>(30)</b>	<b>77,933</b>	<b>(30)</b>
<b>TOTAL COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>36,490</b>	<b>(7,574)</b>	<b>36,490</b>	<b>(7,574)</b>

Employee related expenses rose due to award rate increases that were partially offset by the fall in permanent staff numbers.

The increase in other expenses was mainly due to: higher pathology services costs of \$16.3 million resulting from the transfer of these services from the Service to Hunter New England Area Health Service; increases in food, drug and medical supplies costs of \$15.9 million; and increased maintenance costs of \$5.9 million.

The loss on disposal of non-current assets of \$21.0 million was mainly due to disposal of Royal North Shore Hospital car park, leased to a private entity.

The asset revaluation increment of \$77.9 million comprised: increases in the value of buildings, \$82.7 million; increases in the value of infrastructure systems, \$4.5 million; and decreases in the value of land, \$9.3 million.

#### Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	161,973	133,120	161,973	133,120
Non-current assets	1,512,428	1,411,184	1,512,428	1,411,184
<b>TOTAL ASSETS</b>	<b>1,674,401</b>	<b>1,544,304</b>	<b>1,674,401</b>	<b>1,544,304</b>
Current liabilities	430,123	395,645	430,123	395,645
Non-current liabilities	150,929	90,573	150,929	90,573
<b>TOTAL LIABILITIES</b>	<b>581,052</b>	<b>486,218</b>	<b>581,052</b>	<b>486,218</b>
<b>NET ASSETS</b>	<b>1,093,349</b>	<b>1,058,086</b>	<b>1,093,349</b>	<b>1,058,086</b>

The increase in current assets is mainly due to the transfer of land and buildings held for sale, valued at \$17.2 million, from non-current assets.

The increase in non-current assets and non-current liabilities is mainly due to the non-current receivable of \$68.0 million for the car park leasing and the revaluation increase.

#### 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](http://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.

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Entity Name	Website
Northern Sydney and Central Coast Area Health Service Special Purpose Service Entity	*

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\* This entity does not have a website.

# South Eastern Sydney and Illawarra Area Health Service

## AUDIT OPINION

The audits of the Service and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

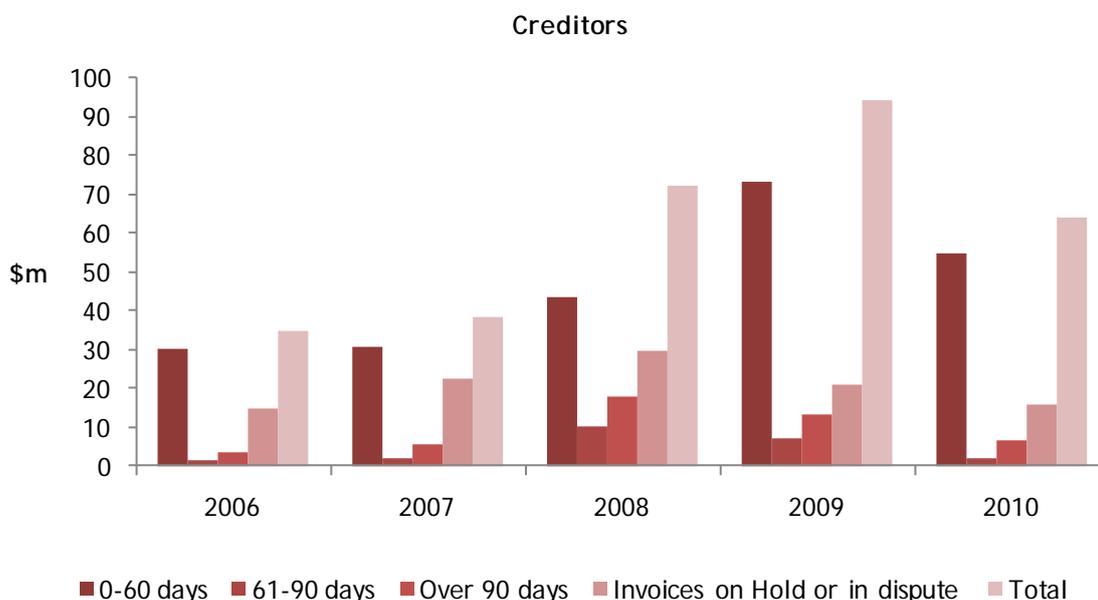
Unless otherwise stated, the following commentary relates to the consolidated entity.

## KEY ISSUES

### Accounts Payable (Repeat issue)

I again recommend the Service ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and disputed invoices are followed up in a timely manner.

The following graph shows the ageing of creditors for the past five 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. The 0-60 day columns for 2010 and 2009 include accruals (not included for 2008, 2007 and 2006)

Source: South Eastern Sydney and Illawarra Area Health Service (the ageing profile and invoices on hold have not been audited)

Intra Health creditors at 30 June 2010 amounted to \$18.2 million, and are not included in the above graph as normal credit terms do not apply. Although I was unable to age the full balance of intra Health creditors, I noted that \$5.8 million was over 120 days old.

In addition, some capital works creditors and non-trade creditors are not included in the graph as an ageing analysis was not available for them. The total of these creditors for 2010 was \$9.1 million (\$8.6 million for 2009).

Timely payment of creditors continues to be an issue for the Service. Total creditors at 30 June 2010 of \$63.9 million, was significantly lower than the prior year's \$94.1 million. Creditors over 90 days old reduced by 41 per cent in that time. This result, however, was only achieved after an injection of \$41.7 million in cash assistance from the Department of Health (the Department) in June 2010. The additional cash was specifically assigned for the payment of creditors.

In each of the past five years, invoices on hold or in dispute have constituted a material portion of total creditors. At 30 June 2010, some \$15.8 million or 24.7 per cent (22.6 per cent) of total creditors, were either on hold or in dispute.

A significant amount, \$7.2 million, of the 'on hold' balance at 30 June 2010 was over 90 days old. Invoices can be placed on hold for a number of reasons, including the lack of a purchase order to support the invoice. I have reported and recommended purchases need to be accompanied by valid orders for the last three years. The Department has also written to suppliers asking them to not invoice Health entities until they have received valid purchase orders. It is incumbent on the Service to ensure purchases are only made if they are supported by an approved order.

### Budget to Actual Comparison

I again 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 \$36.0 million, was \$9.7 million worse than the budgeted deficit of \$26.3 million. In comparison, the 2009 result was \$23.3 million worse than the budgeted deficit of \$41.5 million. Although there has been an improvement in 2009-10, the continued budget overruns should be addressed.

The Department advised it has started implementing recommendations from the Independent Financial Management Review, and has completed an independent review of progress. Further comment is included in the Overview earlier in this Volume.

### Fully Depreciated Plant and Equipment (Repeat issue)

I again recommend the Service 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 established the Medical Equipment Asset Management Program to determine the feasibility of an external private sector partnership in the provision of a whole-of-life asset management facility. A tender document was issued by the Department in 2009-10, and it is currently assessing the tenders received.

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

At 30 June	2010	2009	2008	2007
Total plant and equipment - at cost (\$'000)	233,459	226,677	214,814	234,079
Fully depreciated plant and equipment - at cost (\$'000)	62,071	68,503	73,200	56,700
Fully depreciated plant and equipment as a percentage of total (per cent)	26.6	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 30.2 per cent in 2009 to 26.6 per cent in 2010, it is still very significant.

The Service performed a review of fully depreciated plant and equipment assets during 2008-09, resulting in \$12.0 million being written off, generally for assets with an original cost of less than \$10,000. No assets were written off during 2009-10.

#### Special Purpose and Trust Funds (Repeat issue)

I again 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 public contributions trust fund account to assist in the delivery of health services.

In past years, I have recommended the Service review all special purpose and trust funds (SP&T funds) to confirm each fund's intended purpose, as the nature and intended use of some funds was not apparent. The Service advised it commenced a review of SP&T funds in June 2009, but found further investigation was required. The review was expected to be completed by March 2010, however, it had still not been finalised at the time of this report. The total value of SP&T funds at 30 June 2010 was \$49.4 million (\$48.5 million).

#### Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government. Further comment is included in the 'Overview' earlier in this Volume.

#### 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 remained steady at 3.6 days (3.6 days). This is equal to the State average.

The Service's bed occupancy rate was consistent at 93.3 per cent (93.3 per cent). This is the highest in the State and well above the State average of 88.3 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 in four of the five triage categories in 2009).

The Service's emergency admission performance remained steady at 74.0 per cent (74.0 per cent). This is lower than its 80.0 per cent target.

**OTHER INFORMATION**

**Asset Stock Take (Repeat Issue)**

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

In 2009-10, the Service instructed its hospitals and other facilities to undertake a stock take of assets.

Although the Service has still to collate all the results of the stock takes, the process highlighted issues, including assets with nil values; assets not appearing in the fixed asset register; and the incorrect physical location of assets.

The Service needs to implement additional procedures to improve the plant and equipment stock take process, including aiming for all locations to undertake stock takes.

**Payments to Visiting Medical Officers and Medical Staff**

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

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Medical staff*	295,659	251,636	238,092	211,174	201,749
VMOs	70,482	67,274	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.

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

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

**Human Resources**

This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

Issues identified from my review will be reported in a management letter to the Service. A summary of the results of my review follows.

**Workforce Ageing**

I recommend the Service review the effectiveness of its policies for managing its ageing workforce.

Twenty one per cent of the Service’s employees are over 55 years of age and 36 per cent are over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

The age profile of the Service’s employees is shown below:

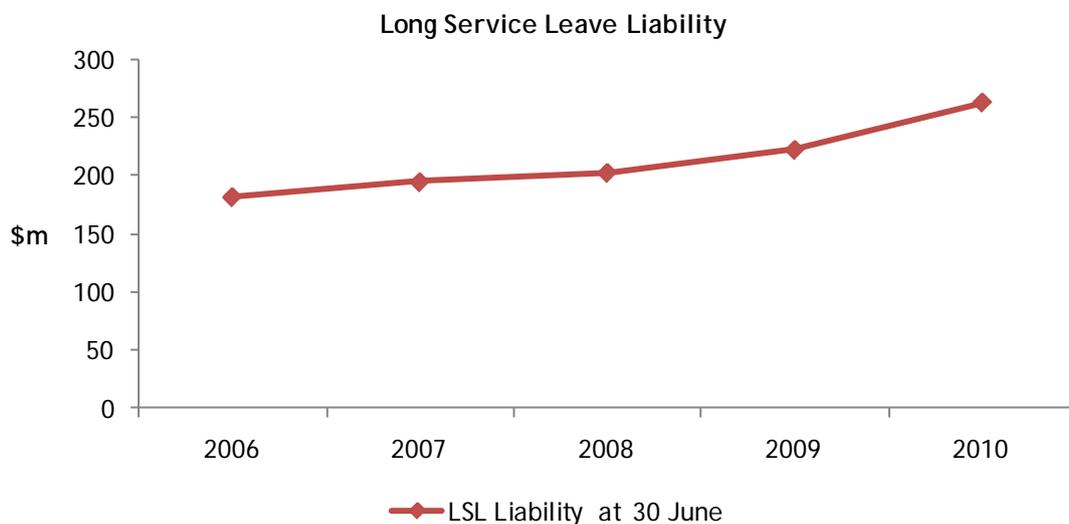


At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Under 35	3,275	23.3	3,392	23.7
35-39	1,866	13.3	1,897	13.3
40-44	1,785	12.7	1,824	12.8
45-49	2,056	14.6	2,150	15.0
50-54	2,143	15.3	2,179	15.2
55-59	1,597	11.4	1,585	11.1
60-64	942	6.7	926	6.5
65+	385	2.7	336	2.4
<b>Total</b>	<b>14,049</b>	<b>100</b>	<b>14,289</b>	<b>100</b>

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

### Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Service. Long service leave liabilities increased by 44.3 per cent over the past five years to \$263 million in 2010 (\$182 million).



The Department advised it is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity, to bring the Department into line with other Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

### Annual Leave Balances

I recommend the Service review the effectiveness of its policies for managing excess annual leave.

The following table shows the number of staff with leave in excess of 40 days.

At 30 June Annual Leave Entitlement (Days)	2010	2009
	No. of Staff	No. of Staff
41-60	1,800	1,809
61-80	838	944
81-100	411	452
100 +	450	483
<b>Total</b>	<b>3,499</b>	<b>3,688</b>

The information in the table above was obtained centrally from the Department and excludes groups such as temporary and seasonal staff. The Department advised the data was extracted at a point in time and may differ from the Service's payroll records, which is a 'live' database updated continuously for changes that may impact past balances.

The Service advised that managing excessive annual leave balances remains a challenge. At 30 June 2010, 3,499 staff had accrued more than the general public service benchmark of 40 days annual leave. The highest annual leave balance was 415 days, with the next highest being 385 days.

A significant number of staff attract award entitlements of six weeks annual leave per annum, with entitlements increasing further depending on the incidence of time worked on Sundays and public holidays. The Service advised that in such instances, and using the public sector benchmark of two years' accrual as a guide, its staff may not be in an excess leave position until the accrual exceeds 70 days. As shown in the table above, some staff have accumulated leave above the industry norm.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

In October 2010, the Service established the Excessive Annual Leave Steering Committee, with the object of reducing current excessive annual leave balances and directing appropriate management of annual leave entitlements. The Committee will begin implementing an action plan next year.

### Overtime

The Department advised that the Service's overtime payments in 2009-10 amounted to \$50.8 million (\$47.2 million), 3.7 per cent (3.6 per cent) of the total salary expenses for the year. On average, Service employees received \$5,973 in overtime payments in 2009-10. The highest amount paid by the Service to an employee was \$228,894.

### Internal Controls

I identified other opportunities to improve accounting and internal control procedures and have reported these to management. The major matters included:

- weakness in the maintenance of the payroll master file data
- late submission, sign-off and review of timesheets
- limited reconciliations performed on intra health debtor and creditor balances, resulting in unexplained reconciling items
- no reconciliation performed of the out-patient log and the bill sheets, resulting in a potential loss of revenue.

**FINANCIAL INFORMATION**

The consolidated financial information includes the financial statements of the Service and its controlled entities.

**Abridged Statements of Comprehensive Income**

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	1,380,697	1,322,930	--	--
Personnel services	--	--	1,380,697	1,322,930
Visiting medical officers	70,482	67,274	70,482	67,274
Grants and subsidies	26,307	27,484	26,307	27,484
Other expenses	935,178	909,238	935,178	909,238
<b>OPERATING EXPENSES</b>	<b>2,412,664</b>	<b>2,326,926</b>	<b>2,412,664</b>	<b>2,326,926</b>
<b>OPERATING REVENUE</b>	<b>641,840</b>	<b>566,200</b>	<b>641,840</b>	<b>566,200</b>
Loss on disposal of non-current assets and other losses	2,267	6,939	2,267	6,939
<b>NET COST OF SERVICES</b>	<b>1,773,091</b>	<b>1,767,665</b>	<b>1,773,901</b>	<b>1,767,665</b>
Government contributions	1,737,087	1,702,847	1,737,087	1,702,847
<b>DEFICIT</b>	<b>36,004</b>	<b>64,818</b>	<b>36,004</b>	<b>64,818</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Increase/(decrease) in property, plant and equipment valuation	123,448	(13,871)	123,448	(13,871)
<b>TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>123,448</b>	<b>(13,871)</b>	<b>123,448</b>	<b>(13,871)</b>
<b>TOTAL COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>87,444</b>	<b>(78,689)</b>	<b>87,444</b>	<b>(78,689)</b>

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

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

## Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	176,004	167,497	176,004	167,497
Non-current assets	1,525,460	1,433,295	1,525,460	1,433,295
<b>TOTAL ASSETS</b>	<b>1,701,464</b>	<b>1,600,792</b>	<b>1,701,464</b>	<b>1,600,792</b>
Current liabilities	591,751	573,766	591,751	573,766
Non-current liabilities	31,698	35,304	31,698	35,304
<b>TOTAL LIABILITIES</b>	<b>623,449</b>	<b>609,070</b>	<b>623,449</b>	<b>609,070</b>
<b>NET ASSETS</b>	<b>1,078,015</b>	<b>991,722</b>	<b>1,078,015</b>	<b>991,722</b>

The increase in non-current assets is due to the revaluation of land and buildings during the year.

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](http://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	Website
South Eastern Sydney and Illawarra Area Health Service Special Purpose Service Entity	*

\* This entity does not have a website.

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# Sydney South West Area Health Service

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## AUDIT OPINION

The audits of the Service and its controlled entities' financial statements for the year ended 30 June 2010 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 records. This means 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, which rely on discretionary revenue streams, and does not represent a shortcoming by the Trust Fund's management.

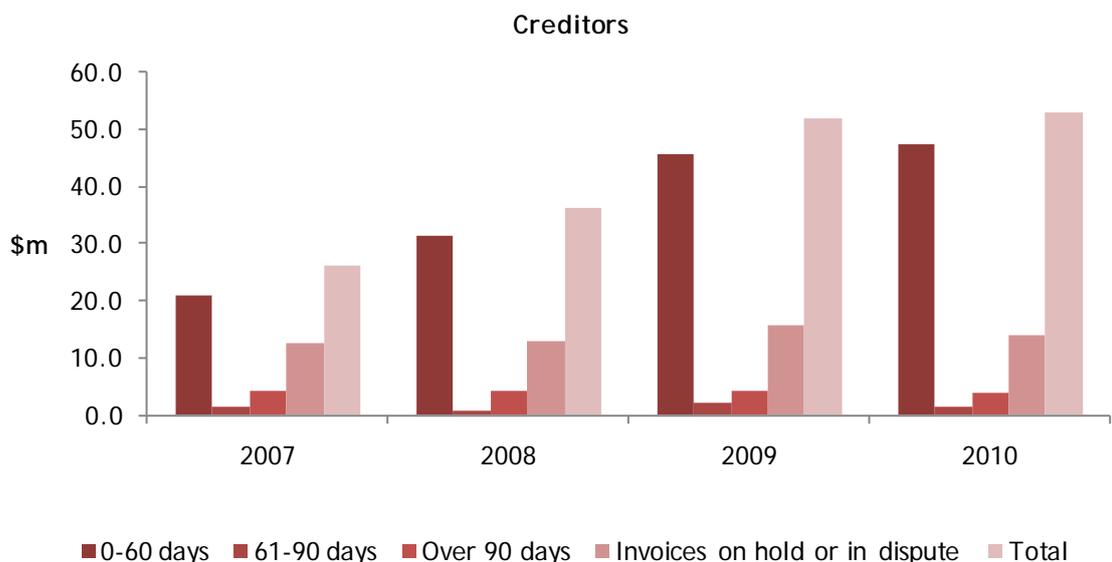
Unless otherwise stated, the following commentary relates to the consolidated entity.

## KEY ISSUES

### Accounts Payable (Repeat issue)

I recommend the Service ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and disputed invoices are followed up in a timely manner.

The following chart shows ageing of trade creditors and accruals 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. The 0-60 days' columns for 2010 & 2009 include accruals, which are not included in 2008 & 2007.

Source: Sydney South West Area Health Service (unaudited)

The Service's total creditors at 30 June 2010 were \$43.9 million, slightly higher than \$41.2 million in 2009. Of this, \$33.0 million (\$31.3 million) were trade creditors.

In each of the past four years, amounts on hold or in dispute have constituted a significant portion of trade creditors. At 30 June 2010, \$14.1 million, 42.7 per cent of trade creditors, were either on hold or in dispute (\$15.6 million and 49.6 per cent). The Service advises that \$3.9 million (\$4.1 million) is over 90 days old and is genuinely in dispute. Invoices can be placed on hold for a number of reasons, including lack of a purchase order to support the invoice, omission of purchase order reference on invoices by vendors, the unit price and/or quantity received not per the purchase order's agreed terms.

Intra Health Creditors at 30 June 2010 of \$3.8 million (\$4.8 million) are not included in the above graph as the normal credit terms are not applicable. In addition, \$4.8 million (\$5.7 million) of capital works creditors have not been included as no ageing analysis for comparative data was available.

#### Special Purpose and Trust Funds (Repeat issue)

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

At 30 June 2010, the Service and its controlled entities held more than \$232 million (\$208 million) in special purpose and trust funds. The number of funds and their balances held appear in the table below.

At 30 June 2010	No of SP & T Funds
less than \$10,000	809
\$10,000 to \$99,999	632
\$100,000 to \$499,999	228
\$500,000 to \$999,999	48
\$1,000,000 and over	37
<b>Total</b>	<b>1,754</b>

Source: Sydney South West Area Health Service (Unaudited)

I previously recommended the Service review all special purpose and trust funds to confirm their intended purpose. In 2009-10, the Service partially reviewed these funds and consolidated some larger funds which have a similar purpose. No funds were moved into the public contributions trust fund.

#### Budget to Actual Comparison

The Service's consolidated result for the year was a surplus of \$97.8 million. This was \$47.7 million above the budgeted surplus of \$50.1 million. This is higher than the 2008-09 surplus of \$23.5 million, which exceeded the budgeted surplus by \$16.9 million.

## Fully Depreciated Plant and Equipment (Repeat issue)

I again recommend 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 established the Medical Equipment Asset Management Program to determine the feasibility of an external private sector partnership in the provision of a whole-of-life asset management facility. A tender document was issued in 2009-10 and the tender responses are currently being assessed. Refer to the 'Health Overview' section earlier in this Volume.

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

At 30 June	2010	2009	2008
Total Plant and Equipment - at cost (\$'000)	394,610	454,758	453,014
Fully Depreciated Plant and Equipment - at cost (\$'000)	188,583	240,197	230,443
Percentage of Fully depreciated Plant and Equipment to total (%)	47.8	52.8	50.9

The Service advised that fully depreciated plant and equipment at 30 June 2010 includes \$68.4 million of medical equipment. This is a significant reduction on prior years. In the past two years, the Service reported in excess of \$100 million of fully depreciated medical equipment. As a result of more comprehensive stocktake procedures, equipment no longer in use has been removed from the asset register.

The Service has a policy of conducting regular inspections of equipment to ensure the safety of equipment used on patients.

### Asset Stock Take

I recommend the Service further strengthen its policies and procedures in relation to plant and equipment management.

Following its stocktake of medical equipment in 2010, the Service wrote off items within its fixed asset register with an original cost of \$70.1 million. Of this, \$63.3 million was fully depreciated at the time of write off.

The stocktake highlighted that the Service needs to strengthen its processes to ensure:

- accurate and timely accounting for asset disposals
- all assets appear in fixed asset registers
- asset registers contain accurate location information.

### Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement with the Australian Government. Refer to the 'Health Overview' section earlier in this Volume.

## 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 Sydney South West Area was 3.6 days (3.7 days in 2009). This is equal to the State average.

The Service's bed occupancy rate was 92.6 per cent (90.7 per cent). This is higher than the State average of 88.3 per cent.

The Service improved its performance by meeting or exceeding the Department's benchmarks for timeliness in treating emergency patients in all of the five triage categories (three triage categories in 2009).

The Service's emergency admission performance increased from 65.0 per cent in 2009 to 71.0 per cent in 2010. This is still lower than the target of 80.0 per cent.

## OTHER INFORMATION

### Major Capital Projects

#### *Liverpool Hospital*

Stage 2.1 of the Liverpool Hospital redevelopment is underway with completion scheduled in late 2011. The redeveloped Liverpool Hospital will feature 855 beds, 20 operating rooms and three interventional suites, 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 2010, \$253 million of project costs had been incurred. The forecast total cost on completion is \$397 million, which is consistent with original forecasts. This project is being managed by Health Infrastructure Services and is estimated for completion in December 2011.

#### *Royal Prince Alfred Hospital*

Planning studies have commenced for a new purpose built mental health unit within Royal Prince Alfred Hospital, which will replace the existing unit. The New South Wales Government will contribute \$30.0 million towards the project with the University of Sydney contributing \$10.0 million. Construction is expected to commence in 2011 and be completed within two years.

Construction has begun on the Lifehouse at RPA cancer centre located on the grounds of Royal Prince Alfred Hospital. Stage One of Lifehouse at RPA is estimated to cost \$182 million, most of which will be funded by the Australian Government.

## Human Resources

This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- management of annual leave balances in excess of threshold policies
- extent of overtime
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- use of contract staff
- payments to Visiting Medical Officers.

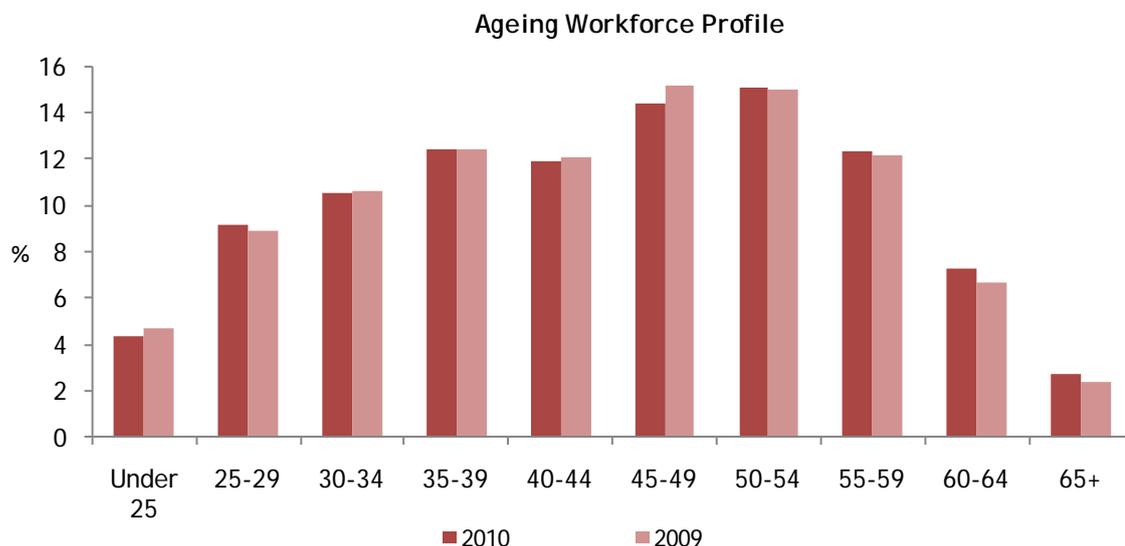
Issues identified from my review will be reported in a management letter to the Service. A summary of the results of my review follows.

### *Workforce Ageing*

Twenty two per cent of the Service's employees are over 55 years of age and 37.0 per cent are over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

To ensure an adequate supply of staff in the future and address the associated risks, the Service needs to monitor its workforce age profile and ensure strategies are in place to attract, develop and retain staff. The Service has a strategic workforce plan, which is regularly updated, to help ensure the challenges of an aging workforce are minimised.

The age profile of the Service's employees is shown below:



At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 35	4,008	24.0	4,003	24.1
35-39	2,074	12.4	2,055	12.4
40-44	1,983	11.9	2,006	12.1
45-49	2,402	14.3	2,510	15.1
50-54	2,517	15.0	2,484	15.0
55-59	2,066	12.4	2,021	12.2
60-64	1,220	7.3	1,106	6.7
65+	453	2.7	396	2.4
<b>Total</b>	<b>16,723</b>	<b>100</b>	<b>16,581</b>	<b>100</b>

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

### Annual Leave Balances

I recommend the Service review the effectiveness of its policies for managing excess annual leave.

The Service's annual leave liability increased by 6.1 per cent during 2009-10, to \$261 million. There has been no improvement in managing excess annual leave during 2009-10, with 5,675 staff having leave balances in excess of 40 days at 30 June 2010. The Service has approximately 12,000 full time and 4,500 part time staff at 30 June 2010. The following table shows the number of staff with annual leave in excess of 40 days.

Annual leave entitlement (Days) At 30 June	Number of Staff	
	2010	2009
41-45	774	819
46-50	703	665
51-60	1,190	1,184
61-80	1,521	1,400
81-100	720	704
100+	767	739
<b>Total</b>	<b>5,675</b>	<b>5,511</b>

Source: Department of Health (unaudited).

Forty days is a public sector benchmark. However, the Service advises some staff are entitled to 20 days annual leave above the public sector benchmark, and may, therefore, have more than 40 days accrued but not be in an excess annual leave position.

The Service has advised it has active procedures in place for managing annual leave accruals for all staff. This involves regular reporting and monitoring of leave balances and a series of escalating actions for the reduction of balances. Despite these procedures, the highest annual leave balance at 30 June 2010 was 298 days.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

### *Overtime*

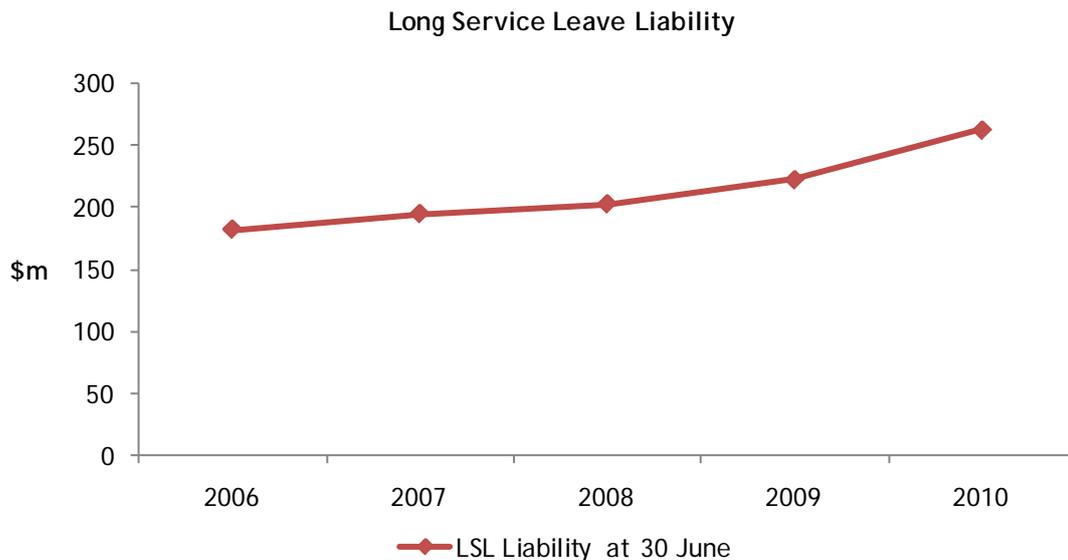
Overtime paid to staff in 2009-10 was \$56.3 million (\$55.7 million). Approximately 80.0 per cent of this figure was paid to nursing and medical staff. Overtime costs represent only 3.5 per cent (3.6 per cent) of total employee related expenditure, which is comparable with other Health Services.

During 2009-10, overtime was paid to approximately half of all permanent staff, which is slightly less than in the prior year. The average overtime paid to individuals who worked overtime in 2009-10 was \$6,382. However, there were incidences of overtime payments totalling more than \$150,000.

### *Long Service Leave Liability*

The Department has advised it is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity in order to bring New South Wales Health into line with other New South Wales Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

The Service's long service leave liability increased by 32.0 per cent over the past three years to \$277 million at 30 June 2010 (\$238 million). The graph below shows the increasing liability.



### Use of Contract Staff

For the 12 months to 30 April 2010, the Service advised it paid \$103 million to contract staff. The following table shows a breakdown of the type of contractors and total costs for that 12 month period.

Contractor Type	2010	
	No. of Contractors	\$'000
Visiting Medical Officers (VMO)*	724	85,547
Agency Nurse	976	8,472
Agency Medical	202	5,946
Agency Administration Staff	66	2,886
<b>Total</b>	<b>1,968</b>	<b>102,851</b>

\* VMO expenditure is for the period 2009-10 and other agency staff expenditure is for the 12 months ended 30 April 2010.

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

Just over 97.0 per cent of contract staff costs were related to front line clinical staff. The Service advised that contract administration staff have been used to fill vacant permanent positions.

At 30 April 2010, 62.8 per cent of contract staff had been engaged for more than 12 months and thirty staff had been contracted for more than six years. The Service advises that Visiting Medical Officers are usually appointed on a three year term and are eligible to apply for reappointment at the end of the contract term.

### Payments to Visiting Medical Officers and Medical Staff

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

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000
Medical Staff*	304,061	282,872	262,453	243,777
VMO	92,764	84,167	84,815	77,628
VMO to Medical Staff Cost in comparison (%)	30.5	29.8	32.3	31.8

\* 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)

VMO costs are a substantial and consistent portion of medical costs. 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 and other staff employed directly by the Service. At other times they work in private practice.

## FINANCIAL INFORMATION

## Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	1,613,443	1,560,517	--	--
Personnel services	--	--	1,609,729	1,556,877
Visiting medical officers	92,764	84,167	92,764	84,167
Grants and subsidies	36,043	27,162	35,256	26,921
Other expenses	920,593	881,394	917,170	878,707
<b>OPERATING EXPENSES</b>	<b>2,662,843</b>	<b>2,553,240</b>	<b>2,654,919</b>	<b>2,546,672</b>
<b>OPERATING REVENUE</b>	<b>634,520</b>	<b>553,283</b>	<b>644,380</b>	<b>566,382</b>
Other losses	14,578	5,861	5,899	5,861
<b>NET COST OF SERVICES</b>	<b>2,042,901</b>	<b>2,005,818</b>	<b>2,016,438</b>	<b>1,986,151</b>
Government contributions	2,140,695	2,029,282	2,115,774	2,004,116
<b>SURPLUS</b>	<b>97,794</b>	<b>23,464</b>	<b>99,336</b>	<b>17,965</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Asset revaluation increment/(decrement)	(26,229)	91,689	(26,043)	91,165
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>71,565</b>	<b>115,153</b>	<b>73,293</b>	<b>109,130</b>

The increase in employee related expenses was due to Award increases and additional staff numbers, together with increases in employee benefit provisions. The increase in visiting medical officer's expense is mostly due to an increase in the remuneration rate.

Other increases in revenues and expenses are attributable to a general rise in activity.

## Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	295,154	280,728	278,213	261,704
Non-current assets	1,888,061	1,787,228	1,878,690	1,777,890
<b>TOTAL ASSETS</b>	<b>2,183,215</b>	<b>2,067,956</b>	<b>2,156,903</b>	<b>2,039,594</b>
Current liabilities	661,036	620,900	659,835	619,553
Non-current liabilities	36,573	33,015	34,706	30,972
<b>TOTAL LIABILITIES</b>	<b>697,609</b>	<b>653,915</b>	<b>694,541</b>	<b>650,525</b>
<b>NET ASSETS</b>	<b>1,485,606</b>	<b>1,414,041</b>	<b>1,462,362</b>	<b>1,389,069</b>

The increase in assets is mainly as a result of construction in progress of Liverpool Hospital. 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.

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](http://www.sswahs.nsw.gov.au).

**CONTROLLED ENTITIES**

The Service controlled three entities during the year, including two research institutes.

**Ingham Health Research Institute**

The Australian government has committed \$46.9 million to the Ingham Health Research Institute to construct a new research facility located at Liverpool Hospital. The Institute received \$4.6 million of this funding during 2009-10.

As of 31 May 2010, the Service ceased to control the Institute. Transactions and balances after that date have not been reported as part of the consolidated entity.

**ANZAC Health and Medical Research Foundation (Repeat Issue)**

I again recommend the Foundation obtain approval for its loan.

Last year, I recommended the Foundation obtain approval for a loan it obtained in 2008-09. The Foundation has failed to do so.

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. The loan is interest free and at 30 June 2010, was \$1.8 million. Under the *Public Authorities (Financial Arrangements) Act 1987*, New South Wales Government agencies require approval to borrow funds.

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

Entity Name	Website
ANZAC Health and Medical Research Foundation	<a href="http://www.anzac.edu.au">www.anzac.edu.au</a>
ANZAC Health and Medical Research Foundation Trust Fund	
Ingham Health Research Institute	<a href="http://www.sswahs.nsw.gov.au/SSWAHS/IHRI/">www.sswahs.nsw.gov.au/SSWAHS/IHRI/</a>
Sydney South West Area Health Service Special Purpose Service Entity	*

\* This entity does not have a website.

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# Sydney West Area Health Service

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## AUDIT OPINION

The audits of the Service and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

## KEY ISSUES

### Waiting List for Elective Surgery

The Service's waiting list and waiting list management practices were recently audited by an external consultant. The audit was commissioned by the Service after it and the Department of Health identified some anomalies with waiting list data. Overall the audit found the Service had not effectively managed waiting lists, noting weaknesses in the areas of people, processes and systems. An earlier review by the Department of Health also identified policy breaches and poor waiting list management practices. Some of the findings from the independent audit included:

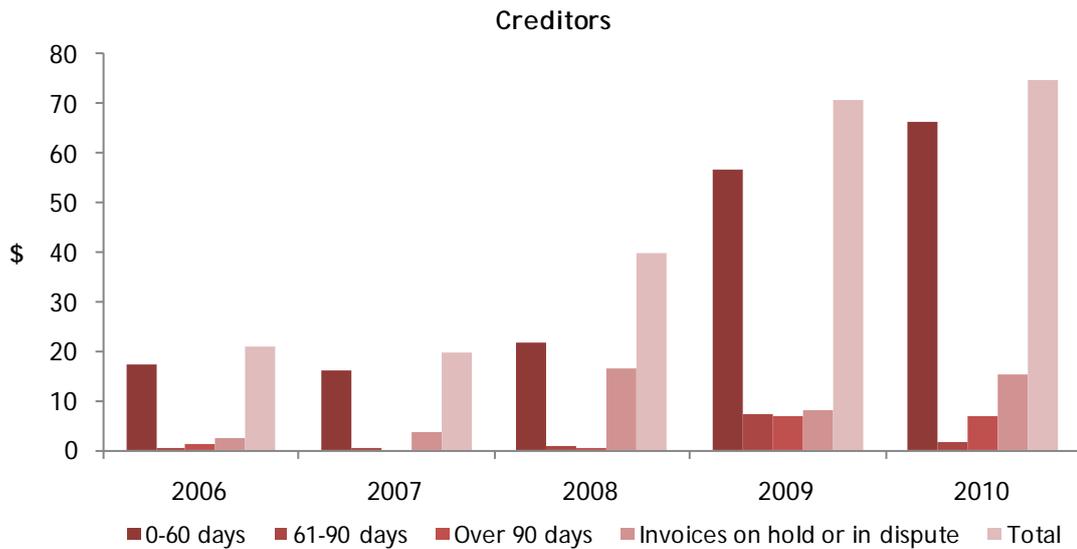
- admission forms appeared to go missing and/or were not input into the system within the three day requirement
- insufficient resourcing within the centralised registration office
- the absence of standard procedures
- booking staff having insufficient knowledge of the waiting list policy
- some doctors were managing their own waiting list outside the system
- inappropriate movement of patients from the waiting list just prior to reaching their clinical recommended timeframes
- an apparent culture of certain levels of management influencing waiting lists
- minimal oversight of waiting list processes within the Service.

The audit made ten recommendations and the Department of Health and the Service have commenced implementing all the recommendations.

### Accounts Payable (Repeat issue)

I again recommend the Service ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and disputed invoices are followed up in a timely manner.

The following graph shows ageing of creditors for the past five years, and amounts on hold or in dispute.



Note 1: The Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute. The 0-60 day columns for 2010 and 2009 include accruals (not included for 2008, 2007 and 2006). Invoices on hold or in dispute have not been included in the ageing columns in 2006, 2007 and 2008.

Source: Sydney West Area Health Service (the ageing profile and invoices on hold have not been audited).

The timely payment of accounts during the year continues to be an issue for the Service. Despite cash assistance provided by the Department of Health late in the financial year, the Service's trade creditors and accruals outstanding at 30 June 2010 totalled \$74.7 million (\$70.6 million at 30 June 2009). Of this amount \$15.4 million (\$8.1 million) related to invoices on hold. The Service advises invoices can be placed on hold for a number of reasons, including the absence of a purchase order in support of the invoice.

Intra Health creditors at 30 June 2010 amounted to \$6.6 million (\$3.8 million) and are not included in the above graph as the normal credit terms do not apply. In addition, some capital works creditors and non-trade creditors are not included in the graph as an ageing analysis was not available. The total of these creditors was \$6.4 million (\$7.0 million).

### Budget to Actual Comparison

The Service's result for the year was \$1.8 million over budget, significantly better than the previous year's result, which was \$43.0 million worse than the budget.

The Department of Health advised it has started implementing the recommendations from the Independent Financial Management Review, and has completed an independent review of progress. Further comment is included in the Health Overview earlier in this Volume.

### Fully Depreciated Plant and Equipment (Repeat Issue)

I again recommend the Service liaise with the Department of Health to ensure it implements recommendations from a pilot review the Department conducted into whole-of-lifecycle management of medical equipment.

The Department advised it has established the Medical Equipment Asset Management Program (MEAM) to determine the feasibility of an external private sector partnership in the provision of a whole-of-life asset management facility. A tender document was issued by the Department in 2009-10 and it is currently assessing the tenders received.

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

At 30 June	2010	2009	2008	2007
Total plant and equipment - at cost (\$'000)	267,973	250,692	217,379	301,317
Fully depreciated plant and equipment - at cost (\$'000)	52,046	37,850	47,844	143,564
Fully depreciated plant and equipment as a percentage of total (per cent)	19.4	15.1	22.0	47.6

The Service continues to use a high proportion of fully depreciated plant and equipment. The Service advises it conducts routine reviews to ensure the use of equipment does not pose a risk to either patient or staff safety.

#### Special Purpose and Trust Funds (Repeat Issue)

I recommend the Service finalise its review of all special purpose and trust funds to confirm each fund's intended purpose. Where appropriate, approvals should be sought to move funds into the public contribution trust fund account where they can then be used to assist in the delivery of health services.

In past years, I recommended the Service review all special purpose and trust funds (SP&T funds) to confirm each fund's intended purpose, as the nature and intended use of some funds was not apparent.

The Service advised it substantially completed its review during 2009-10, however, further investigations were required to determine the purpose and restrictions placed on some of the funds. The Service expects to complete this review in 2010-11. The total value of SP&T funds at 30 June 2010 was \$146 million (\$127 million), as shown in the table below.

At 30 June 2010	Amount (\$000)	Number of SP&T accounts
Overdrawn	(1)	3
Zero value	--	6
Less than \$10,000	732	238
\$10,000 to \$99,999	7,855	228
\$100,000 to \$499,999	17,571	90
\$500,000 to \$999,999	10,468	15
Greater than \$1 million	109,416	13
<b>TOTAL</b>	<b>146,041</b>	<b>593</b>

Source: Sydney West Area Health Service (unaudited).

#### Westmead Millennium Institute Special Purpose and Trust Funds

The Service identified it incorrectly allocated \$12.8 million of SP&T funds for the Westmead Millennium Institute to general operating funds. The \$12.8 million shortfall was rectified with a borrowing from the Department of Health. The Service will need to implement savings strategies in 2010-11 to repay this debt.

## Local Health Networks

In April 2010, New South Wales entered into the National Health and Hospitals Network Agreement (the NHHN Agreement) with the Australian Government. Further comment is included in the 'Health Overview' earlier in this Volume.

## PERFORMANCE INFORMATION

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

The average length of stay in acute hospitals in the Sydney West Area was 3.4 days (3.5 days). This is lower than the State average of 3.6 days.

The Service's bed occupancy rate was 91.5 per cent (92.8 per cent). This was higher than the State average of 88.3 per cent.

The Service met or exceeded the Department's benchmarks for timeliness in treating emergency patients in three of the five triage categories. This is consistent with 2009.

The Service's emergency admission performance decreased to 66.0 per cent (69.0 per cent). This was less than its 80.0 per cent target and was the lowest in the State.

## OTHER INFORMATION

### Voluntary Redundancy Payments

In 2009-10, the Service paid \$10.6 million in voluntary redundancy to 179 staff. This included \$3.7 million paid to 57 nursing staff. The redundancies arose from the Service's rationalisation program.

### Asset Stock Take

Last year, I recommended the Service strengthen its policies and procedures in relation to plant and equipment stocktakes. This year the Service conducted a stocktake of all plant and equipment. The stocktake resulted in various assets being categorised as either missing or unidentified. The Service is currently investigating these discrepancies. The Service believes the discrepancies might be due to:

- incorrect data migration when the financial system was upgraded
- assets not being properly tagged
- assets having tags but the tag reference is not in the asset register
- incorrect asset descriptions in the asset register
- not updating the asset register for asset transfers between units.

## Payments to Visiting Medical Officers and Medical Staff

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

Year ended 30 June Category	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Total Medical Staff*	226,180	215,520	**	177,169	160,918
VMO	46,134	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

Source: Sydney West Area Health Service (total medical staff figures unaudited)

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

## Human Resources

This year I reviewed the following areas relating to human resources:

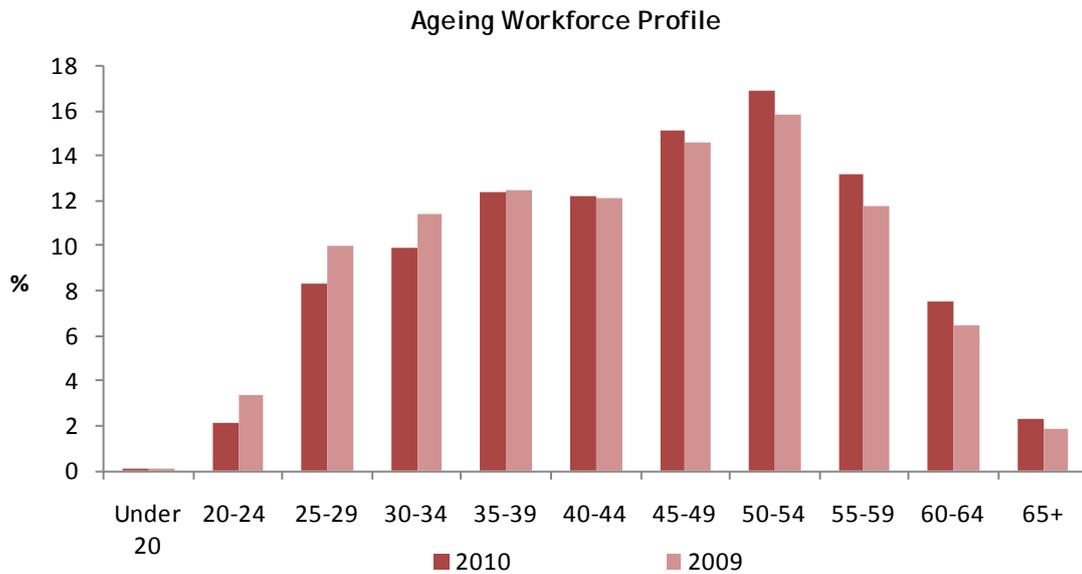
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

A summary of the results of my review follows.

### *Workforce Ageing*

At 30 June 2010, 23.0 per cent (20.2 per cent) of the Service's employees were 55 years of age or older and 39.9 per cent (36.0 per cent) were 50 or older. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Service.

The age profile of the Service's employees is shown below. It excludes contract, temporary, casual, sessional and seasonal staff.



Source: Sydney West Area Health Service (unaudited).

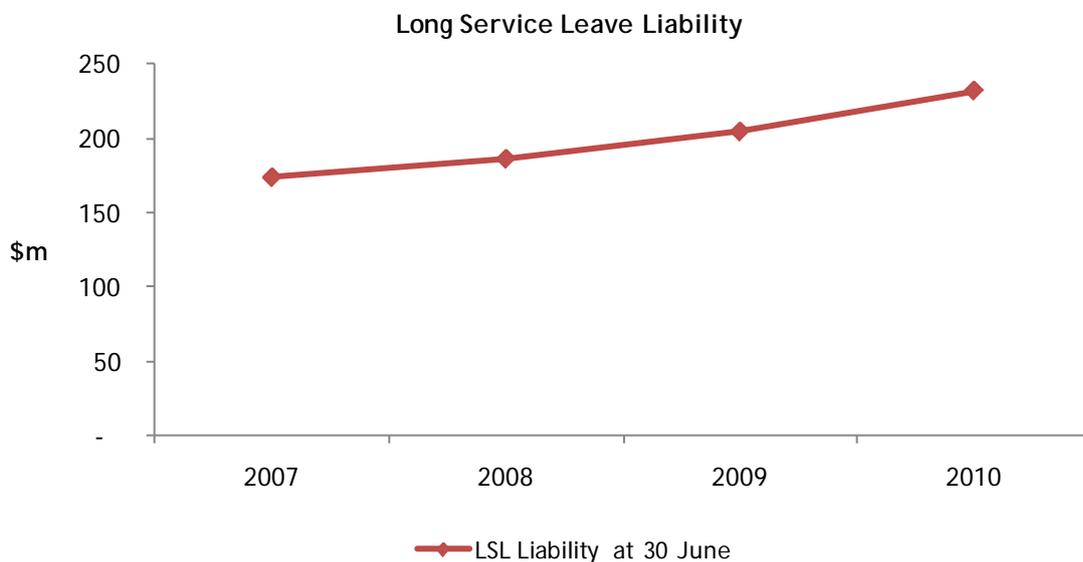
At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Under 20	8	0.1	8	0.1
20-24	254	2.1	458	3.4
25-29	1,020	8.3	1,346	10.0
30-34	1,215	9.9	1,539	11.4
35-39	1,522	12.4	1,685	12.5
40-44	1,502	12.2	1,633	12.1
45-49	1,850	15.1	1,967	14.6
50-54	2,075	16.9	2,132	15.8
55-59	1,626	13.2	1,590	11.8
60-64	918	7.5	878	6.5
65+	286	2.3	253	1.8
<b>Total</b>	<b>12,276</b>	<b>100</b>	<b>13,489</b>	<b>100</b>

Source: Sydney West Area Health Service (unaudited).

The Service advised it has a formal workforce development plan, which it continuously reviews to ensure it has appropriate strategies to attract, retain and develop staff to minimise the challenges of an ageing workforce.

### Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Service. The Service's long service leave liabilities increased by 33.2 per cent over the last three years to \$232 million at 30 June 2010. The graph below demonstrates the increasing liability.



The Department of Health advised it is finalising arrangements to transfer employee long service leave entitlements to the Crown Entity, to bring the Area Health Services into line with other New South Wales Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

### Annual Leave Balances

Managing excessive annual leave balances remains a challenge for the Service. While the Service is actively managing this issue, at 30 June 2010, 2,611 employees (2,754 employees) had annual leave balances in excess of 40 days. This represents 21.3 per cent (20.4 per cent) of total employees. The table below shows the number of staff with excessive annual leave balances.

Annual Leave Entitlement (Days)	2010	2009
	No. of Staff	No. of Staff
41-45	480	544
46-50	450	435
51-60	591	637
61-80	615	614
81-100	250	268
100 +	225	256
<b>Total</b>	<b>2,611</b>	<b>2,754</b>

Source: Department of Health (unaudited)

The information in the table above was obtained from the Department of Health and excludes groups such as temporary and seasonal staff. The Department advised the data was extracted at a point in time, so may differ from the Service's payroll records from a 'live' database, which is updated continuously for changes that may impact past balances.

Some staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased depending on the incidence of time worked on Sundays and public holidays. The Service advised in such instances, and using the public sector benchmark of two years' accrual as a guide, its staff may not be in an excess leave position until the accrual exceeds 70 days. As shown in the table above, some staff have accumulated leave above the industry norm.

As leave entitlements are paid at rates applicable at the time the leave is taken, excessive leave balances place additional financial pressures on the Service. The health and welfare of employees can also be adversely affected if they do not take sufficient leave during the year.

### Overtime

The Department advised the Service's overtime payments in 2009-10 amounted to \$41.6 million (\$42.6 million), 4.3 per cent (4.5 per cent) of base salary expense for the year. On average, Service employees who worked overtime received \$5,647 (\$5,125) in overtime payments. The highest amount paid to a single employee in 2009-10 was \$212,835 (\$192,739), which represented 139 per cent of that employee's base salary.

### Internal Controls

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

- employees approving purchases beyond their approved financial delegation
- inventory control weaknesses at Westmead Hospital
- VMO not submitting their claim forms on a timely basis.

## FINANCIAL INFORMATION

## Abridged Statements of Comprehensive Income

Year ended 30 June 2010	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	1,201,961	1,186,182	--	--
Personnel services	--	--	1,201,961	1,186,182
Visiting medical officers	46,134	47,172	46,134	47,172
Grants and subsidies	18,392	17,599	18,392	17,599
Other expenses	803,314	762,277	803,314	762,277
<b>OPERATING EXPENSES</b>	<b>2,069,801</b>	<b>2,013,230</b>	<b>2,069,801</b>	<b>2,013,230</b>
<b>OPERATING REVENUE</b>	<b>375,093</b>	<b>329,531</b>	<b>396,619</b>	<b>351,591</b>
Loss on disposal of non-current assets	1,669	13,064	1,669	13,064
Impairment of receivables	5,084	3,428	5,084	3,428
<b>NET COST OF SERVICES</b>	<b>1,701,461</b>	<b>1,700,191</b>	<b>1,679,935</b>	<b>1,678,131</b>
Government contributions	1,676,303	1,639,737	1,654,777	1,617,677
<b>DEFICIT</b>	<b>25,158</b>	<b>60,454</b>	<b>25,158</b>	<b>60,454</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Asset revaluation increment/ (decrement)	29,576	(1,814)	29,576	(1,814)
<b>TOTAL COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>4,418</b>	<b>(62,268)</b>	<b>4,418</b>	<b>(62,268)</b>

The increase in employee related expenses was primarily due to increases in actuarially assessed long service leave entitlements and award rate increases.

The increase in revenue and other expenses was due to a general rise in activity, including increased patient fees. A change in high cost drug funding also contributed to the increase in revenue.

## Abridged Statements of Financial Position

At 30 June 2010	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	217,276	187,641	217,276	187,641
Non-current assets	1,470,757	1,475,732	1,470,757	1,475,732
<b>TOTAL ASSETS</b>	<b>1,688,033</b>	<b>1,663,373</b>	<b>1,688,033</b>	<b>1,663,373</b>
Current liabilities	536,088	489,606	536,088	489,606
Non-current liabilities	53,688	59,592	53,688	59,592
<b>TOTAL LIABILITIES</b>	<b>589,776</b>	<b>549,198</b>	<b>589,776</b>	<b>549,198</b>
<b>NET ASSETS</b>	<b>1,098,257</b>	<b>1,114,175</b>	<b>1,098,257</b>	<b>1,114,175</b>

Current assets increased mainly due to the Service holding more cash at bank at 30 June 2010. The Service also had more inventories on hand resulting from the transfer of pathology services from the Greater Southern and the Greater Western Area Health Services.

The increase in current liabilities was mainly due to increases in annual leave and long service leave liabilities.

## SERVICE ACTIVITIES

The Service is responsible for providing medical services to the residents of Western Sydney, from Auburn to Lithgow, 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. It has a contract for services with the Hawkesbury District Health Service Limited.

For further information on the Service's activities, refer to [www.wsahs.nsw.gov.au](http://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	Website
Sydney West Area Health Service Special Purpose Service Entity	*

\* This entity does not have a website.

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# Aus Health International Pty Limited

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## AUDIT OPINION

The audit of the Company's financial statements for the period 1 July 2007 to 31 December 2008 resulted in an unqualified Independent Auditor's Report.

## KEY ISSUES

### Voluntary Winding Up of the Company

In accordance with the Government's Mini Budget announcement on 11 November 2008, the Company ceased operations on 31 December 2008 and transferred its net assets to the Department of Health. It subsequently deregistered with the Australian Securities and Investments Commission (ASIC) on 27 April 2009.

### Abridged Financial Statements

Period ended	Consolidated		Parent	
	2008* \$'000	2007** \$'000	2008* \$'000	2007** \$'000
Revenue	6,592	6,181	6,592	5,217
Expenses	3,937	5,586	3,937	4,628
Profit before income tax	2,655	595	2,655	589
Income tax expense	--	47	--	--
Profit after tax	2,655	548	2,655	589
Net liabilities (at 31 December/30 June)	--	2,655	--	2,655

\* Financial information for 2008 covers activities for eighteen months from 1 July 2007 to 31 December 2008

\*\* Financial information for 2007 covers activities for year ended 30 June 2007 and includes the controlled entity which was disposed on 17 November 2006.

## ENTITY ACTIVITIES

The principal activity of the Company was the export of health services. It facilitated commercial opportunities and assisted in delivering aid programs in developing countries, such as ongoing design, management and evaluation of health related projects.

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# Cancer Institute NSW

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## AUDIT OPINION

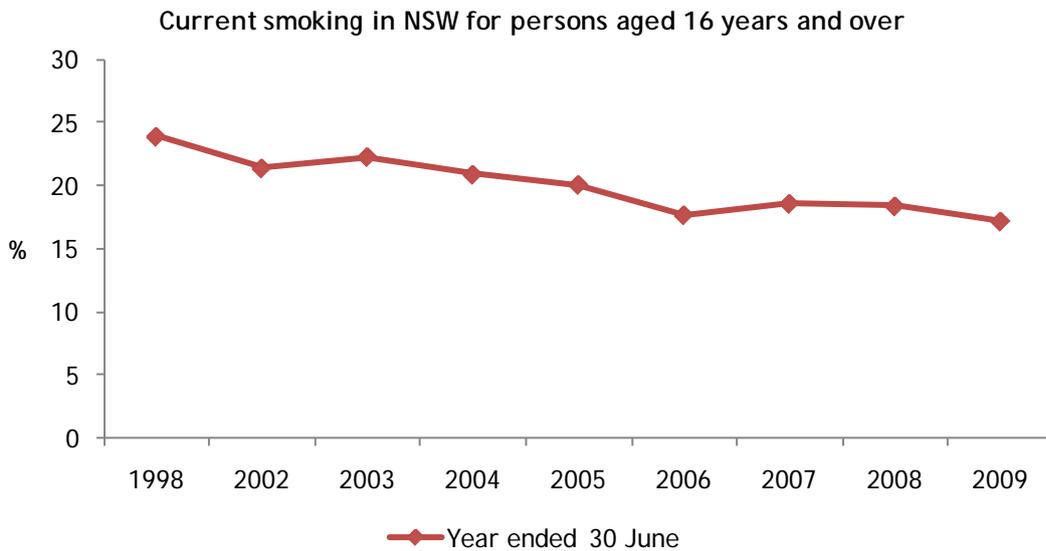
The audits of the Institute and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

## PERFORMANCE INFORMATION

### Smoking Rates

One of the strategies implemented by the Institute in preventing cancer is anti smoking campaigns. The graph below shows the smoking patterns over the past eleven years for persons aged 16 years and over in New South Wales.



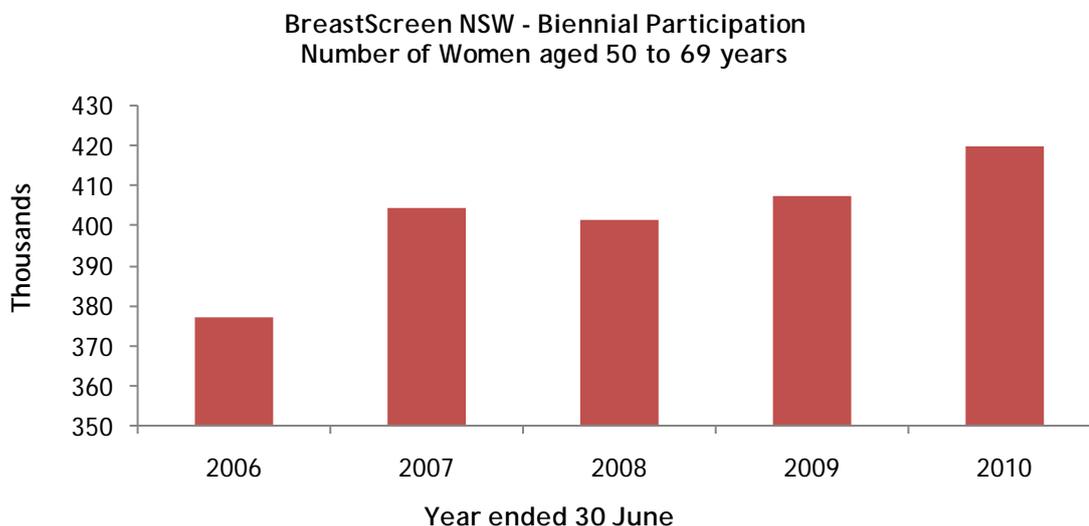
Source: Department of Health Survey (unaudited).

Over the past decade, smoking prevalence has been trending downwards from 23.9 per cent in 1998 to 17.2 per cent in 2009, which exceeded the Department of Health's forecast of 17.7 per cent.

The New South Wales State Plan, the New South Wales Tobacco Action Plan 2005-2009 and the New South Wales Cancer Plan 2007-2010 all aimed to reduce smoking rates by one per cent per year to 2010 and then by 0.5 per cent per year to 2016. The target per the New South Wales Cancer Plan was to reduce smoking rates to 16.0 per cent in 2010. On 30 November 2010, the Department of Health released its Strategic Direction for Tobacco Control in New South Wales 2011-2016 Discussion Paper, which aims to reduce smoking rates to ten per cent in 2020.

## Biennial Breast Screen Participation Rates

The Institute is the program manager for the BreastScreen NSW Program. This program provides free biennial screening mammograms for asymptomatic women and specifically targets women aged 50-69 years. The graph below shows the number of women aged 50-69 years who participated in biennial breast screening in New South Wales over the past five years.



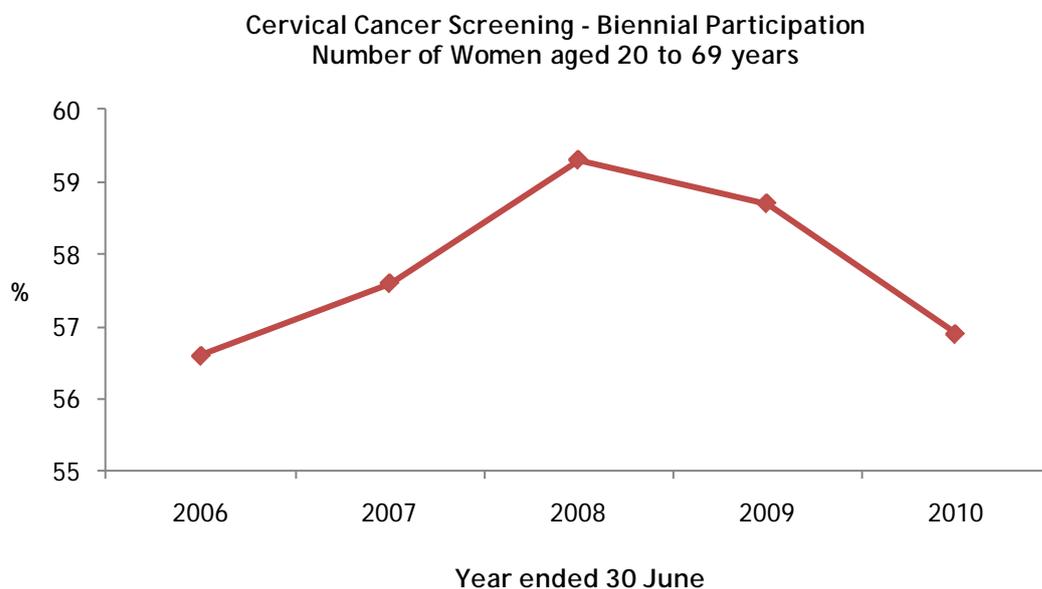
Source: BreastScreen NSW (unaudited).

The Institute reported a biennial participation rate of 53.6 per cent (54.7 per cent) among women aged 50 to 69 years in 2009-10. The Institute's aim is to increase the biennial participation rate for women aged 50 to 69 years to 70.0 per cent. The Institute has implemented a number of initiatives to increase participation including:

- extending opening hours for BreastScreen appointments to outside office hours in selected sites
- delivering a comprehensive statewide BreastScreen Information System
- better engagement with primary care practitioners in recommending screening
- better use of mobile screening vans.

## Biennial Cervical Cancer Screening Participation Rates

The Institute has a Cervical Screening Program, which aims to increase the participation rate by three per cent per annum. This year the Institute reported a participation rate of 56.9 per cent (58.7 per cent). The graph below shows the percentage of women aged 20-69 years participating in biennial cervical screening.



Source: Cancer Institute NSW (unaudited).

The biennial participation rate has decreased in recent years and the Institute is not achieving its target. The Institute advised its recent media campaigns did not have the same impact as those during 2006 to 2008. The Institute intends to investigate a series of strategies to improve participation including:

- alternate social media campaigns in the first half of 2011
- introducing additional reminder letters to women
- developing a screening communication plan to increase awareness amongst women from diverse cultural and linguistic backgrounds.

## OTHER INFORMATION

### Human Resources

This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime
- extent of contract staff.

A summary of the results of my review follows.

### Workforce Ageing

At 30 June 2010, 28.5 per cent (29.4 per cent) of the Institute's employees were 50 years of age or older and 14.7 per cent (15.3 per cent) were 55 or older. Many of these employees are likely to retire in the five to ten years increasing the risk of a loss of knowledge and skills for the Institute.

The age profile of the Institute's employees is shown below:



Source: Cancer Institute NSW (unaudited).

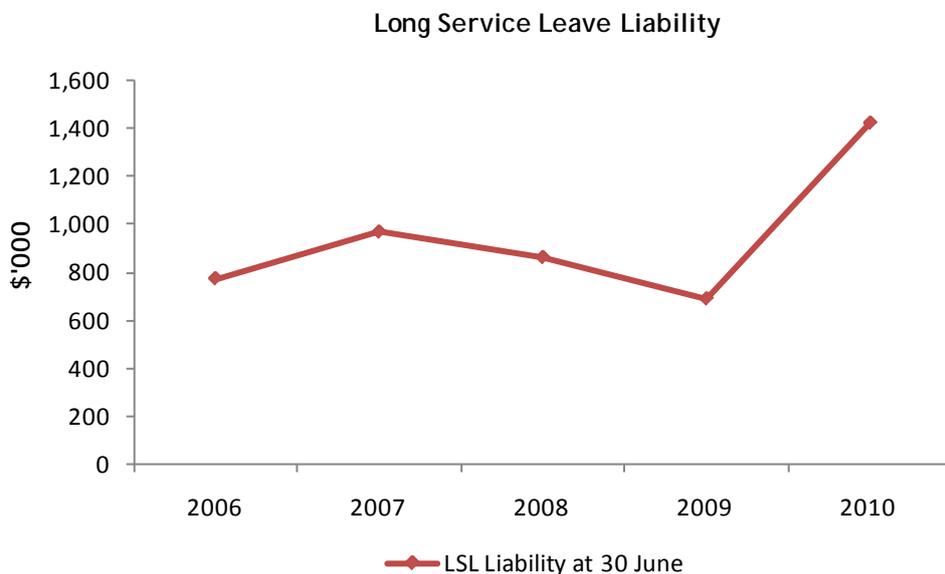
At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
20 - 49	98	71.5	92	70.6
50 - 54	19	13.8	19	14.1
55 - 59	10	7.0	11	8.3
60 - 64	8	5.8	7	5.1
65+	2	1.9	2	1.9
<b>Total</b>	<b>137</b>	<b>100</b>	<b>131</b>	<b>100</b>

Source: Cancer Institute NSW (unaudited).

To ensure the Institute continues to have sufficient, appropriately skilled employees, it will need to actively monitor its workforce age profile and ensure strategies are in place to develop, attract and retain staff whose skills are aligned with its strategic direction.

### Long Service Leave Liability

The Institute's liability for long service leave entitlements at 30 June 2010 amounted to \$1.4 million (\$689,000). As shown in the graph below this liability has increased by 83.7 per cent over the last four years.



The significant increase in 2009-10 was largely due to the Institute obtaining an independent actuarial assessment of its long service leave liability. In previous years the Institute performed its own calculation.

Although the Institute has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels.

### Annual Leave Balances

The Institute has actively managed employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has reduced to nine employees (13 employees) at 30 June 2010. This represents 6.1 per cent (9.0 per cent) of total employees.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

### Overtime

Overtime payments in 2009-10 amounted to \$94,917 (\$100,246) which was one per cent (one per cent) of base salary expense for the year.

### Use of Contract Staff

In 2009-10, the Institute paid \$2.4 million (\$2.3 million) to 49 contractors (52 contractors). At 30 June 2010, 27 contractors had been engaged by the Institute for more than 12 months. The retention of contract staff for extended periods may result in additional costs to the Institute. The Institute advises it continuously monitors the use and performance of contractors to ensure they represent value for money.

## FINANCIAL INFORMATION

### Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<b>REVENUE</b>				
Grants from NSW Department of Health	138,890	146,292	138,890	146,292
Other	3,999	4,372	3,999	4,372
<b>OPERATING REVENUE</b>	<b>142,889</b>	<b>150,664</b>	<b>142,889</b>	<b>150,664</b>
Loss on disposal	15	--	15	--
<b>EXPENSES</b>				
Grants to New South Wales Area Health Services	61,908	59,675	61,908	59,675
Research grants to hospitals and institutions	27,404	26,592	27,404	26,592
Prevention campaigns and advertising	11,520	17,357	11,520	17,357
Other	41,249	41,351	41,205	42,064
<b>OPERATING EXPENSES</b>	<b>142,081</b>	<b>144,975</b>	<b>142,037</b>	<b>145,688</b>
<b>SURPLUS</b>	<b>793</b>	<b>5,689</b>	<b>837</b>	<b>4,976</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Actuarial gain/(loss) on superannuation	44	(713)	--	--
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>837</b>	<b>4,976</b>	<b>837</b>	<b>4,976</b>

The decrease in prevention campaigns and advertising expenses was largely due to reduced funding from the NSW Department of Health.

## Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	39,563	39,125	39,563	39,125
Non-current assets	2,675	2,929	2,675	2,929
<b>TOTAL ASSETS</b>	<b>42,238</b>	<b>42,054</b>	<b>42,238</b>	<b>42,054</b>
Current liabilities	7,175	8,216	7,866	8,256
Non-current liabilities	813	425	122	385
<b>TOTAL LIABILITIES</b>	<b>7,988</b>	<b>8,641</b>	<b>7,988</b>	<b>8,641</b>
<b>NET ASSETS</b>	<b>34,250</b>	<b>33,413</b>	<b>34,250</b>	<b>33,413</b>

## 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.

For further information on the Institute, refer to [www.cancerinstitute.org.au](http://www.cancerinstitute.org.au).

## 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	Website
Cancer Institute Division	*

\* This entity does not have a website.

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# Health Administration Corporation

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## AUDIT OPINION

The audits of the Health Administration Corporation (the Corporation) and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

## KEY ISSUES

### Internal Control Deficiencies across the Health Sector

I recommend Health Support Services (HSS), a division of the Corporation, agree with the Department of Health and its customers the respective responsibilities for implementing effective internal controls. In the absence of this, there is an elevated risk that irregularities may not be prevented or detected. I strongly recommend that standardised internal controls should be implemented at HSS to prevent errors and irregularities from occurring.

HSS provides financial and payroll support to Health Services. HSS began processing transactions for health entities in 2007, and now provides the financial transaction processing and payroll functions for the majority of Health Services.

I found a significant number of weaknesses in internal controls at HSS service centres, in a number of areas, including payroll and accounts payable. Examples of deficiencies are included later in this comment. While transitional issues in establishing shared service functions are expected, sufficient time has now elapsed for these to have been resolved.

The weaknesses identified in the operation of internal controls pose an elevated risk of irregularities not being prevented or detected. If HSS had requested the Audit Office to provide third party assurance opinions on the operation of internal controls for payroll and accounts payable, those opinions would have been heavily qualified. Some examples of the control weaknesses identified are included in the Repeat Issues section below.

In some cases, HSS advised that the issues identified in its processes are a Health Service responsibility, while the Health Services consider them to be an HSS responsibility. As a result, the relevant controls are often not operating at both the Health Service and HSS. I strongly recommend that standardised internal control procedures be established by HSS for all its clients. There should be clear agreements between HSS and the Health Services as to respective responsibilities for the operation of designated controls to avoid confusion and blame shifting.

The impending move from Health Services to Local Health Networks provides an opportunity to examine the distribution of responsibilities and resolve any control issues.

**HSS Key Performance Measures (Repeat Issue)**

I again recommend HSS further develop its Key Performance Indicators (KPIs) for its service centres to ensure they include more qualitative indicators as well as quantitative indicators, and to measure these indicators against appropriate targets.

Last year I recommended HSS improve its KPIs to measure them against appropriate targets, and to develop qualitative indicators to measure its performance. Some quality measures were developed to assess potential duplicate invoices picked up through Continuous Control Monitoring. However, the majority of indicators for its service centre operations still focus on processes, and none are measured against appropriate targets.

HSS needs to develop targets that it believes are realistic and achievable. It is important that HSS develop and report on KPIs that measure outcomes and quality of service. For example, even though processes referred to in the Service Partnership Agreements (SPAs) are being performed within agreed timeframes, there should also be some measurement of:

- 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.

Below are some KPIs that HSS identified and monitored for its two largest service centre operations.

Key Performance Indicators - At 30 June	Parramatta Service Centre		Newcastle Service Centre	
	(%)		(%)	
	2010	2009	2010	2009
Purchase orders raised within 2 business days	99	89	78	86
Accounts payable invoices entered within 7 days	64	*	82	*
Invoices raised within 2 business days	69	61	98	100

Source: HSS internal reports (unaudited).

\* Reported by customer health services in 2009 without an average. Percentages range from 60 to 100 per cent

In addition to the above, HSS monitors the reasons for overpayments and manual payments. For overpayments, HSS advised that at June 2010 more than 60.0 per cent of overpayments were caused by its customers. Similarly, HSS advised the cause of manual payments in more than 70.0 per cent of cases rested with its customers.

### Finalisation of Service Partnership Agreements (Repeat Issue)

I again recommend HSS finalise the Service Partnership Agreements (SPAs) with its customers under its newly established framework as soon as possible.

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

For the last three years I have noted that not all SPAs had been finalised with HSS customers, and was advised that a new framework was being developed for establishment and sign-off of SPAs for 2010-11. Although progress has been made in this regard, signed SPAs were not in place for the year ended 30 June 2010. I understand HSS customers are currently considering the agreements for the 2010-11 year.

### Intra Health Receivables Confirmations (Repeat Issue)

I again recommend HSS implement a systematic process to confirm its intra health receivables with its customers at year end.

I was unable to confirm a significant number of receivables balances at HSS with its customer Health Services. The total unconfirmed balance was \$9.1 million. Although it is probable that Health Services will be able to confirm a number of these receivables in due course, a process should be implemented to confirm these at appropriate intervals during the year, and at year end so that any discrepancies are identified and resolved on a timely basis.

### Management Letter Repeat Issues

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

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

- insufficient controls to ensure all customer transactions are processed
- the validity of signatures authorising purchases, approving payments to suppliers and approving manual timesheets are not checked
- payroll master file changes are not reviewed on a regular basis and when reviewed they are not always reviewed by an independent officer
- final termination payments are not being made in a timely manner to terminated customer employees.

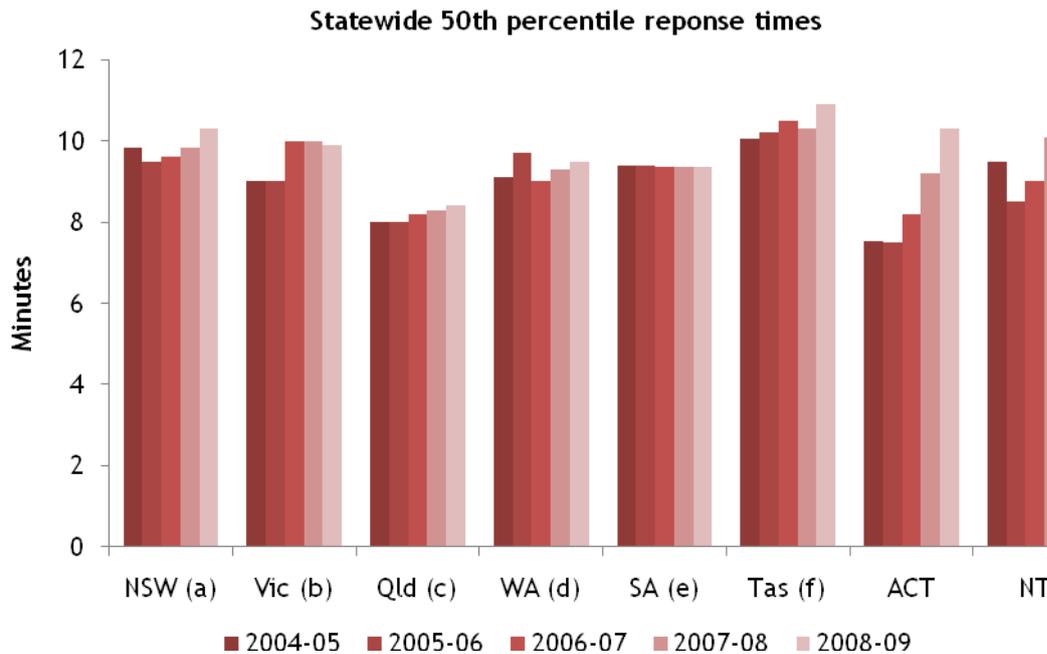
Last year, HSS advised it was standardising processes and controls across its service centres to address these issues. However, this has not been finalised.

**PERFORMANCE INFORMATION**

**Ambulance Service of NSW**

*Response Times*

The Ambulance Emergency Response Time is the period between when a Triple Zero (000) emergency call is recorded and the time the first ambulance resource arrives at the scene in a life-threatening case. In Australia, the 50<sup>th</sup> percentile (median) response time is the key measure, allowing performance to be compared with other States.



Source: Report on Government Services 2010, Volume 1: State Emergency Services table 9A.29

- (a) NSW: Did not triage emergency calls prior to 2005-06. Results for code 1 cases represent '000' and urgent medical incidents. In 2005-06, the introduction of medical prioritisation has allowed for separation of emergency and urgent activity. A volunteer ambulance service audit was undertaken in 2008-09 which led to improved reporting.
- (b) Vic: Data are incomplete for 2004-05 due to industrial action in the month July 2004. The basis of response time reporting changed in 2007-08 and results are not directly comparable with previous years. Metropolitan response and case times data are sourced from the Computer Aided Dispatch system. Prior to 2008-09, these data were sourced from patient care records completed by paramedics. Rural response times are sourced from Patient Care Records completed by paramedics.
- (c) Qld: Casualty room attendances are not included in response count and, therefore, are not reflected in response times data. Response times are reported from the computer aided dispatch (CAD) data.
- (d) WA: Ambulance first responder locations data are not available for 2007-08.
- (e) SA: for the 2010 Report figures have been revised retrospectively to more directly align with definitions, except for 2004-05. Code 1 response times are now calculated from SA Ambulance CAD data and are more aligned to the definitions provided by the CAA. Previously, prior to 2006-07, code 1 response times were calculated on all responses to category 1 and 2 cases and based on patient case cards. Code 1 response times from 2006-07 have excluded second and subsequent vehicles arriving at an incident and exclude incidents where the category of dispatch was upgraded.
- (f) Tas: The highest proportion of population is in small rural areas, relative to other jurisdictions, which increases average response times.

In 2008-09, the 50<sup>th</sup> percentile response time for potentially life-threatening cases state-wide, across all States, ranged from 8.4 minutes to 10.9 minutes. This means that at least 50.0 per cent of potentially life-threatening cases were responded to within this range. The 50<sup>th</sup> percentile response times for metropolitan areas within each state ranged from 7.6 minutes to 10.3 minutes.

Within New South Wales, the 2008-09 50<sup>th</sup> percentile response time for potentially life-threatening cases was 10.3 minutes for the whole of New South Wales (9.9 minutes in 2007-08) and 10.1 minutes (9.7 minutes in 2007-08) for the Sydney metropolitan area. The Ambulance Service advised that there was a slight deterioration in response performance during 2008-09, primarily due to longer 'off stretcher' times which limited the overall availability of ambulances to respond. Off stretcher time is the period between when a paramedic arrives at a hospital emergency department and the time the paramedic is cleared to respond to other emergencies.

### Workforce Attrition

The workforce attrition rate for the Ambulance Service was 4.4 per cent in 2008-09, a decrease from 5.1 per cent in the prior year, but above the average rate of 4.0 per cent across Australia. The Ambulance Service has advised that the attrition rate has fallen to 4.0 per cent in 2009-10. As the Service has a highly skilled and professional workforce, a low attrition rate is desirable and the Service should ensure it has adequate policies and procedures implemented to maintain a low rate.

At 30 June	2009		2008	
	Total Operational Workforce FTE	Operational Workforce attrition %	Total Operational Workforce FTE	Operational Workforce attrition %
State				
NSW	3,460	4.4	3,409	5.1
Vic	2,561	2.9	2,314	4.6
Qld	2,729	4.2	2,549	4.2
WA	614	7.2	604	7.6
SA	857	1.1	786	3.2
Tas	238	5.9	237	7.2
ACT	130	10.0	130	10.8
NT	122	5.7	121	5.0
Aust	10,711	4.0	10,149	4.9

Source: Report on Government Services 2010, Volume 1: State Emergency Services table 9A.25

### HSS Cost Benefit Review

The Corporation commissioned an external review of HSS to assess, amongst other things, whether expected savings at the time HSS was established have been realised. The results of this review were finalised in June 2010. I am currently awaiting receipt of the report from the Corporation.

### OTHER INFORMATION

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

### Human Resources

This year I reviewed the following areas relating to human resources:

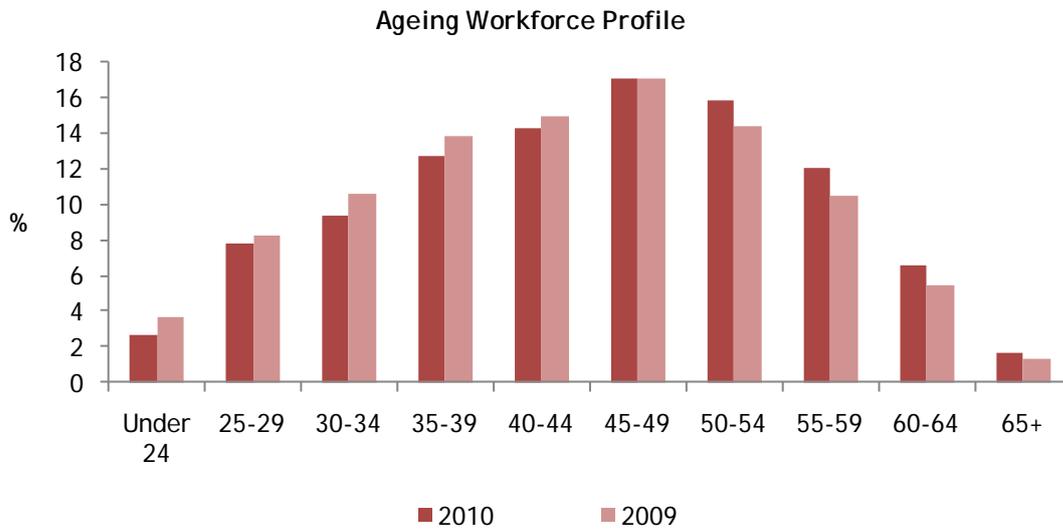
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

**Workforce Ageing**

I recommend, to ensure sufficient availability of experienced staff in the future, the Corporation actively monitor its workforce age profile and develop and implement appropriate strategies to attract and retain staff whose skills are aligned with the strategic direction of the Corporation.

The Corporation has 20.0 per cent of its employees over 55 years of age and 36.0 per cent over 50. This represents a large number of employees who are likely to retire over the next five to ten years. This potential loss of knowledge and skills is a risk for the Corporation.

The age profile of Corporation employees is shown below:

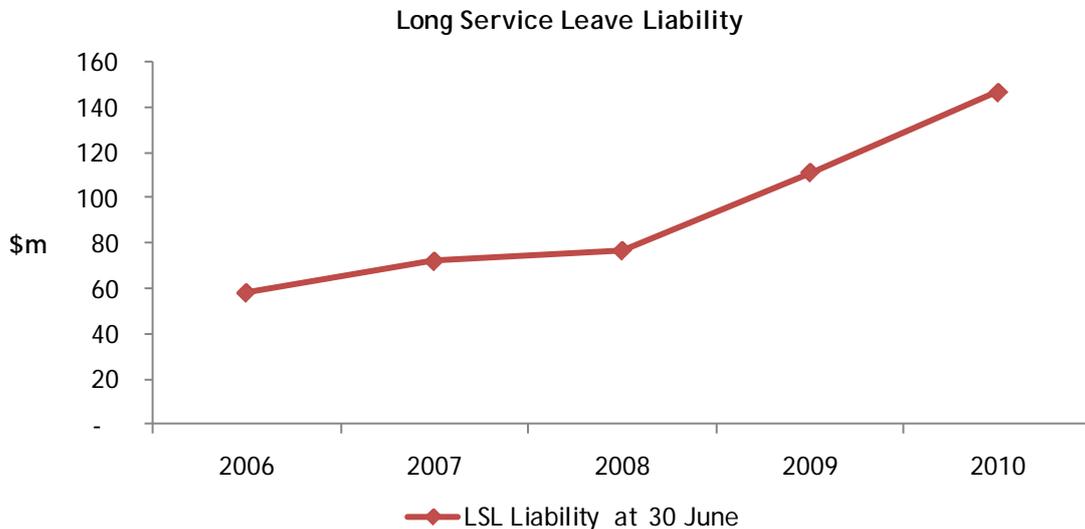


At 30 June	2010		2009	
	No. of Employees	%	No. of Employees	%
Up to 39	2,919	32.5	2,688	36.3
40-44	1,281	14.3	1,105	14.9
45-49	1,531	17.1	1,264	17.1
50-54	1,418	15.8	1,068	14.4
55-59	1,074	12.0	775	10.5
60-64	594	6.6	409	5.5
65+	148	1.7	93	1.3
<b>Total</b>	<b>8,965</b>	<b>100</b>	<b>7,402</b>	<b>100</b>

Source: Information provided by Department of Health (unaudited). The information above excludes the Health Infrastructure and Institute of Medical Education and Training divisions.

### Long Service Leave Liability

The Corporation's liability for long service leave entitlements at 30 June 2010 amounted to \$147 million (\$57.9 million in 2006). This liability has increased by 153.9 per cent over the last five years.



The increase in the long service leave liability resulted mainly from the transition of Area Health Service (AHS) employees to HSS to provide various functions to AHSs, including food services, linen services, payroll and financial transaction processing, and warehousing.

The Department has advised it is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity in order to bring NSW Health into line with other New South Wales Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

### Annual Leave Balances

The number of employees with annual leave balances in excess of 40 days has increased from 2,970 employees at 30 June 2009 to 3,508 employees at 30 June 2010. However, this increase stems mainly from employees transferred from AHSs, increasing overall staff numbers. The Corporation's divisions have implemented strategies to reduce the level of excessive annual leave. The number of employees with annual leave balances in excess of 40 days has declined to 39.1 per cent of total employees at 30 June 2010 (40.1 per cent in 2009).

The following table shows the number of staff with leave in excess of 40 days:

Annual Leave Entitlement (Days)	2010	2009
	No. of Staff	No. of Staff
41-60	1,919	1,660
61-80	891	737
81-100	361	316
100 +	337	257
<b>Total</b>	<b>3,508</b>	<b>2,970</b>

Source: Information provided by Department of Health (unaudited). The information above excludes the Health Infrastructure and Institute of Medical Education and Training divisions.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

The Corporation should actively manage employee annual leave balances to ensure leave is taken in a timely manner.

### Overtime

Overtime payments in 2009-10 amounted to \$73.6 million (\$69.7 million in 2008-09) which was 14.2 per cent (17.4 per cent) of base salary expense for the year. On average, Corporation employees received \$11,467 (\$12,350) in overtime payments in 2009-10 and 71.6 per cent (76.2 per cent) of employees received a payment for working overtime. The highest amount paid to a single employee, an officer of the Ambulance Service, in 2009-10 was \$138,190 (\$109,989).

## FINANCIAL INFORMATION

### Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related Personnel services	723,111	581,232	--	--
Other expenses	579,773	387,751	579,773	387,751
<b>OPERATING EXPENSES</b>	<b>1,302,884</b>	<b>968,983</b>	<b>1,302,884</b>	<b>968,983</b>
<b>OPERATING REVENUE</b>	<b>768,378</b>	<b>489,793</b>	<b>784,197</b>	<b>503,505</b>
Other losses	26,114	23,588	26,114	23,588
<b>NET COST OF SERVICES</b>	<b>560,620</b>	<b>502,778</b>	<b>544,801</b>	<b>489,066</b>
Government contributions	579,842	542,000	564,023	528,288
<b>SURPLUS</b>	<b>19,222</b>	<b>39,222</b>	<b>19,222</b>	<b>39,222</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Increase in Asset Revaluation Reserve	3,003	11,800	3,003	11,800
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>3,003</b>	<b>11,800</b>	<b>3,003</b>	<b>11,800</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>22,225</b>	<b>51,022</b>	<b>22,225</b>	<b>51,022</b>

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

## Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	292,964	247,496	292,964	247,496
Non-current assets	474,799	434,891	474,799	434,891
<b>TOTAL ASSETS</b>	<b>767,763</b>	<b>682,387</b>	<b>767,763</b>	<b>682,387</b>
Current liabilities	411,822	358,124	411,822	358,124
Non-current liabilities	18,893	12,782	18,893	12,782
<b>TOTAL LIABILITIES</b>	<b>430,715</b>	<b>370,906</b>	<b>430,715</b>	<b>370,906</b>
<b>NET ASSETS</b>	<b>337,048</b>	<b>311,481</b>	<b>337,048</b>	<b>311,481</b>

The rise in current assets is mainly due to an increase in receivables and other financial assets as a result of more customer Health Services being transferred to HSS during the year.

The increase in non-current assets is largely the result of intangible assets added during the year.

Current liabilities increased because of greater staff numbers, and an increase in payables consistent with increased operations.

The following table provides a summary of financial information for 2009-10 by business unit:

Year ended 30 June	Health Support Services		Ambulance Service		Other business units*	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Expenses	660,397	371,308	654,149	608,557	14,452	12,706
Revenue	572,584	312,359	194,337	176,351	1,457	1,083
Net cost of services	87,813	58,949	459,812	432,206	12,995	11,623
Government contributions	130,676	112,744	434,336	416,841	14,830	12,415
Surplus/(Deficit)	42,863	53,795	(25,476)	(15,365)	1,835	792
Assets	435,197	367,461	270,973	282,072	61,593	32,854
Liabilities	173,516	157,653	199,468	182,426	57,731	30,827
Net assets	261,681	209,808	71,505	99,646	3,862	2,027

\* Other business units comprise 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, warehousing, information systems and other support services to the health sector
- NSW Institute of Medical Education and Training (IMET), which provides medical education and training support to the health sector. IMET ceased to be a division of the Corporation on 1 July 2010. Its functions were transferred to a new statutory health corporation, the Clinical Education and Training Institute.
- 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](http://www.health.nsw.gov.au).

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## 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	Website
Health Administration Corporation Special Purpose Service Entity	*

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\* This entity does not have a website.

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# Health Care Complaints Commission

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## AUDIT OPINION

The audit of the Health Care Complaints Commission and its controlled entity's financial statements for the year ended 30 June 2010 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 2009-10, the Commission received 4.6 per cent more complaints than last year. Of the 3,515 complaints received in 2009-10, 1,266 (1,270 in 2008-09) related to health organisations and 2,249 (2,090) related to individual health practitioners.

In the same period 223 (270) complaints were referred for investigation and 272 (261) 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.

Year ended 30 June	2010		2009		2008	
	Received	Finalised*	Received	Finalised*	Received	Finalised*
Total	3,515	3,522	3,360	3,462	3,128	2,986

Source: Health Care Complaints Commission (unaudited).

\* Includes complaints received in previous years.

Management advised that it cannot explain why complaints received and finalised have increased over the last three years, but it may be partly due to the Peter Garling Special Commission of Inquiry into Acute Care in Public Hospitals and a general increase in public awareness of the work of the Commission.

### Average Time to Finalise all Complaints Received

The following table shows the days taken to finalise complaints.

Year ended 30 June	Actual Days		
	2010	2009	2008
Non-investigative	90	86	86
Investigative	320	354	339

Source: Health Care Complaints Commission (unaudited).

The Commission must assess complaints within a statutory timeframe of 60 days and has a target to finalise 80.0 per cent of its investigation of serious complaints within 12 months.

The number of complaints about public hospitals received and finalised follows.

Year ended 30 June	2010		2009		2008	
	Received	Finalised*	Received	Finalised*	Received	Finalised*
Greater Southern AHS**	41	40	45	54	47	35
Greater Western AHS	31	31	35	48	63	49
Hunter New England AHS	77	58	84	102	102	79
North Coast AHS	51	54	38	62	81	55
Northern Sydney and Central Coast AHS	72	79	84	99	121	102
South Eastern Sydney and Illawarra AHS	130	124	115	122	137	130
Sydney South West AHS	124	139	122	119	106	89
Sydney West AHS***	88	94	97	94	104	91
Other	--	--	--	--	2	2
<b>Total</b>	<b>614</b>	<b>619</b>	<b>620</b>	<b>700</b>	<b>763</b>	<b>632</b>

Source: Health Care Complaints Commission (unaudited).

\* Includes complaints received in prior years.

\*\* Includes complaints about Albury-Wodonga Health.

\*\*\* Includes complaints about Westmead Children's Hospital.

AHS: Area Health Service.

The complaints received about public hospitals, as a percentage of total complaints about health organisations, increased from 48.8 per cent in 2008-09 to 49.1 per cent in 2009-10.

## FINANCIAL INFORMATION

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Personnel related expenses	7,415	7,662	7,415	7,662
Other expenses	3,397	3,754	3,397	3,754
<b>OPERATING EXPENSES</b>	<b>10,812</b>	<b>11,416</b>	<b>10,812</b>	<b>11,416</b>
<b>OPERATING REVENUE</b>	<b>438</b>	<b>402</b>	<b>438</b>	<b>402</b>
<b>NET COST OF SERVICES</b>	<b>10,374</b>	<b>11,014</b>	<b>10,374</b>	<b>11,014</b>
Government contributions	9,918	10,043	9,918	10,043
<b>DEFICIT</b>	<b>456</b>	<b>971</b>	<b>456</b>	<b>971</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>456</b>	<b>971</b>	<b>456</b>	<b>971</b>
<b>NET ASSETS (At 30 June)</b>	<b>611</b>	<b>1,067</b>	<b>611</b>	<b>1,067</b>

### 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	
	2010 Budget \$'000	2010 Actual \$'000	2009 Actual \$'000	2010 Actual \$'000	2009 Actual \$'000
Complaints Assessment and Resolution	4,303	4,251	6,057	249	531
Investigation and Prosecution of Serious Cases	6,200	6,123	4,957	362	536
<b>Total all service groups</b>	<b>10,503</b>	<b>10,374</b>	<b>11,014</b>	<b>611</b>	<b>1,067</b>

Management advised that the movement in service groups' results from the prior year is due to a revised methodology of cost allocations between service groups.

### COMMISSION ACTIVITIES

The Commission deals with complaints about health service providers in New South Wales. It responds to inquiries from health consumers, assesses complaints about health service providers and assists in the resolution of complaints. The Commission also investigates complaints that raise serious issues of public health and safety, takes action in relation to unregistered health practitioners and prosecutes serious complaints against registered health practitioners. In exercising its functions, the Commission's main consideration must be the protection of the health and safety of the public.

The Commission was established under the *Health Care Complaints Act 1993*.

In addition to these complaint-handling functions, the Commission informs the public and its stakeholders about its work.

For further information on the Commission, refer to [www.hccc.nsw.gov.au](http://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	Website
Office of the Health Care Complaints Commission	*

\* This entity does not have a website

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# Justice Health

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## AUDIT OPINION

The audits of Justice Health and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

## PERFORMANCE INFORMATION

Justice Health's major service deliveries for the last three years are shown below.

Year ended 30 June	2010	2009	2008
Total non-admitted patients (occasions of service)	<b>3,597,300</b>	3,652,619	3,615,883
Mental health inpatient (bed days)	<b>58,000</b>	43,698	49,882
Screened for mental health problems by the State-wide Court and Community Liaison Service (number of patients)	<b>14,401</b>	14,758	14,746
Received comprehensive mental assessments by the State-wide Court and Community Liaison Service (number of patients)	<b>2,362</b>	2,354	1,900
Vaccinated against Hepatitis B (number of patients)	<b>3,603</b>	2,997	3,468
Vaccinated against seasonal influenza (number of patients)	<b>4,064</b>	3,945	5,075
Released from custody on maintenance pharmacotherapy (number of patients accepting)	<b>2,354</b>	2,098	2,245

Source: Justice Health (unaudited).

Justice Health advises the increase in mental health inpatient bed days was primarily due to 2009 -10 being the first full year of operation of its forensic hospital.

## OTHER INFORMATION

### Financial Report and Supporting Work Papers

In past years, I reported that the financial statements and supporting work papers submitted for audit were inadequate. This year, it was pleasing to note an improvement, which resulted in earlier completion of the audit. There is still room for further improvement and Justice Health advises it will be implementing additional review procedures in 2010-11.

### Plant and Equipment Stocktake

Last year, I reported Justice Health had not performed a stock take of its plant and equipment. In 2009-10, it completed a stock take at six of its 56 cost centres and intends to do the remaining 50 in 2010-11. The written down value of plant and equipment at 30 June 2010 was \$4.4 million (\$4.0 million at 30 June 2009).

## Human Resources

This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

A summary of the results of my review follows.

### *Workforce Ageing*

At 30 June 2010, 23.4 per cent (19.6 per cent) of Justice Health's employees were 55 years of age or older and 43.7 per cent (39.7 per cent) were 50 or older. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for Justice Health.

The age profile of Justice Health's employees is shown below. It excludes contract, temporary, casual, sessional and seasonal staff.



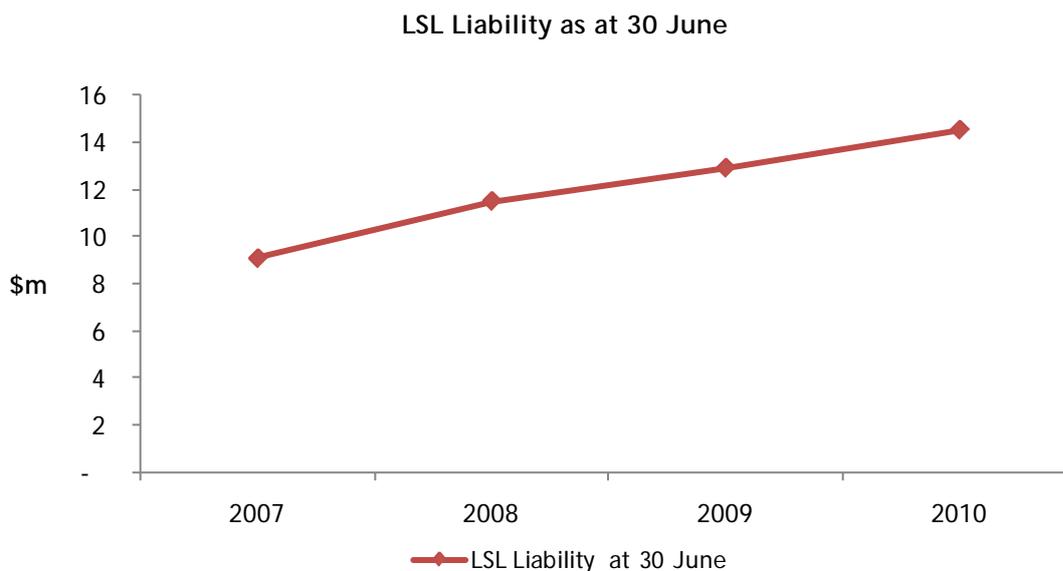
At 30 June Age Group	2010		2009	
	No. of Employees	%	No. of Employees	%
Under 20	1	0.1	3	0.4
20-24	20	2.3	26	3.0
25-29	57	6.5	67	7.6
30-34	81	9.2	72	8.2
35-39	108	12.2	111	12.7
40-44	109	12.4	108	12.3
45-49	120	13.6	141	16.1
50-54	179	20.3	176	20.1
55-59	126	14.3	102	11.6
60-64	56	6.3	51	5.8
65+	25	2.8	19	2.2
<b>Total</b>	<b>882</b>	<b>100</b>	<b>876</b>	<b>100</b>

Source: Justice Health (unaudited).

Justice Health advises it has implemented a number of initiatives to ensure it has appropriate strategies to attract, retain and develop staff to minimise the challenges of an ageing workforce.

#### **Long Service Leave Liability**

Increasing long service leave liabilities create funding challenges for Justice Health. Its long service leave liabilities increased by 59.7 per cent over the last three years to \$14.5 million at 30 June 2010. The increase in Justice Health's workforce over the last two years has contributed to this increase. A number of employees came to Justice Health with long service leave balances they accumulated whilst working for other Health entities. The graph below demonstrates the increasing liability.



The Department of Health advised it is finalising arrangements to transfer employee long service leave entitlements to the Crown Entity, to bring Justice Health into line with other New South Wales Government budget dependent agencies. The effective date of the transfer is expected to be 31 December 2010.

### Annual Leave Balances

Justice Health appears to be actively managing excessive annual leave balances. At 30 June 2010, 138 employees (210 employees) had accrued annual leave balances in excess of 40 days. This represents 15.6 per cent (24.0 per cent) of total employees.

Annual Leave Entitlement (Days)	2010	2009
	No. of Staff	No. of Staff
41-45	38	36
46-50	25	32
51-60	27	65
61-90	38	46
91-120	8	21
120 +	2	10
<b>Total</b>	<b>138</b>	<b>210</b>

Source: Justice Health (unaudited)

Some staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased depending on the incidence of time worked on Sundays and public holidays. Justice Health advised that in such cases, and using the public sector benchmark of two years' accrual as a guide, its staff may not in fact have excess leave until the accrued value exceeds 70 days. As shown in the table above, some staff have accumulated leave beyond industry norms.

As leave entitlements are paid at rates applicable at the time the leave is taken, excessive leave balances will place additional financial pressures on Justice Health as they will be paid at higher remuneration rates. The health and welfare of employees can also be adversely affected if they do not take sufficient leave during the year.

### Overtime

The Department advised Justice Health's overtime payments in 2009-10 were \$4.0 million (\$3.3 million), 4.8 per cent (4.7 per cent) of base salary expense for the year. On average, Justice Health employees who worked overtime received \$5,466 (\$5,477) in overtime payments in 2009-10. The highest amount paid to a single employee was \$94,624 (\$54,355).

## FINANCIAL INFORMATION

## Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	111,025	92,800	--	--
Personnel services	--	--	111,025	92,800
Visiting Medical Officers	5,208	5,851	5,208	5,851
Grants and Subsidies	1,154	1,018	1,154	1,018
Other expenses	37,079	30,229	37,079	30,229
<b>OPERATING EXPENSES</b>	<b>154,466</b>	<b>129,898</b>	<b>154,466</b>	<b>129,898</b>
<b>OPERATING REVENUE</b>	<b>6,064</b>	<b>3,082</b>	<b>7,003</b>	<b>4,887</b>
Loss on disposal of non-current assets	109	61	109	61
<b>NET COST OF SERVICES</b>	<b>148,511</b>	<b>126,877</b>	<b>147,572</b>	<b>125,072</b>
Government contributions	151,834	120,841	150,895	119,036
<b>SURPLUS/(DEFICIT)</b>	<b>3,323</b>	<b>(6,036)</b>	<b>3,323</b>	<b>(6,036)</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>TOTAL COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>3,323</b>	<b>(6,036)</b>	<b>3,323</b>	<b>(6,036)</b>

The increase in employee related expenses and other expenses was largely due to 2009-10 being the forensic hospital's first full year of operations. The hospital only operated for six months in the prior year.

The increase in revenue was primarily due to a change in high cost drug funding.

## Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	16,011	8,986	16,011	11,444
Non-current assets	101,782	102,468	101,782	102,468
<b>TOTAL ASSETS</b>	<b>117,793</b>	<b>111,454</b>	<b>117,793</b>	<b>113,912</b>
Current liabilities	37,388	33,780	37,388	36,182
Non-current liabilities	83,884	84,476	83,884	84,532
<b>TOTAL LIABILITIES</b>	<b>121,272</b>	<b>118,256</b>	<b>121,272</b>	<b>120,714</b>
<b>NET LIABILITIES</b>	<b>3,479</b>	<b>6,802</b>	<b>3,479</b>	<b>6,802</b>

Current assets increased due to an increase in cash at bank. The increase in current liabilities was mainly due higher accrued expenses and liabilities for employee entitlements.

## JUSTICE HEALTH ACTIVITIES

Justice Health is responsible for providing health care to people who come into contact with the criminal justice system.

For further information on Justice Health, refer to [www.justicehealth.nsw.gov.au](http://www.justicehealth.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	Website
Justice Health Special Purpose Service Entity	*

\* This entity does not have a website.

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# New South Wales Health Foundation

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## AUDIT OPINION

The audit of the Foundation's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

## FINANCIAL INFORMATION

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue	230	628
Expenses	1,866	976
Deficit	1,636	348
Net assets (at 30 June)	48,450	50,086

Revenue is comprised of interest earned during the year. Revenue in the prior year comprised interest earned plus grant revenue. No grants were received in the current year.

The increase in expenses related mainly to a grant of \$1.2 million provided to the Ambulance Service of New South Wales.

## 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.

# Royal Alexandra Hospital for Children

## AUDIT OPINION

The audits of the Hospital and its controlled entity's financial statements for the year ended 30 June 2010 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. My opinion was similarly qualified in 2009.

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

## KEY ISSUES

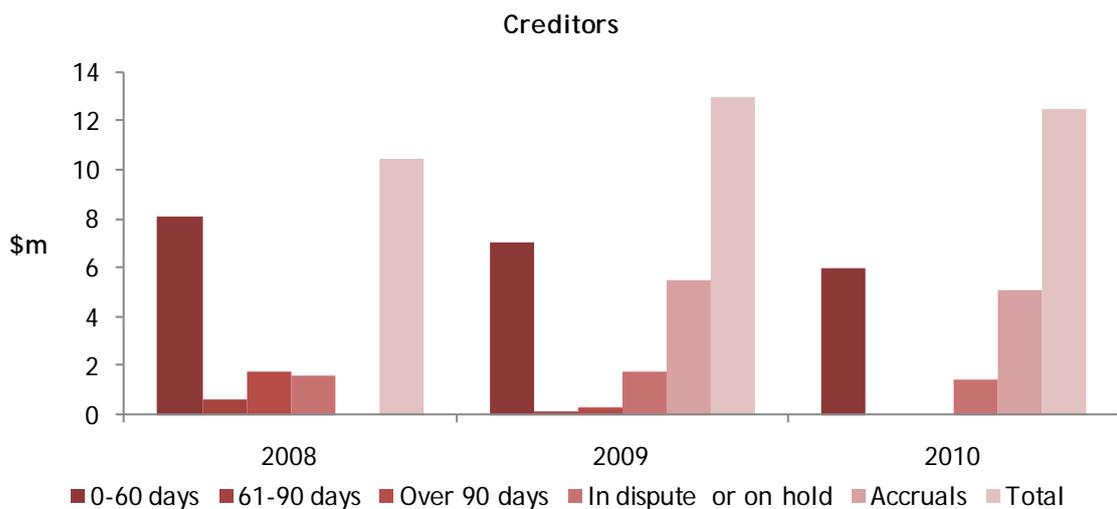
### Sydney Children's Hospitals Network

As part of the *Caring Together: The Health Action Plan for NSW*, on 1 July 2010, The Royal Alexandra Hospital for Children was renamed the Sydney Children's Hospital Network (Randwick and Westmead). The entity incorporates the Royal Alexandra Hospital for Children and the public hospital located at Randwick known as the Sydney Children's Hospital which has been transferred from the South Eastern Sydney and Illawarra Area Health Service.

### Accounts Payable (Repeat issue)

I again recommend the Network ensures all purchases are supported by authorised orders, creditors are paid within agreed payment terms, and it follows 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.



\*Accruals have been excluded from 2008 calculation

Note: Total column is comprised of the three ageing columns, as they include the amounts for invoices on hold or in dispute. The 0-60 day columns for 2010 and 2009 include accruals (not included for 2008)

Source: Information provided by the Hospital (unaudited)

Total creditors at 30 June 2010, \$12.5 million, was slightly lower than the prior year, \$13.0 million. Creditors over 90 days old have reduced to nil in 2010. During the year, the Hospital implemented policies to reduce trade creditors by allocating funds to settle outstanding accounts.

Total intra Health creditors (amounts owed by one Area Service to another Area Service) at 30 June 2010 amounted to \$1.3 million. The ageing of intra Health creditors is not included in the above graph as the normal credit terms are not applicable.

In addition, a further \$0.3 million (\$0.8 million in 2009) of Capital Works Creditors was not included in the graph as an ageing analysis was not available from the Hospital.

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 2010, \$1.4 million of invoices were either on hold or in dispute with 34.0 per cent being older than 90 days.

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. The Department of Health (the Department) has written to suppliers asking them not to invoice Health entities until they have received valid purchase orders.

**Fully Depreciated Plant and Equipment (Repeat Issue)**

I again recommend the network 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 established the Medical Equipment Asset Management Program (MEAM) to determine the feasibility of an external private sector partnership in the provision of a whole-of-life asset management facility. A tender document was issued in 2009-10 and the tender responses are currently being assessed.

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

At 30 June	2010	2009	2008
Total Plant and Equipment - Cost value (\$'000)	106,552	105,418	118,624
Fully Depreciated Plant and Equipment - Cost value (\$'000)	52,098	56,066	72,219
Fully depreciated Plant and Equipment to total (%)	48.9	53.2	60.9

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 a follow up review during the year to monitor the status of its fully depreciated assets and to determine the appropriateness of continued use. The Hospital is continuing to actively monitor this issue. As a result the percentage of fully depreciated assets has continued to reduce over the past three years.

I will continue to monitor and review the extent of fully depreciated assets held by the Network.

**Special Purpose and Trust Funds (Repeat Issue)**

I recommend the Network complete its review of Governance arrangements over Special Purpose and Trust Funds.

I recommend that the Network review its practices so that Special Purpose Trust Funds are not overdrawn at any point during the year.

Two years ago, I recommended the Department 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 Funds. The first phase of the review has now been completed. Phase two of the review is currently underway and is specifically dealing with the governance of the Funds.

The hospital has a total of 463 Fund accounts. Throughout 2009-10 the Hospital had overdrawn a number of the accounts. As a general rule, these types of accounts should not be overdrawn. At 30 June 2010 all overdrawn accounts had been rectified.

The table below sets out the number of overdrawn accounts for each month and the total value of those overdrawn accounts throughout 2009-10.

Month	Number of Overdrawn Accounts	Amount Overdrawn \$
July	8	312,600
August	2	260,555
September	8	399,269
October	12	802,505
November	10	534,640
December	11	1,211,822
January	8	794,847
February	2	19,599
March	7	66,404
April	3	13,952
May	3	5,801
June	0	--

Source: Information provided by the Hospital (unaudited).

**PERFORMANCE INFORMATION****Treatment of Patients**

Patients' average length of stay in the Hospital for 2010 decreased to 3.2 days (3.3 days in 2009). This is below the State average of 3.6 days.

The bed occupancy rate for the Hospital was 91.8 per cent (89.1 per cent). This is well above the State average of 88.3 per cent.

The Hospital met or exceeded benchmarks for timeliness in treating emergency patients in four of the five triage categories. This is consistent with 2009.

The Hospital's emergency admission performance was 79.0 per cent, which was just under the State target of 80.0 per cent.

**OTHER INFORMATION**

**Project Implementations**

I recommend the Network considers whether any lessons learnt from the implementation of the fundraising system can be applied to any future system implementations.

The Hospital implemented a new fundraising system during 2009-10. The implementation encountered a number of problems which are being addressed. Issues included the lack of appropriate policies and procedures being in place for the new system.

**Human Resources**

This year I reviewed the following areas relating to human resources:

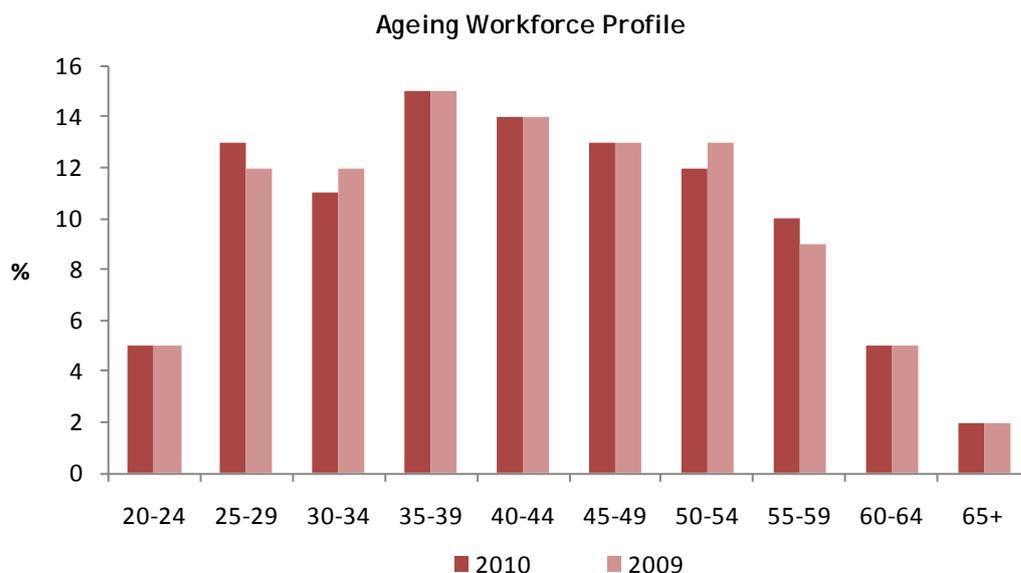
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime.

Issues identified from my review will be reported in a management letter to the Hospital. A summary of the results of my review follows.

**Workforce Ageing**

I did not identify significant issues with the age profile trends for employees. The Hospital has 17.5 per cent of its employees over 55 years of age and 29.5 per cent of its employees over 50.

The age profile of the Hospital employees is shown below:

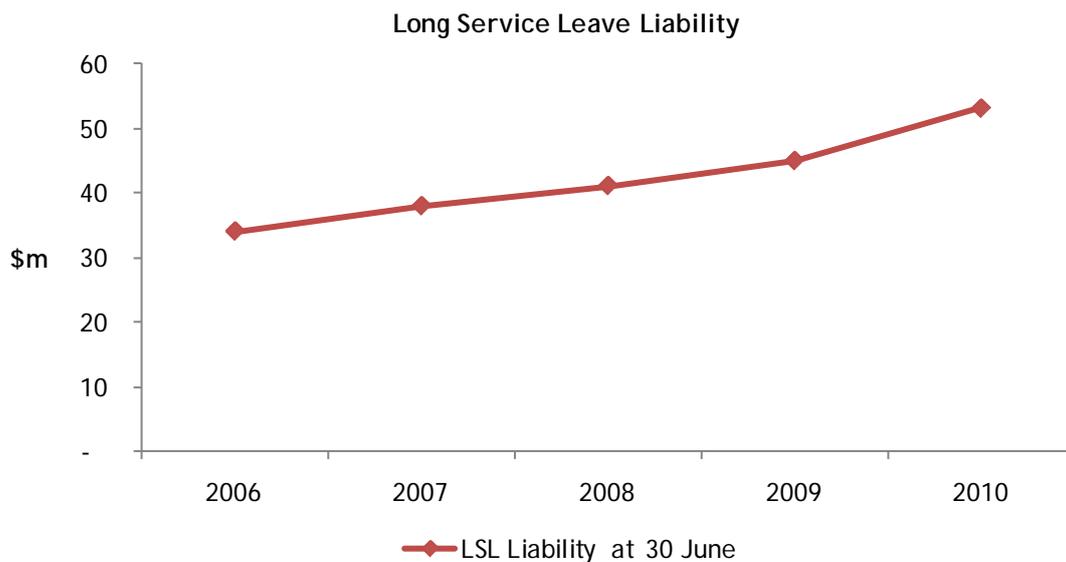


At 30 June	2010		2009	
	No. of Employees	%	No. of Employees	%
Under 35	627	28.6	622	29.4
35-39	332	15.1	307	14.5
40-44	302	13.8	298	14.1
45-49	286	13.0	278	13.2
50-54	263	12.0	272	12.9
55-59	214	9.7	187	8.8
60-64	118	5.4	114	5.4
65+	52	2.4	35	1.7
<b>Total</b>	<b>2,194</b>	<b>100.0</b>	<b>2,113</b>	<b>100.0</b>

Source: Information provided by the Hospital (unaudited).

### Long Service Leave Liability

Increasing long service leave liabilities create funding challenges for the Hospital. Liabilities for long service leave entitlements at 30 June 2010 were \$53.0 million (\$45.0 million in 2009). This has increased by 56.0 per cent over the last five years.



The Department of Health advised that it is finalising arrangements for the transfer of employee long service leave entitlements to the Crown Entity, to bring it into line with other Government budget dependent agencies.

The effective date of the transfer is expected to be 31 December 2010.

### ***Annual Leave Balances***

The Hospital has actively managed employees with excessive annual leave balances in recent years. The number of employees with annual leave balances in excess of 40 days has declined from 479 employees at 30 June 2009 to 454 employees at 30 June 2010. Although the Hospital's strategies have reduced the number of employees with annual leave balances in excess of 40 days, employees in this category represented 20.6 per cent (22.7 per cent) of total employees at 30 June 2010.

The Hospital advised that a significant number of staff attract award entitlements of six weeks annual leave per annum, with entitlements further increased dependent on the incidence of time worked on Sundays and public holidays. The Hospital further advised in such instances, and using the public sector benchmark of two years' accrual as a guide, Health staff may not in fact have excess leave until the accrued value exceeds 70 days.

Liabilities for excessive annual leave generally increase over time as salary rates increase, which impacts cash flow requirements. The health and welfare of staff can also be adversely affected if they do not take sufficient leave.

### ***Overtime***

Overtime payments in 2009-10 amounted to \$5.7 million (\$6.0 million) which was 2.8 per cent (3.2 per cent) of base salary expense for the year. On average, the Hospital's employees received \$4,104 (\$4,045) in overtime payments in 2009-10 and 63.4 per cent (70.4 per cent) of employees received a payment for working overtime. The highest amount paid to a single employee in 2009-10 was \$83,412 (\$80,907).

## FINANCIAL INFORMATION

## Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Employee related	254,176	236,918	--	--
Personnel services	--	--	254,176	236,918
Visiting medical officers	5,225	5,538	5,225	5,538
Grants and Subsidies	1,923	1,181	1,923	1,181
Other expenses	103,434	99,427	103,434	99,427
<b>OPERATING EXPENSES</b>	<b>364,758</b>	<b>343,064</b>	<b>364,758</b>	<b>343,064</b>
<b>OPERATING REVENUE</b>	<b>297,756</b>	<b>293,181</b>	<b>301,570</b>	<b>296,707</b>
Loss on disposal on non-current assets	257	275	257	275
Other losses	249	140	249	140
<b>NET COST OF SERVICES</b>	<b>67,508</b>	<b>50,298</b>	<b>63,694</b>	<b>46,772</b>
Total government contributions	65,578	40,594	61,764	37,068
<b>DEFICIT</b>	<b>1,930</b>	<b>9,704</b>	<b>1,930</b>	<b>9,704</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Asset revaluation increment	--	17,807	--	17,807
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>--</b>	<b>17,807</b>	<b>--</b>	<b>17,807</b>
<b>TOTAL COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>(1,930)</b>	<b>8,103</b>	<b>(1,930)</b>	<b>8,103</b>

Employee related expenses rose because of an increase in the number of employees and award rate increases.

Operating revenue rose 1.6 per cent and was predominantly because of an increase in investment income from \$1.4 million in the prior year to \$7.4 million in the current year. The improvement in the performance of the investments can be linked to the upturn in the economy post the global financial crisis.

## Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	97,807	82,485	97,807	82,485
Non-current assets	378,489	390,204	378,489	390,204
<b>TOTAL ASSETS</b>	<b>476,296</b>	<b>472,689</b>	<b>476,296</b>	<b>472,689</b>
Current liabilities	104,862	99,059	104,862	99,059
Non-current liabilities	5,123	5,389	5,123	5,389
<b>TOTAL LIABILITIES</b>	<b>109,985</b>	<b>104,448</b>	<b>109,985</b>	<b>104,448</b>
<b>NET ASSETS</b>	<b>366,311</b>	<b>368,241</b>	<b>366,311</b>	<b>368,241</b>

The increase in current liabilities is mainly due to an increase in employee benefit 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](http://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	Website
Royal Alexandra Hospital for Children Special Purpose Service Entity	*

\* This entity does not have a website.

# Minister for Ports and Waterways

Maritime Authority of NSW

Newcastle Port Corporation

Pork Kembla Port Corporation

Sydney Ports Corporation



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# Maritime Authority of NSW

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## AUDIT OPINION

The audits of the Authority and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

## KEY ISSUES

### Superyacht Marina Business

The Authority leased its Superyacht Marina business to a private entity for fifty years from 15 June 2010. The lump sum lease payment and proceeds from the sale of related assets totalling \$2.0 million is due on 1 September 2014. The business had assets of \$2.5 million and generated revenue of \$1.3 million in 2008-09. The Authority advised that the savings on maintenance expenditure will significantly outweigh the foregone revenue from continued operation.

The business was not considered to be a core function of the Authority and was leased to the private entity following a public tender process.

## PERFORMANCE INFORMATION

The Authority provided the following information regarding its performance:

Year ended 30 June	2010	2009	2008	2007	2006
Boating licences issued	491,521	483,649	451,696	445,736	445,158
Registered recreational vessels	226,515	222,322	217,074	213,387	209,382
Waste recovered from Sydney Harbour (cubic metres)	2,778	2,737	3,183	3,471	3,681
Fatalities per 100,000 total registered or licensed vessels	9.7	5.2	9.3	10.3	4.1
Safety compliance rate*:					
- recreational vessels (%)	89.0	88.3	87.1	87.4	89.5
- commercial vessels (%)	88.3	91.0	93.4	89.8	93.9

Source: Maritime Authority of New South Wales (unaudited)

\* The safety compliance rate reports the proportion of random vessel checks that did not result in infringement or formal warning notices being issued.

Fatalities from boating incidents during the year totalled 23. There was no clear trend or pattern to these incidents.

The Authority has been involved in a number of safety initiatives, including the implementation of the Marine Safety (General) Regulation 2009. The regulation created improved provisions and penalties and includes, for the first time, a requirement for practical training in boat handling as a part of the licensing process.

The Authority plans to introduce further rules regarding the requirement to wear life jackets.

### Property Management

Year ended 30 June	2010	2009	2008	2007	2006
Value of rental properties (\$m)	131.0	129.0	133.0	130.0	130.0
Rental revenue (\$m)	13.8	13.9	14.6	12.8	12.1
Return on rental properties (%)	10.6	10.8	11.0	9.9	9.4

Source: Maritime Authority of New South Wales (unaudited)

## OTHER INFORMATION

### Human Resources

This year I reviewed the following areas relating to human resources:

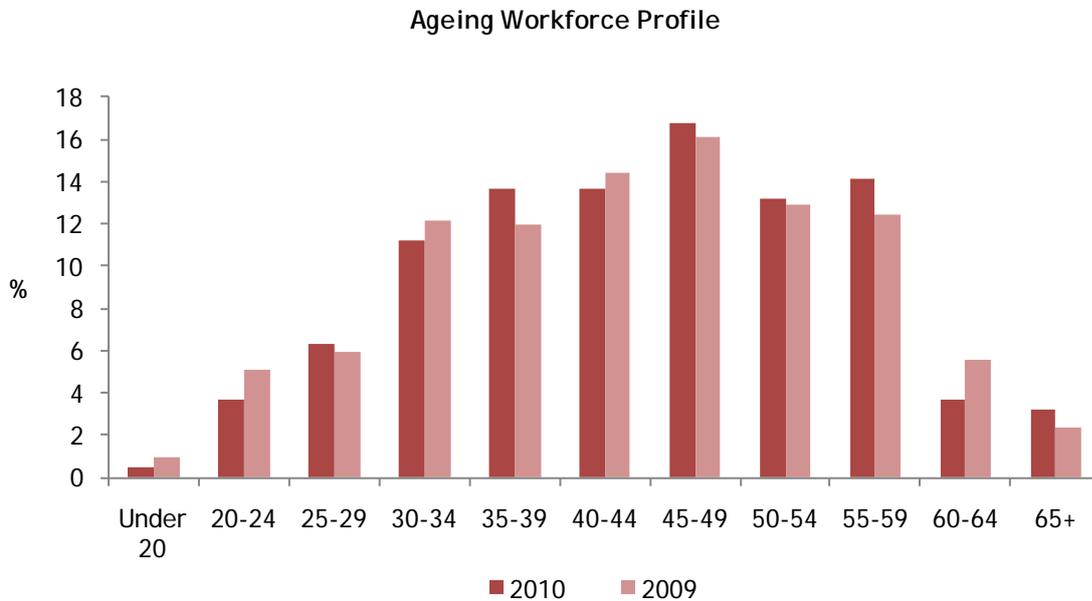
- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies
- extent of overtime
- extent of contract staff.

A summary of the results of my review follows.

### Workforce Ageing

Almost 21.0 per cent of the Authority's employees are over 55 years of age and 34.1 per cent are over 50. A large number of these employees are likely to retire over the next five to ten years increasing the risk of a significant loss of knowledge and skills for the Authority.

The age profile of the Authority's employees is shown below:



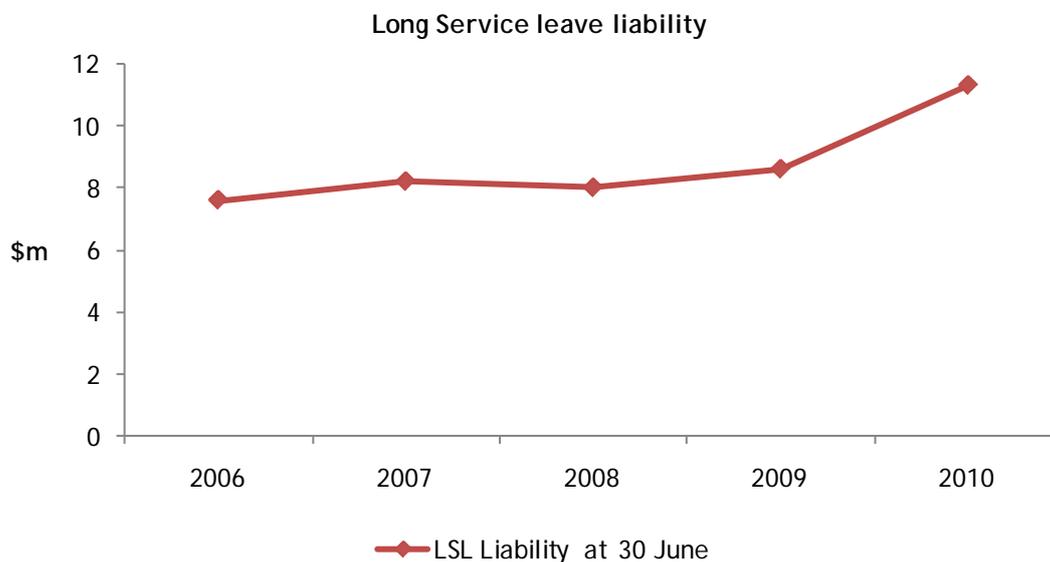
As at 30 June Age Group	2010		2009	
	No. of Staff	%	No. of Staff	%
Under 34	89	21.7	99	24.2
35 - 39	56	13.7	49	12.0
40 - 44	56	13.7	59	14.4
45 - 49	69	16.8	66	16.1
50 - 54	54	13.2	53	12.9
55 - 59	58	14.1	51	12.4
60 - 64	15	3.6	23	5.6
65+	13	3.2	10	2.4
<b>Total</b>	<b>410</b>	<b>100.0</b>	<b>410</b>	<b>100.0</b>

Source: Maritime Authority (unaudited)

Management advised, as part of succession planning, junior staff are trained by experienced staff members, who have the relevant skills and knowledge. For specialised positions the Authority has implemented an understudy program for its incoming staff.

### **Long Service Leave Liability**

The Authority's long service leave liability as at 30 June 2010 amounted to \$11.4 million (\$8.6 million). This liability has increased by 49.6 per cent over the last five years.



The increase in the liability for the year was due to an adjustment arising from a formal actuarial assessment.

Although the Authority has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities, which generally increase over time with increases in employee remuneration levels. This will be further compounded as other liabilities arise from the retirement of a significant portion of the workforce.

### **Annual Leave Balances**

The Authority actively manages employees' annual leave balances. The number of employees in excess of 40 days has declined from 20 employees as at 30 June 2007 to 7 employees at 30 June 2010. The proportion of employees with excessive leave balances has also decreased during this period from 5.3 per cent to 1.7 per cent.

### **Overtime**

Overtime payments amounted to \$501,000 (\$588,000), 1.3 per cent (1.6 per cent) of total employee expense for the year. For those employees who were paid overtime, on average, they received \$3,000 in 2009-10 and only 0.4 per cent of employees received a payment for working overtime.

The Authority's use of overtime is not considered excessive.

## FINANCIAL INFORMATION

## Abridged Statement of Comprehensive Income

Year ended 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Boating revenue	46,319	43,787	46,319	43,787
Rent revenue	41,452	40,045	41,452	40,045
Channel fees	8,342	7,872	8,342	7,872
Investment income	5,699	3,384	5,699	3,384
Other revenue	16,726	10,629	16,726	10,135
<b>TOTAL REVENUE</b>	<b>118,538</b>	<b>105,717</b>	<b>118,538</b>	<b>105,223</b>
Employee related expenses	39,221	36,759	44,478	58,260
Service contractors	22,056	22,011	22,056	22,011
Administration expenses	8,300	9,009	7,920	8,605
Interest expenses	7,707	7,855	7,707	7,855
Depreciation and amortisation	11,417	9,773	11,417	9,773
Other expenditure	20,609	14,299	20,609	14,299
<b>TOTAL EXPENSES</b>	<b>109,310</b>	<b>99,706</b>	<b>114,187</b>	<b>120,803</b>
<b>SURPLUS/(DEFICIT)</b>	<b>9,228</b>	<b>6,011</b>	<b>4,351</b>	<b>(15,580)</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Superannuation actuarial losses	(4,877)	(21,591)	--	--
Gain on revaluation of property, plant and equipment	150,102	8,831	150,102	8,831
<b>TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>145,225</b>	<b>(12,760)</b>	<b>150,102</b>	<b>8,831</b>
<b>TOTAL COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>154,453</b>	<b>(6,749)</b>	<b>154,453</b>	<b>(6,749)</b>

The increase in boating revenue was due to a rise in the number of boat registrations and fees.

The increase in investment income was due to a combination of larger investment balances and higher interest rates.

The movement in other revenue reflects \$4.5 million of wharf assets received from local councils.

The increase in employee related expenses was due to a 3.5 per cent award rate rise and growth in full time equivalent employees from 320 to 332.

The drop in superannuation actuarial losses represents improved investment returns from improved financial markets.

The increase in other expenses was mainly due to the recognition of the loss on disposal of assets of \$4.6 million and adjustments resulting from the lease of Superyacht Marina of \$1.7 million.

### Abridged Statements of Financial Position

At 30 June	Consolidated		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	91,686	102,919	90,618	101,958
Non-current assets	1,470,445	1,151,121	1,470,358	1,150,980
<b>TOTAL ASSETS</b>	<b>1,562,131</b>	<b>1,254,040</b>	<b>1,560,976</b>	<b>1,252,938</b>
Current liabilities	78,192	85,250	98,827	102,180
Non-current liabilities	551,362	385,471	529,572	367,439
<b>TOTAL LIABILITIES</b>	<b>629,554</b>	<b>470,721</b>	<b>628,399</b>	<b>469,619</b>
<b>NET ASSETS</b>	<b>932,577</b>	<b>783,319</b>	<b>932,577</b>	<b>783,319</b>

Payments for asset acquisitions decreased cash and current assets.

Non-current assets increased due to:

- a gain on the revaluation of property, plant and equipment of \$150 million
- harbour deepening costs of \$146 million performed on behalf of the Authority by various NSW port corporations.

The increase in non-current liabilities was due to recognition of a \$146 million liability for channel fees received in advance, arising from the harbour deepening referred to above.

### AUTHORITY ACTIVITIES

The Authority is responsible for marine safety and environmental protection of navigable New South Wales' waterways. It also ensures the appropriate development and use of wetlands and associated maritime assets.

The *Ports and Maritime Administration Act 1995* established the Authority in July 1995.

For further information on the Authority, refer to [www.maritime.nsw.gov.au](http://www.maritime.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	Website
Maritime Authority of NSW Division	*

\* This entity does not have a website.

# Newcastle Port Corporation

## AUDIT OPINION

The audit of the Corporation's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

## PERFORMANCE INFORMATION

The Corporation provided the following information regarding its performance:

### Trade Volumes

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Total trade ('000 tonnes)	95,550	103,026	95,840	93,314	85,603	85,572
Total chargeable vessel visits	1,607	1,712	1,560	1,519	1,403	1,418
Total chargeable vessel gross tonnage ('000s)	60,755	67,801	63,506	61,223	56,989	57,443

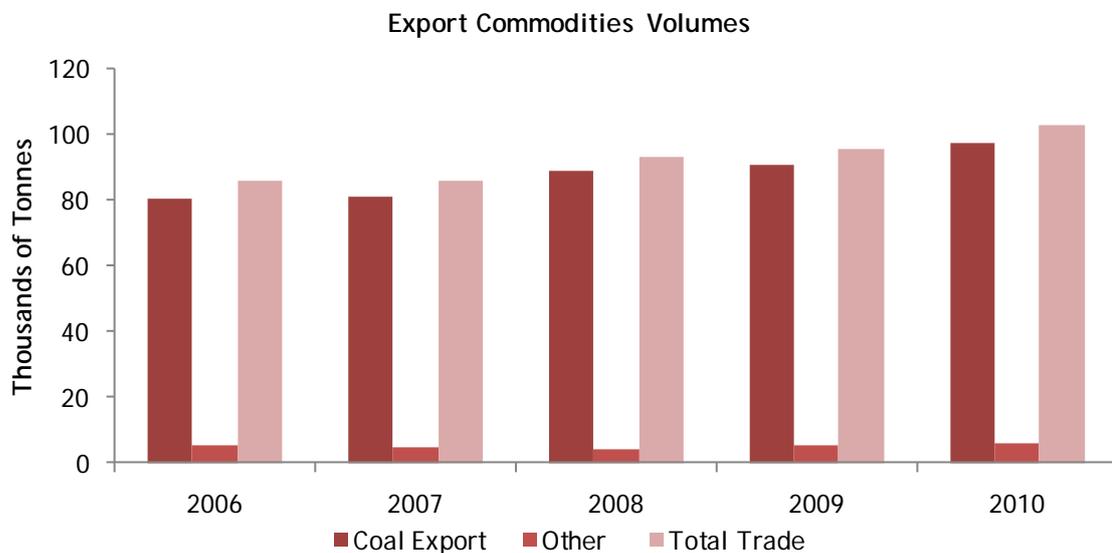
Source: Newcastle Port Corporation (unaudited)

\* Target agreed with shareholder Ministers in the Statement of Corporate Intent.

The trade activities continued to trend upwards mainly due to increasing coal exports to Asia. The expansion for this year was due to economic growth in these countries.

### Major Export Commodity

The Corporation's export commodities were:



Source: Newcastle Ports Corporation (unaudited).

## Financial Performance

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Return on equity (%)	2.1	4.3	6.5	7.8	11.2	11.6
Return on average assets (%)	4.1	6.1	5.9	6.7	9.8	12.0
Interest cover (times)	4	3.4	na	na	na	9.1
Debt to equity ratio (%)	28.5	28.7	19.8	22.9	22.3	31.0
Dividend to Government (\$m)	--	3.1	2.0	4.7	3.8	6.0

Source: Newcastle Port Corporation (unaudited)

\* Target agreed with shareholder Ministers in the Statement of Corporate Intent.

na: not applicable due to nil borrowings

Return on equity for the year fell by 2.2 per cent as a result of an \$87.4 million contribution of land assets by other government agencies. Increased borrowing for land acquisition contributed to the increase in the debt to equity ratio.

## OTHER INFORMATION

### Major Projects

The table below provides the cost and completion date for the Corporation's major project, construction of Mayfield Berth. The project was completed marginally below budgeted cost and by the target completion date.

Year ended 30 June 2010	Target Completion Date	Completion Date	Initial Project Estimate* \$m	Cost to 30 June 2010 \$m	Final Cost \$m	Variance \$m
Mayfield Berth	November 2009	November 2009	28.4	28.1	28.3	0.1

Source: Newcastle Ports Corporation (unaudited).

\* The initial project estimate was approved by the Budget Cabinet Committee and Board of Directors

## Property Management

Year ended 30 June	2010	2009	2008	2007	2006
Value of rental properties (\$m)	164.4	68.2	60.0	59.8	54.1
Rental revenue (\$m)	20.4	8.0	7.2	6.7	6.2
Return on rental properties (%)	12.4	11.7	12.0	11.2	11.5

The increase in the value of properties and rental revenue are due to the receipt of parcels of land with existing leases from other agencies during the year.

## Human Resources

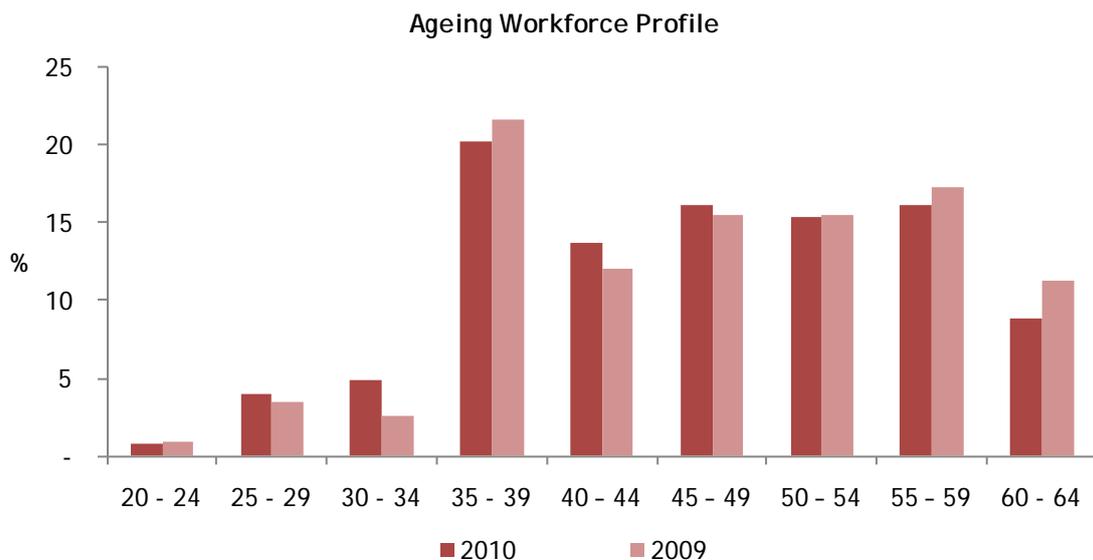
This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities.

### *Workforce Ageing*

I recommend the Corporation review the effectiveness of its policies for managing its ageing workforce.

Twenty five per cent of the Corporation's employees are over 55 years of age and 40.3 per cent are over 50. A large number of these employees are likely to retire over the next five years to ten years increasing the risk of a significant loss of knowledge and skills for the Corporation. The age profile of the Corporation's employees is shown below.

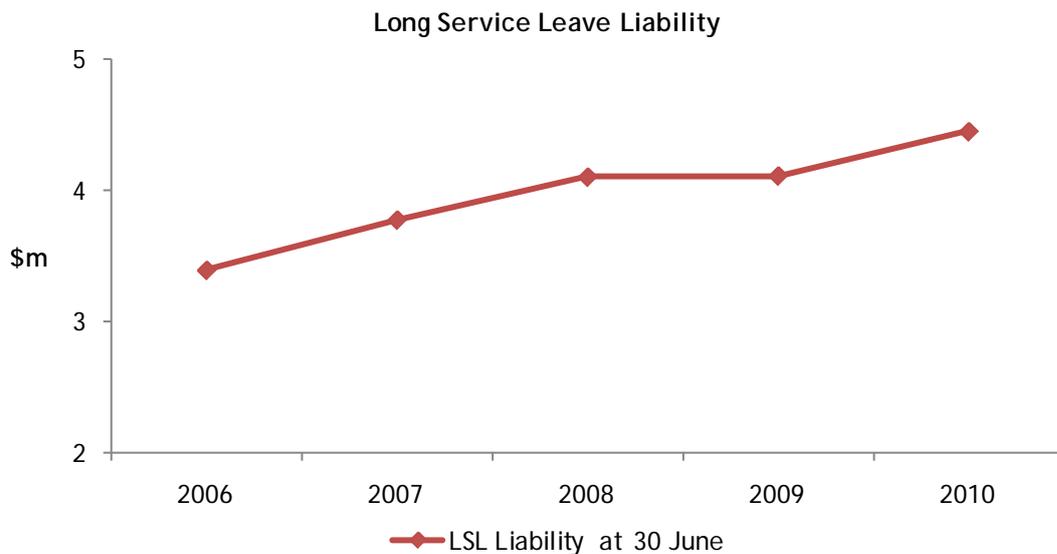


At 30 June Age Group	2010		2009	
	No. of Staff	%	No. of Staff	%
20 - 29	6	4.9	5	4.3
30 - 39	31	25.0	28	24.1
40 - 49	37	29.8	32	27.6
50 - 54	19	15.3	18	15.5
55 - 59	20	16.1	20	17.3
60 - 64	11	8.9	13	11.2
<b>Total</b>	<b>124</b>	<b>100</b>	<b>116</b>	<b>100</b>

Management advised it does not regard the ageing of its workforce as a major issue. As part of succession planning, junior staff are trained by experienced staff members, who have the relevant skills and knowledge.

#### *Long Service Leave Liability*

Long service leave liability increased by 32.3 per cent over the past four years from \$3.4 million to \$4.5 million.



The increase largely resulted from the impact of a reduced Government bond rate used to discount the liability to present value.

Although the Corporation has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities as they fall due. This will be compounded as other liabilities arise from the pending retirement of a significant portion of the ageing workforce.

## FINANCIAL INFORMATION

## Abridged Statement of Comprehensive Income

Year ended 30 June 2010	2010 \$'000	2009 \$'000
Port revenue	43,662	39,906
Rental revenue	20,351	7,963
Other revenue	1,551	3,998
<b>TOTAL REVENUE</b>	<b>65,564</b>	<b>51,867</b>
Employee benefits	15,654	14,013
Depreciation and amortisation	4,589	3,311
Finance costs	7,066	1,833
Other expenses	26,591	23,534
<b>TOTAL EXPENSE</b>	<b>53,900</b>	<b>42,691</b>
<b>PROFIT BEFORE TAX</b>	<b>11,664</b>	<b>9,176</b>
Income tax equivalent expense	3,671	3,052
<b>PROFIT AFTER TAX</b>	<b>7,993</b>	<b>6,124</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Gain on revaluation of property, plant and equipment, net of tax	30,255	17,709
Superannuation actuarial loss, net of tax	(646)	(671)
Deferred tax movement	--	104
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>29,609</b>	<b>17,142</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>37,602</b>	<b>23,266</b>

The increase in port revenue reflects the growth in trade activities.

The drop in other revenue resulted from lower interest revenue from reduced cash balances.

The increase in borrowings for land acquisition pushed up the finance costs for the year by \$5.2 million.

The gain on revaluation of land represents the movement in land values for parcels of properties received during the year.

## Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	11,322	38,796
Non-current assets	392,836	158,753
<b>TOTAL ASSETS</b>	<b>404,158</b>	<b>197,549</b>
Current liabilities	22,737	18,552
Non-current liabilities	134,374	53,885
<b>TOTAL LIABILITIES</b>	<b>157,111</b>	<b>72,437</b>
<b>NET ASSETS</b>	<b>247,047</b>	<b>125,112</b>

Cash applied for the acquisition of land decreased cash and current assets.

The increase in non-current assets was largely due to the \$175 million property acquisition and land contributions from other agencies.

Non-current liabilities increased largely due to additional borrowings of \$68.6 million to fund the land acquisition.

## CORPORATION ACTIVITIES

The Corporation is a statutory State owned corporation incorporated under the *Ports and Maritime Administration Act 1995*.

The Corporation's principal objectives, as amended by the *Ports and Maritime Administration Amendment (Port Competition and Co-ordination) Act 2008 No 89*, are to:

- operate at least as efficiently as any comparable businesses
- maximise the net worth of the State's investment in the Port Corporation
- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate these when able to do so
- promote and facilitate trade through port facilities
- ensure port safety functions are carried out properly
- promote and facilitate a competitive commercial environment in port corporations and
- improve productivity and efficiency in the ports and the port related supply chain.

For further information on the Corporation, refer to [www.newportcorp.com.au](http://www.newportcorp.com.au).

# Port Kembla Port Corporation

## AUDIT OPINION

The audit of the Corporation's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report.

## PERFORMANCE INFORMATION

The Corporation provided the following information regarding its performance:

### Trade Volumes

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
<b>Operational Performance</b>						
Total Trade ('000 tonnes )	23,823	31,045	26,405	27,309	25,438	25,925
Total Chargeable vessel visits	900	1,001	862	760	607	591
Total Chargeable vessel gross tonnage ('000s)	na	38,888	29,665	23,219	17,987	17,575

Source: Port Kembla Port Corporation (unaudited)

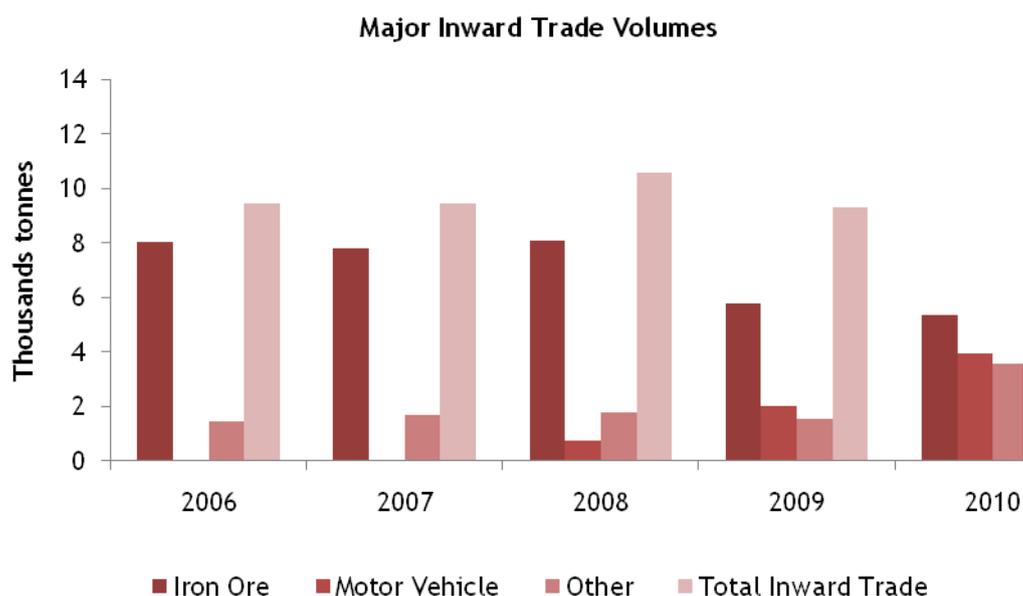
\* Target agreed with shareholder Ministers in the Statement of Corporate Intent

na: not available

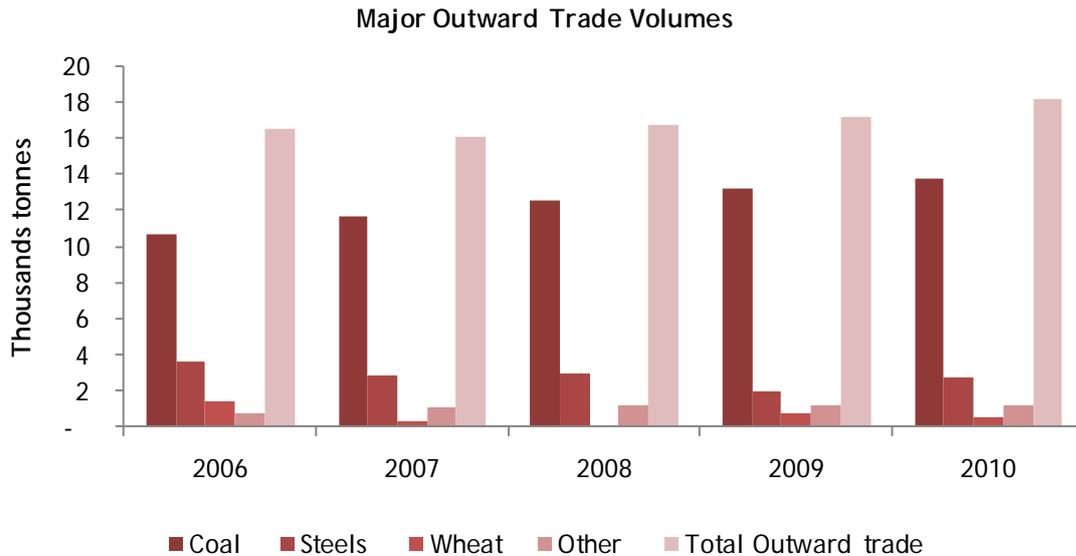
The Corporation advised that total trade and vessel visits increased mainly due to the improving economic climate and strong demand for coal from China and India.

### Major Commodities Trade

The Corporation's major inward and outward trade commodities were:



Source: Port Kembla Port Corporation (unaudited)



Source: Port Kembla Port Corporation (unaudited)

### Outer Harbour Development

In 2008, the Minister for Ports and Waterways announced a \$700 million outer harbour development project. This will include 42.0 hectares of port area and 1.8 kilometres of berths. The development will be constructed in stages by 2037.

Works completed so far include:

- acquisition of 23.4 hectares of land assets at \$5.7 million from the Maritime Authority of NSW
- purchase of 1.0 million tonnes of blast furnace slag for land reclamation
- site investigation at a cost of \$1.2 million
- lodgement of development application with the Department of Planning.

### Financial Performance

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Return on equity (%)	8.0	12.6	16.7	9.5	9.5	12.2
Return on assets (%)	7.1	11.3	13.2	8.1	7.7	6.7
Interest cover (times)	6.3	8.2	12.4	6.3	4.1	2.8
Debt to equity ratio (%)	23.5	18.2	19.9	26.5	44.3	56.6
Dividend to government (\$m)	--	--	--	--	--	--

Source: Port Kembla Port Corporation (unaudited)

\* Target agreed with shareholder Ministers in the Statement of Corporate Intent.

The decrease in return on equity is largely due to an \$8.0 million drop in profit before tax and \$28.7 million increase in equity.

Return on assets decreased mainly due to an increase in cash assets of \$34.8 million.

Interest cover decreased as a result of the reduced profit.

## OTHER INFORMATION

## Property Management

Year ended 30 June	2010	2009	2008	2007	2006
Value of rental properties \$m	133.2	126.2	106.8	69.9	42.4
Rental revenue (\$m)	8.3	7.0	4.3	4.0	2.8
Return on rental properties (%)	6.2	5.5	4.0	5.7	6.6

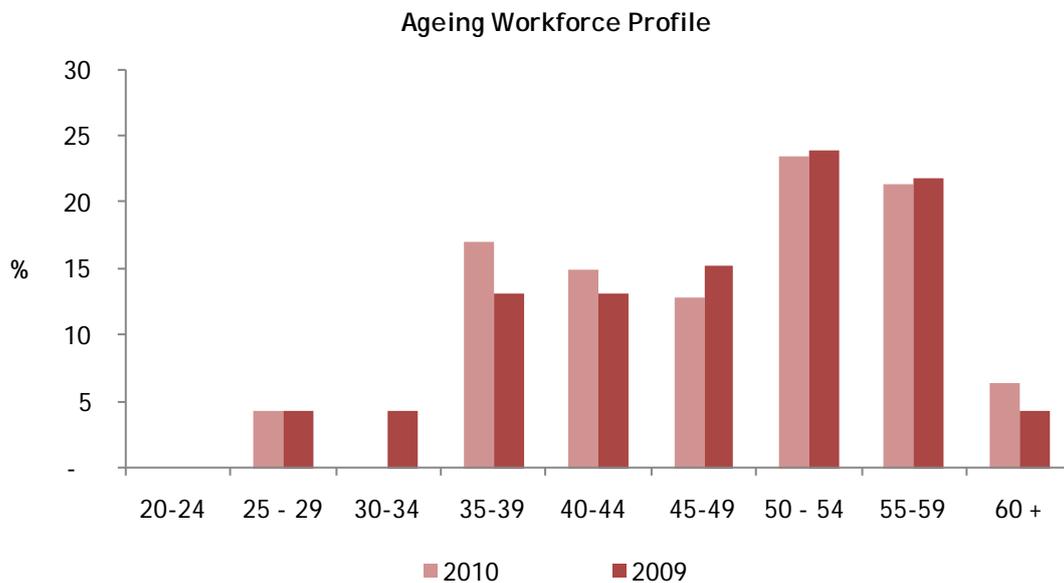
Source: Port Kembla Port Corporation (unaudited).

Increase in rental revenue was mainly due to a general rent rise of 3.5 per cent.

## Workforce Ageing

I recommend the Corporation review the effectiveness of its policies for managing its ageing workforce.

Twenty seven per cent of the Corporation's employees are over 55 years of age and 51.0 per cent are over 50. A large number of these employees are likely to retire over the next five years to ten years increasing the risk of a significant loss of knowledge and skills for the Corporation. The age profile of the Corporation's employees is shown below.



Source: Port Kembla Port Corporation (unaudited).

As at 30 June Age Group	2010		2009	
	No. of Staff	%	No. of Staff	%
20 -49	23	49	23	50
50 - 54	11	24	11	24
55 - 59	10	21	10	22
60+	3	6	2	4
<b>Total</b>	<b>47</b>	<b>100</b>	<b>46</b>	<b>100</b>

Source: Port Kembla Port Corporation (unaudited).

Management advised it has implemented succession planning as part of a broader strategy to address this issue.

## FINANCIAL INFORMATION

### Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Port revenue	32,033	25,294
Rental Income	31,045	21,185
Other Income	9,508	31,323
<b>TOTAL REVENUE</b>	<b>72,586</b>	<b>77,802</b>
Employee benefits expense	7,049	5,951
Depreciation and amortisation	5,771	3,740
Other expense	17,748	18,083
<b>TOTAL EXPENSE</b>	<b>30,568</b>	<b>27,774</b>
<b>PROFIT BEFORE TAX</b>	<b>42,018</b>	<b>50,028</b>
Income tax equivalent expense	17,089	19,002
<b>PROFIT AFTER TAX</b>	<b>24,929</b>	<b>31,026</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Gain on revaluation of property, plant and equipment	5,897	43,376
Superannuation actuarial losses	(1,552)	(2,465)
Income tax expense on other comprehensive income	(1,304)	(12,329)
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<b>3,041</b>	<b>28,582</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>27,970</b>	<b>59,608</b>

The increase in port revenue is largely due to growth in car and iron ore imports resulting from the improving economic climate.

The movement in rental income reflects the increase in the coal terminal lease revenue resulting from increasing throughput.

The drop in other income represents a lower valuation gain for investment properties.

Increase in employee benefits expense was mainly due to a larger long service leave expense as a result of a formal actuarial assessment.

#### Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
Current assets	55,649	34,653
Non-current assets	392,881	377,739
<b>TOTAL ASSETS</b>	<b>448,530</b>	<b>412,392</b>
Current liabilities	24,861	18,773
Non-current liabilities	95,767	94,382
<b>TOTAL LIABILITIES</b>	<b>120,628</b>	<b>113,155</b>
<b>NET ASSETS</b>	<b>327,902</b>	<b>299,237</b>

The increase in current assets is primarily due to additional cash generated from profit.

Current liabilities increased due to movements in tax liabilities.

#### CORPORATION ACTIVITIES

The Corporation is a statutory State owned corporation incorporated under the *Ports and Maritime Administration Act 1995*.

The Corporation's principal objectives, as amended by the *Ports and Maritime Administration Amendment (Port Competition and Co-ordination) Act 2008 No 89*, are to:

- operate at least as efficiently as any comparable businesses
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- ensure port safety functions are carried out properly
- promote and facilitate a competitive commercial environment in port corporations
- improve productivity and efficiency in the ports and the port related supply chain.

For further information on the Corporation, refer to [www.kemblaport.com.au](http://www.kemblaport.com.au).

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# Sydney Ports Corporation

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## AUDIT OPINION

The audits of the Corporation and its controlled entity's financial statements for the year ended 30 June 2010 resulted in unqualified Independent Auditor's Reports.

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

## KEY ISSUES

### Recoverable Amount for Assets

I recommend the Corporation identify appropriate cash generating units within its business.

The Corporation annually assesses the recoverable amount of its assets to determine whether the carrying value of those assets needs to be impaired. This is done on the basis that the Corporation only has one cash generating unit within its business. My review of the Corporation's activities indicates there may be multiple cash generating units, which should be valued separately.

I understand the Corporation is in the process of developing a full business segmentation model for corporate planning purposes and once implemented it will reassess its cash generating units to ensure its approach complies with the accounting standards.

### Lease Rental for Corporate Office

In August 2009, the Corporation relocated its corporate office, which was supported by a comparative cost benefit analysis. The analysis assumed the Corporation would be able to sublease the entire premises it was vacating at commercial rates for the remainder of the lease term, which expires on 31 October 2015.

Unfortunately, this has not eventuated largely as a result of the global financial crisis and the softening of the commercial property market. The comparative benefit analysis estimated the additional costs of the relocation at \$1.2 million. Despite the Corporation securing another sublease arrangement in April 2010, it has had to recognise additional costs of \$6.8 million, over the last two years.

The Corporation continues to explore opportunities to sublease the remainder of the premises.

## PERFORMANCE INFORMATION

The Corporation provided the following information regarding its trade performance:

### Trade Volumes

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Total container trade ('000 TEUs**)	1,709	1,928	1,784	1,778	1,620	1,445
Total trade*** ('000 mass tonnes)	27,900	28,200	27,800	29,200	27,800	26,700
Total chargeable vessel visits	1,920	1,940	2,275	2,583	2,564	2,596
Total chargeable vessel gross tonnage ('000)	58,800	61,000	67,700	77,400	74,000	72,000

Source: Sydney Ports Corporation (unaudited)

\* Target agreed with shareholder Ministers in the Statement of Corporate Intent

\*\* TEU (20-foot equivalent unit) represents the cargo capacity of a standard shipping container

\*\*\* Including containerised and non-containerised cargo

The increase in container trade was mainly due to economic recovery following the global financial crisis.

The decrease in vessel visits and gross tonnages was due to the transfer of the car import trade to Port Kembla from 28 November 2008.

### Financial Performance

Year ended 30 June	Target*	Actual				
	2010	2010	2009	2008	2007	2006
Return on average equity (%)	6.6	6.6	7.1	12.5	9.2	10.4
Return on average assets (%)	5.8	6.1	7.1	12.5	9.3	10.5
Interest cover (times)	3.0	2.8	7.5	11.5	8.6	13.2
Debt to equity ratio (%)	71.4	64.8	41.1	21.3	25.4	27.0
Dividend to Government (\$m)	--	--	--	20.2	29.0	22.2

Source: Sydney Ports Corporation (unaudited).

\* Target agreed with shareholder Ministers in the Statement of Corporate Intent.

The decrease in return on average assets was mainly due to the increase in the value of total assets resulting from the Port Botany Expansion.

The decrease in interest cover and the increase in the debt to equity ratio, was due to an increase in borrowings to fund the Port Botany Expansion. Management advised that due to funding requirements for major projects, no dividend was included in the Statement of Corporate Intent.

**OTHER INFORMATION**

**Human Resources**

This year I reviewed the following areas relating to human resources:

- employee age profile to identify the number of employees nearing retirement age and actions taken to address any risks arising
- trend in long service leave liabilities and actions taken to ensure funds will be available to pay these liabilities
- management of annual leave balances in excess of threshold policies.

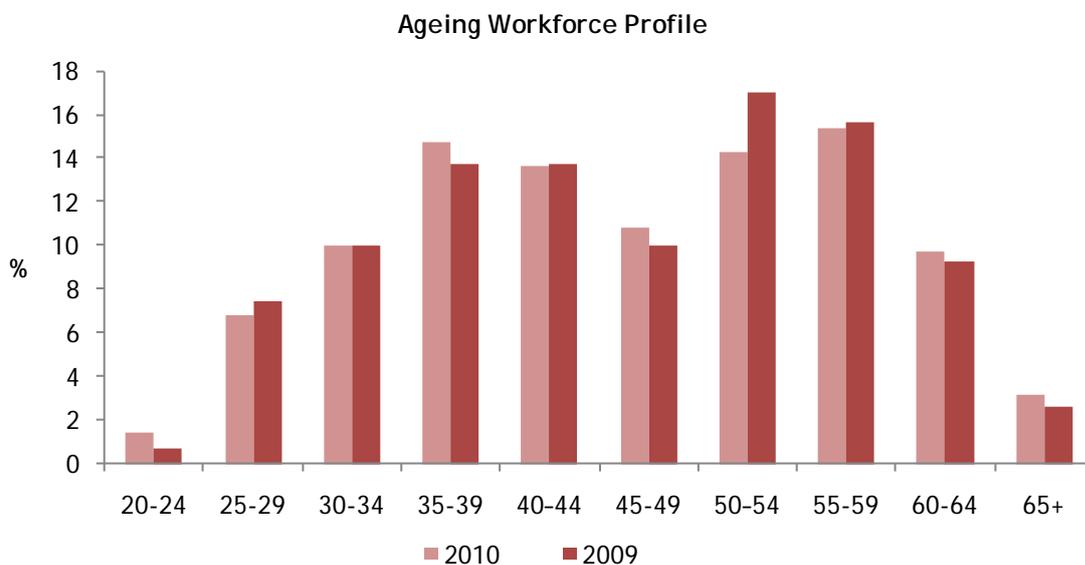
A summary of the results of my review follows.

**Workforce Ageing**

I recommend the Corporation review the effectiveness of its policies in managing its ageing workforce.

The Corporation is facing challenges from the potential loss of knowledge and skills as retiring staff leave the organisation. This is supported by the following statistics:

- 28.3 per cent of the Corporation’s employees are aged 55 years and over
- 42.6 per cent are aged 50 years and over.



The age profile of the Corporation's employees shown below:

At 30 June Age Group	2010		2009	
	No. of Staff (FTE)*	%	No. of Staff (FTE)*	%
20 - 49	160	57.4	150	55.6
50 - 54	40	14.3	46	17.0
55 - 59	43	15.4	42	15.5
60 - 64	27	9.7	25	9.3
65+	9	3.2	7	2.6
<b>Total</b>	<b>279</b>	<b>100</b>	<b>270</b>	<b>100</b>

\* Full Time Equivalent (FTE).

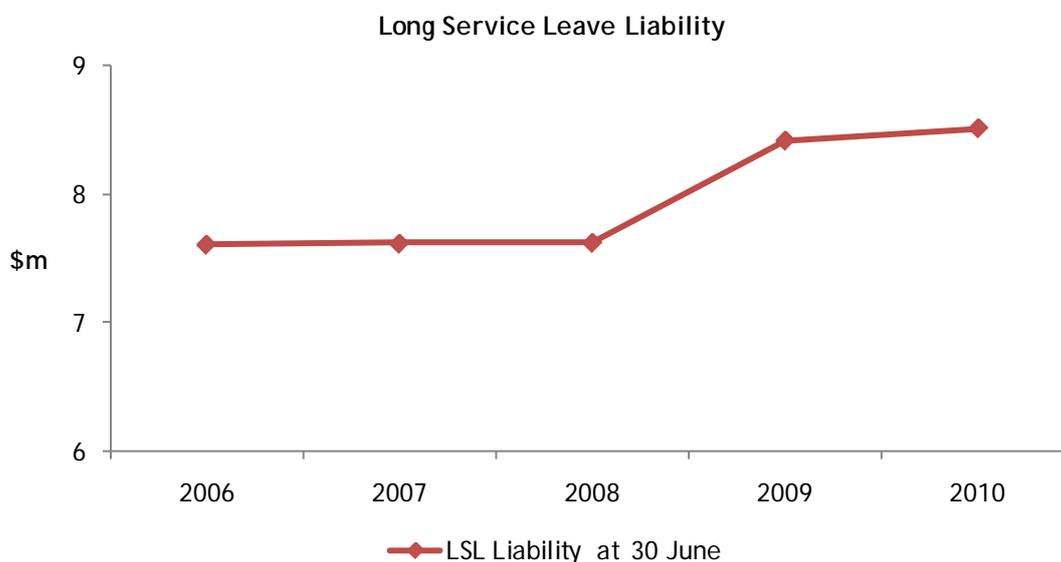
Source: Sydney Ports Corporation (unaudited).

To ensure sufficient, appropriately skilled and experienced staff in the future, the Corporation should actively monitor its workforce age profile and develop and implement strategies to attract and retain staff whose skills are aligned with the strategic direction of the Corporation.

Management advised that it is cognisant of the potential loss of knowledge and skills as retiring staff leave the Corporation. The Corporation constantly evaluates its workforce to ensure appropriate succession planning, skills and experience meets the specialised needs of the business.

#### *Long Service Leave Liability*

Long service leave liabilities increased by 11.6 per cent over the past three years to \$8.5 million in 2009-10 (\$8.4 million in 2008-09).



The increase largely resulted from the impact of a reduced Government bond rate used to discount the liability to present value and increases in rates of pay.

Although the Corporation has strong cash flows, it will need to ensure it has an adequate plan to fund these liabilities as they fall due. This will be compounded as other liabilities arise from the retirement of a significant portion of the ageing workforce.

## Annual Leave Balances

I recommend the Corporation continues with its individual staff plans to reduce excessive annual leave balances within an acceptable timeframe.

Of its total workforce of 279 people, 58 (20.8 per cent) had annual leave balances in excess of 40 days. Annual leave liabilities generally increases as staff remuneration levels increase over time workforce health may decline if employees are not taking sufficient breaks from work.

The Corporation continues to apply the measures it implemented to reduce leave balances. These have resulted in the number of staff with balances exceeding 40 days decreasing by a further nine employees this year.

## Port Botany Expansion

The Port Botany Expansion is a \$725 million project in progress to commence operation in 2013.

Management advised that the expansion will:

- contribute a substantial net return to New South Wales economy over the next 30 years, an estimate of the net return has not been made available to me
- provide five additional shipping berths with extra 1.6 million TEUs
- create approximately 9,000 new direct and indirect jobs by 2025
- provide additional rail sidings with rail access to the new terminal area
- provide over \$30.0 million in community facilities including Penrhyn Estuary rehabilitation, foreshore beach enhancement, a public boat ramp and a pedestrian rail overpass.

## Passenger Terminal

The Corporation expects to receive reimbursement from Barangaroo Delivery Authority for the cost of relocating its passenger terminal to White Bay. It has not recognised a receivable yet as construction of the terminal has not commenced, and although the plan to construct the terminal has been approved, the Corporation is unable to reliably measure the value of the receivable asset.

## Major Projects

The table below provides the completion dates and costs for the Corporation's projects over \$20.0 million.

Year ended 30 June 2010	Initial Estimated Completion Date	Forecast Completion Date	Initial Project Estimate* \$m	Cost to 30 June 2010 \$m	Forecast Final Cost \$m	Forecast Variance \$m
Port Botany Expansion	July 2011	July 2011	725.5	497.5	725.5	--
Intermodal Logistics Centre at Enfield	June 2011	June 2012	under tender	66.5	na	na
Second Bulk Liquids Berth	August 2011	February 2013	under tender	3.1	na	na

Source: Sydney Ports Corporation (unaudited).

\* The initial project estimates approved by the Budget Cabinet Committee and Board of Directors

na: not applicable

Management advised the project delays were mainly due to the need to address unplanned technical and design issues.

## FINANCIAL INFORMATION

### Abridged Statements of Comprehensive Income

Year ended 30 June	Consolidated		Corporation	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Port revenue	137,477	127,598	128,247	117,387
Rental revenue	49,287	49,038	49,440	49,219
Other	33,410	32,879	34,844	34,679
<b>TOTAL REVENUE</b>	<b>220,174</b>	<b>209,515</b>	<b>212,531</b>	<b>201,285</b>
Employee benefits expense	38,651	36,234	32,313	29,509
Depreciation and amortisation expense	19,283	18,098	18,998	17,718
Other expenses	62,604	63,538	59,846	61,343
Finance costs	14,489	10,613	14,489	10,613
<b>TOTAL EXPENSES</b>	<b>135,027</b>	<b>128,483</b>	<b>125,646</b>	<b>119,183</b>
<b>PROFIT BEFORE TAX</b>	<b>85,147</b>	<b>81,032</b>	<b>86,885</b>	<b>82,102</b>
Income tax equivalent expense	26,018	24,057	26,539	24,409
<b>PROFIT AFTER TAX</b>	<b>59,129</b>	<b>56,957</b>	<b>60,346</b>	<b>57,693</b>
<b>OTHER COMPREHENSIVE INCOME/ (EXPENSE)</b>				
Superannuation actuarial losses	(5,293)	(15,213)	(5,293)	(15,213)
Gain on revaluation of property, plant and equipment	42,584	14,355	42,584	14,355
Fair value losses on derivatives	(6,543)	(17,866)	(6,543)	(17,866)
Income tax expense/(benefit) on items of other comprehensive income	(9,274)	5,804	(9,274)	5,804
<b>TOTAL OTHER COMPREHENSIVE INCOME/(EXPENSE)</b>	<b>21,474</b>	<b>(12,920)</b>	<b>21,474</b>	<b>(12,920)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>80,603</b>	<b>44,037</b>	<b>81,820</b>	<b>44,773</b>

The increase in port revenue is predominantly due to the recovery in container trade following the global financial crisis.

Finance costs increased mainly due to higher level of New South Wales Government guarantee fee.

## Abridged Statements of Financial Position

At 30 June	Consolidated		Corporation	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets	274,167	148,363	273,041	146,104
Non-current assets	1,535,691	1,302,885	1,534,113	1,301,154
<b>TOTAL ASSETS</b>	<b>1,809,858</b>	<b>1,451,248</b>	<b>1,807,154</b>	<b>1,447,258</b>
Current liabilities	80,664	78,105	79,008	76,293
Non-current liabilities	798,584	523,136	798,348	522,987
<b>TOTAL LIABILITIES</b>	<b>879,248</b>	<b>601,241</b>	<b>877,356</b>	<b>599,280</b>
<b>NET ASSETS</b>	<b>930,610</b>	<b>850,007</b>	<b>929,798</b>	<b>847,978</b>

The increase in current assets represents an improved cash balance from receipt of \$97.0 million sale proceeds for Barangaroo site from another agency.

The Port Botany Expansion project increased the non-current assets whilst the borrowing to fund this project increased the non-current liabilities.

## CORPORATION ACTIVITIES

The Corporation is a statutory State owned corporation incorporated under the *Ports and Maritime Administration Act 1995*.

The Corporation's principal objectives, as amended by the *Ports and Maritime Administration Amendment (Port Competition and Co-ordination) Act 2008 No 89*, are to:

- operate at least as efficiently as any comparable businesses
- maximise the net worth of the State's investment in the Port Corporation
- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate these when able to do so
- promote and facilitate trade through port facilities
- ensure port safety functions are carried out properly
- promote and facilitate a competitive commercial environment in port operations
- improve productivity and efficiency in its ports and the port related supply chain.

For further information on the Corporation, refer to [www.sydneyports.com.au](http://www.sydneyports.com.au).

**CONTROLLED ENTITY**

**Voluntary Winding up of Controlled Entity**

The Board of Directors and shareholders resolved the controlled entity, Sydney Pilot Service Pty Ltd, cease operations on 31 August 2010. It transferred its business to the Corporation on 1 September 2010. The Directors propose to wind up the entity in 2010-11.

The 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.

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Entity Name	Website
Sydney Pilot Service Pty Ltd	*

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\* This entity does not have a website.



# Appendices

**Appendix 1**  
**Agencies not reported elsewhere in this Volume**

**Appendix 2**  
**Financial Statements Not Received by Statutory Date**  
**(at 23 November 2010)**

**Appendix 3**  
**Financial Statements Received but Audit Incomplete by Statutory Date**  
**(at 23 November 2010)**

**Appendix 4**  
**Qualified Independent Auditor's Reports Issued**



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## Appendix 1 - Agencies not reported elsewhere in this Volume

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The following audit resulted in an unqualified Independent Auditor's Report and did not identify any significant issues or risks.

Entity Name	Website	Period/Year Ended
Compensation Authorities Staff Division	*	30 June 2010

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\* This entity does not have a website



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## Appendix 2 - Financial Statements Not Received by Statutory Date (at 23 November 2010)

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Entity Name	Period/Year Ended	Financial Statement Due Date	Financial Statement Date Received
Chiropractors Registration Board	30 June 2010	11 August 2010	08 September 2010
Dental Board of New South Wales	30 June 2010	11 August 2010	17 November 2010
Dental Technicians Registration Board	30 June 2010	11 August 2010	07 September 2010
New South Wales Medical Board	30 June 2010	11 August 2010	07 September 2010
NSW Vocational Education and Training Accreditation Board	30 June 2010	11 September 2010	Not yet received
Nurses and Midwives Board	30 June 2010	11 August 2010	15 September 2010
Optical Dispensers Licensing Board	30 June 2010	11 August 2010	07 September 2010
Optometrists Registration Board	30 June 2010	11 August 2010	09 September 2010
Osteopaths Registration Board	30 June 2010	11 August 2010	08 September 2010
Pacific Power (Subsidiary No. 1) Pty Limited	30 June 2010	11 August 2010	22 September 2010
Pharmacy Board of New South Wales	30 June 2010	11 August 2010	22 November 2010
Physiotherapists Registration Board	30 June 2010	11 August 2010	09 September 2010
Podiatrists Registration Board	30 June 2010	11 August 2010	08 September 2010
Psychologists Registration Board	30 June 2010	11 August 2010	09 September 2010
Residual Business Management Corporation	30 June 2010	11 August 2010	10 September 2010

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## Appendix 3 - Financial Statements Received but Audit Incomplete by Statutory Date (at 23 November 2010)

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The *Public Finance and Audit Act 1983* requires that we issue an audit opinion within ten weeks of receiving an agency's financial statement. The Act also states that we cannot issue our opinion until the agency has signed its financial statement.

### **Albury Base Hospital**

The audit was completed on 21 October 2010.

### **Albury Wodonga Health Special Purpose Service Entity**

The audit was completed on 21 October 2010.

### **Anzac Health and Medical Research Foundation and ANZAC Health and Medical Research Foundation - Trust Fund**

The audits were completed on 29 October 2010.

### **Bureau of Health Information and Bureau of Health Information Special Purpose Service Entity**

The audits were completed on 29 October 2010.

### **Clinical Excellence Commission and Clinical Excellence Special Purpose Service Entity**

The audits were completed on 20 October 2010.

### **Compensation Authorities Staff Division**

The audit was completed on 19 November 2010.

### **Corporation Sole 'Minister Administering the *Environmental Planning and Assessment Act, 1979*'**

The financial statement submitted to us contained a number of misstatements and this delayed the audit process. We anticipate the audit will be completed shortly.

### **Crown Entity**

The audit was completed on 21 October 2010.

### **Department of Health**

The audit was completed on 13 October 2010.

### **Forestry Commission of New South Wales (trading as Forests NSW)**

The audit was completed on 18 October 2010.

### **Graythwaite Trust**

The audit for the year ended 30 June 2010 is incomplete. The audit has been delayed due to a number of significant accounting matters. We anticipate that the audit will be completed shortly.

### **Health Administration Corporation and Health Administration Corporation Special Purpose Service Entity**

The audits were completed on 22 October 2010.

### **Health Professional Registration Boards**

The audits of the following abolished entities for the year ended 30 June 2010 are incomplete:

- 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

The financial reporting and audit processes have been delayed as a result of changes arising from the abolition of the entities and transition to a national scheme of registration. We anticipate the audit will be completed shortly.

### **John Williams Memorial Charitable Trust**

This is a first time audit engagement and the audit for the year ended 30 June 2010 is incomplete. The audit has been delayed due to a number of significant accounting matters. We anticipate that the audit will be completed shortly.

### **Justice Health and Justice Health Special Purpose Service Entity**

The audits were completed on 12 November 2010.

### **Land and Property Management Authority**

The audit was completed on 27 October 2010.

### **Landcom**

The audit was completed on 26 October 2010.

### **Mine Subsidence Board.**

The audit was completed on 8 November 2010.

### **New South Wales Institute of Psychiatry**

The audit for the year ended 30 June 2010 is incomplete. The audit has been delayed due to a significant accounting matter. We anticipate that the audit will be completed shortly.

### **NSW Health Foundation**

The audit was completed on 16 November 2010.

**Pacific Power (Subsidiary No. 1) Pty Limited**

The audit for the year ended 30 June 2010 was delayed by the late submission of the financial statements. We anticipate that the audit will be complete shortly.

**Pacific Solar Pty Limited**

The audit for the year ended 30 June 2010 is incomplete and was delayed by discussion of accounting and disclosure issues with the Company. We anticipate that the audit will be complete shortly.

**Residual Business Management Corporation**

The audit for the year ended 30 June 2010 was delayed by the late submission of the financial statements. We anticipate that the audit will be complete shortly.

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

The audits were completed on 5 October 2010.

**Sydney South West Area Health Service and Sydney South West Area Health Service Special Purpose Service Entity**

The audits were completed on 4 November 2010.

**Sydney West Area Health Service and Sydney West Area Health Service Special Purpose Service Entity**

The audits were completed on 7 October 2010.

**The Department of Industry And Investment**

The audit was completed on 26 October 2010.

**NSW Vocational Education and Training Accreditation Board**

The audit for the year ended 30 June 2009 has been delayed due to reconciliation problems. We anticipate that the audit will be completed shortly.

**Waste Recycling and Processing Corporation**

The audit for the year ended 30 June 2010 is incomplete. The audit has been delayed due to a number of significant accounting matters. We anticipate that the audit will be completed shortly.

**Water Administration Ministerial Corporation**

The audit has been delayed due to a number of significant valuation matters. We anticipate that the audit will be completed shortly.

**Workers Compensation Commission**

The audit was completed on 18 November 2010.

**WorkCover Authority**

The audit was completed on 18 November 2010.



## Appendix 4 - Qualified Independent Auditor's Reports Issued

From 9 December 2009 to 11 November 2010 the Audit Office issued 28 qualified Independent Auditor's Reports (24 in the preceding period).

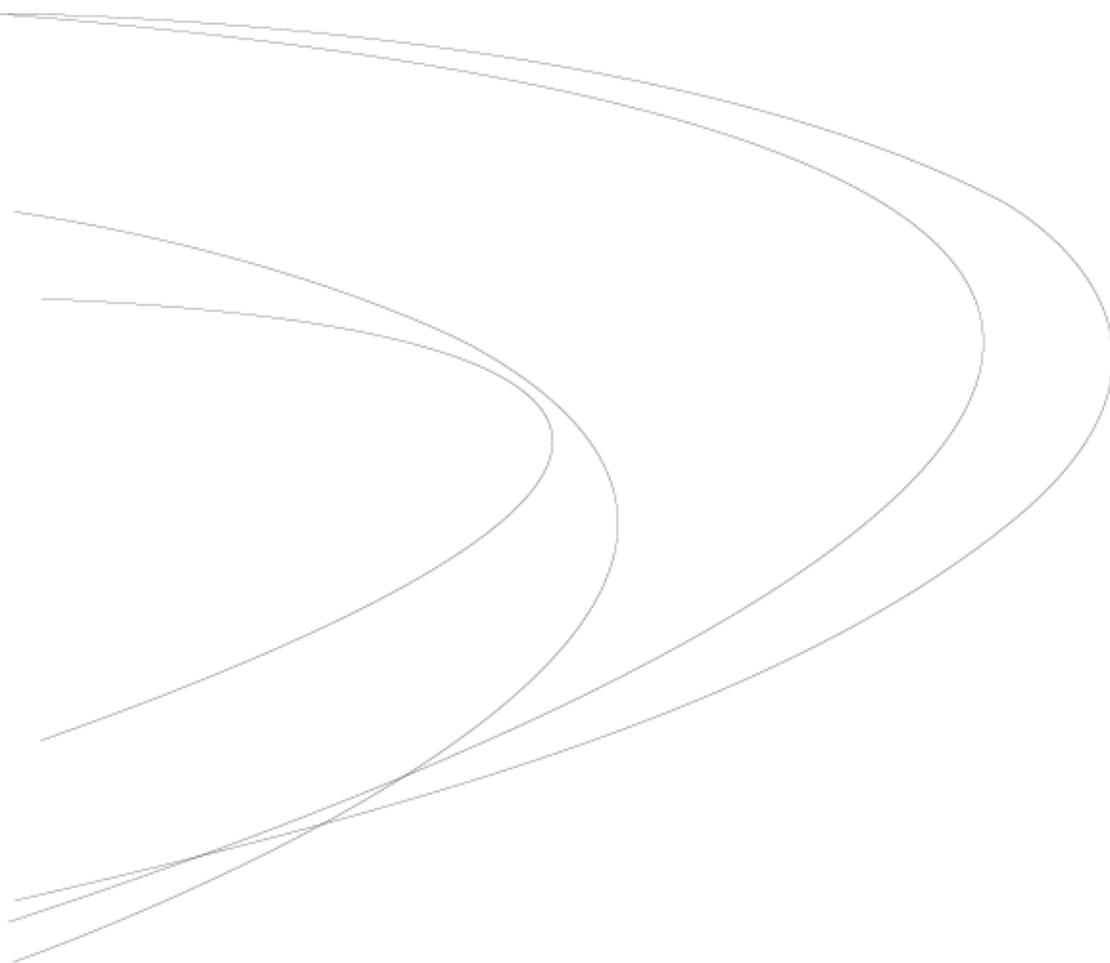
Organisation	Financial Statements Period Ended	Reason for Qualification
ANZAC Health and Medical Research Foundation - Trust Fund	30.06.2009 30.06.2010	It is impractical for the Trust Fund to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Trust Fund has recorded all revenue received from voluntary contributions in its financial records.
Australian School of European Aviation (JAA) Pty Ltd	31.12.2008	I am unable to obtain sufficient appropriate audit evidence to form an opinion on the opening balances and therefore the results of operations and cash flows for the year ended 31 December 2008.
International School of European Aviation Pty Ltd (previously Australian School of European Aviation Pty Ltd)	31.12.2009	Because I am unable to obtain sufficient appropriate audit evidence to form an opinion on the results of operations and cash flows for the year ended 31 December 2008, I am also unable to form an opinion on the comparative information for this year.
Centennial Parklands Foundation	30.06.2010	It is impractical for the Foundation to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Foundation has recorded all revenue received from voluntary contributions in its financial records.
Charles Stuart University Foundation Trust	31.12.2009	It is impractical for the Trust to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Trust has recorded all revenue received from voluntary contributions in its financial records.
Crown Entity	30.06.2010	I am unable to substantiate the value of Crown Reserves reported in comparative information. The Crown Reserves were transferred to the Land and Property Management Authority during the current financial period.
Gosford Water Supply Authority	30.06.2009	Many of the Authority's investments are not widely traded and do not have market values that are independently quoted. I am unable to obtain sufficient appropriate evidence to support the fair value and recoverability of the Authority's investment portfolio.
Greyhound and Harness Regulatory Authority	30.06.2009	The Authority was abolished on 1 July 2009. I am unable to obtain sufficient appropriate audit evidence to form an opinion on receipts, payments and property, plant and equipment.

Organisation	Financial Statements Period Ended	Reason for Qualification
International Film School Sydney Pty Limited	31.12.2008	I am unable to obtain sufficient appropriate audit evidence to form an opinion on the opening balances and therefore the results of operations and cash flows for the year ended 31 December 2008. Comparative information has not been disclosed in the financial report for the comparative period 31 December 2007.
	31.12.2009	Because I am unable to obtain sufficient appropriate audit evidence to form an opinion on the results of operations and cash flows for the year ended 31 December 2008, I am unable to form an opinion on the comparative information for this year.
Land and Property Management Authority	30.06.2010	I am unable to form an opinion on the value of Crown Reserves controlled by the Authority, buildings and infrastructure on those reserves, and coastal infrastructure.
Murrumbidgee River Reach Project	30.06.2009	I am unable to obtain sufficient appropriate audit evidence to form an opinion on Recipient Contributions and Recipient Expenses and Other Contributions and Other Contributors' Expenses.
NSW Self Insurance Corporation (SICorp)	30.06.2009	In accounting for its general insurance contracts, the Corporation applied the incorrect accounting standard. As a result, the Corporation materially understated its liabilities and failed to disclose some required information about these insurance contracts.
	30.06.2010	
Royal Alexandra Hospital for Children	30.06.2010	It is impractical for the Hospital to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Hospital has recorded all revenue received from voluntary contributions in its financial records.
Sydney Water Corporation	30.06.2010	The Corporation incorrectly accounted for contractual arrangements concerning four water filtration plants. As a result, the Corporation materially understated its liabilities.
Total State Sector Accounts	30.06.2010	I am unable to form an opinion on the value of Crown Reserves controlled by the State or the infrastructure on those reserves.
Treasury Managed Fund	30.06.2010	In accounting for its general insurance contracts, the Fund applied the incorrect accounting standard. As a result, the Fund materially understated its liabilities and also failed to disclose some required information about these insurance contracts.
UNE Foundation	31.12.2009	It is impractical for the Foundation to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Foundation has recorded all revenue received from voluntary contributions in its financial records.

Organisation	Financial Statements Period Ended	Reason for Qualification
University of Western Sydney Foundation Trust	31.12.2009	It is impractical for the Trust to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Trust has recorded all revenue received from voluntary contributions in its financial records.
UNSW Foundation Trust	31.12.2009	It is impractical for the Trust to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Trust has recorded all revenue received from voluntary contributions in its financial records.
UNSW Hong Kong Foundation Limited	31.12.2009	It is impractical for the Foundation to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Foundation has recorded all revenue received from voluntary contributions in its financial records.
UNSW & Study Abroad - Friends and US Alumni Inc.	31.12.2009	It is impractical for the Company to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Company has recorded all revenue received from voluntary contributions in its financial records.
UON Foundation Trust	31.12.2009	It is impractical for the Trust to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Trust has recorded all revenue received from voluntary contributions in its financial records.
Waste Recycling and Processing Corporation	30.06.2008 30.06.2009	The Corporation has not developed financial and non-financial comparators against which to assess the efficiency of their performance, as required by the <i>Waste Recycling and Processing Corporation Act 2001</i> . As such, I am unable to obtain sufficient appropriate audit evidence to form an opinion on whether the Corporation operated as efficiently as any comparable businesses for the years ended 30 June 2008 and 30 June 2009.
Whitlam Institute within the University of Western Sydney Trust	31.12.2009	It is impractical for the Trust to maintain an effective system of internal controls over fundraising revenue and voluntary donations until their initial entry in the financial records. I am therefore unable to express an opinion on whether the Trust has recorded all revenue from voluntary contributions in its financial records.



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