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# SOUTH AUSTRALIA

# Report

## of the

# Auditor-General

## for the

## Year ended 30 June 2002

*Tabled in the House of Assembly and ordered to be published, 27 November 2002*

**Second Session, Fiftieth Parliament**

# Supplementary Report

## Agency Audit Reports

By Authority: J. D. Ferguson, Government Printer, South Australia

2002

Government of South Australia

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27 November 2002

The Hon R R Roberts, MLC
President
Legislative Council
Parliament House
**ADELAIDE SA 5000**

The Hon I P Lewis, MP
Speaker
House of Assembly
Parliament House
**ADELAIDE SA 5000**

Gentlemen,

**AUDITOR-GENERAL'S SUPPLEMENTARY REPORT: AGENCY AUDIT REPORTS**

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

- National Wine Centre
- Parliamentary Superannuation Scheme
- Police Superannuation Scheme

The accounts of the aforementioned public authorities and superannuation schemes were not included in my Report to Parliament dated 30 September 2002 as audited financial statements were not available or the audit had not been completed at the time the September Report was being finalised.

**Qualified Audit Opinions**

It was found necessary to issue a qualified audit opinion in the Independent Audit Report for the National Wine Centre. The reason for, and extent of, the qualification in the Independent Audit Report is described in the commentary on that agency in this Report.

**XTAB Pty Ltd (formerly South Australian Totalizator Agency Board)**

In Volume I of Part B of my Annual Report to Parliament for the year ended 30 June 2002 I indicated the financial statements for, and commentary on, the operations of XTAB Pty Ltd would also be included in a Supplementary Report to be presented to Parliament. At the time of finalisation of this Supplementary Report, the audit verification of the financial statements submitted by XTAB Pty Ltd had not been completed in its entirety. Accordingly the financial statements for, and commentary on, the operations of XTAB Pty Ltd will be included in a further Supplementary Report to be presented to Parliament later in this financial year.

Yours sincerely,

K I MacPherson
**AUDITOR-GENERAL**

# Report of the Auditor-General 2001-02
# Supplementary Report:  Agency Audit Reports

## TABLE OF CONTENTS

Page

# NATIONAL WINE CENTRE

## FUNCTIONAL RESPONSIBILITY

The *National Wine Centre Act 1997* (the Act) established the National Wine Centre (the Centre), and is responsible for a range of functions including, the promotion and development of the Australian wine industry and the management of a wine exhibition.

Under the Act a Board was established to govern the Centre and was subject to the control of the responsible Minister. On 14 March 2002, the Treasurer became the responsible Minister. Prior to this the Premier was the responsible Minister.

In early 2001-02 the Centre was substantially completed at a cost of $26.5 million. It opened for business in October 2001.

The Centre experienced financial difficulties from commencement of operations necessitating government funding commitment beyond that initially envisaged at the time of enactment of the Act.

At the time of preparation of this Report the future operations of the Centre is under review and consideration by the Government.

Note 1 to the financial statements of the Centre provides more specific comment on important events associated with the management and operations of the Centre that commenced in the latter part of 2001-02 and continued into the 2002-03 financial year.

## AUDIT MANDATE AND COVERAGE

### Audit Authority

Section 23(2) of the *National Wine Centre Act 1997* specifically provides for the Auditor-General to audit the accounts of the Centre and the annual statements of account.

### Scope of Audit

The audit program covered the major financial systems and processes and included test verification of financial transactions to enable an audit opinion to be formed with respect to the financial statements and adequacy of internal controls.

The specific areas of audit attention included:

- revenue
- inventory
- financial accounting and management reporting
- expenditure
- non-current assets
- financial statement verification

## AUDIT FINDINGS AND COMMENTS

Audit review visitations were made to the Centre in the latter part of 2001-02 and subsequent to 30 June 2002 to undertake the financial statements verification process. The review activity undertaken provided Audit with an awareness and understanding of the financial difficulties and problems confronted by the Centre.

In addition, the Audit activity identified a number of problems and weaknesses associated with the operating and financial management and accounting aspects of the Centre’s business.

These matters were communicated in an Audit Management letter to the chartered accounting firm engaged by the Treasurer on 1 October 2002 to take day-to-day responsibility for the management of the operations of the Centre. The matters will be subject to follow-up review in 2002-03.

A brief summary of the matters communicated included:

- Reporting to the Board:

  Audit noted limitations in monthly financial and management reporting to the Board, including time delays in reporting to the Board. In addition committees responsible for management, finance and audit were not implemented as intended by the Board.

- Assets

  The audit identified a number of areas of non compliance with principles of asset management and recognition. Specifically the following matters were noted.

  — inadequate maintenance of the Centre's fixed asset register
  — delays in the recognition of depreciation expense
  — inappropriate basis for reporting of depreciation expense
  — inadequate recording of assets received as in-kind support.

- Inventory

  Audit noted a number of control weaknesses in relation to wine, beer and spirit stocks, notably inadequacies in relation to:

  — physical access controls
  — systems access and reconciliation controls
  — recording of inventory received as in-kind support
  — stocktaking practices.

- Cash Flow Considerations

  On a number of occasions throughout the year the cash position of the Centre was insufficient to meet outstanding creditor obligations. As a consequence creditors often remained unpaid past the agreed credit terms.

- Information Systems

  The Centre experienced systems related problems, including:

  — access and security controls
  — reliability of key systems reports
  — processing capabilities.

- Recording of Revenues

  Inconsistencies were noted in figures produced by the Centre's revenue systems requiring extended substantive audit verification of revenue data.

- Bank Reconciliation

  On a number of occasions cash reported in the Centre's financial ledger was not able to be successfully reconciled to the cash in the Centre's monthly bank statements.

- Tenancy Agreements

  Matters were noted in relation to the form and content of tenant agreements and delays in signing of agreements with respect certain tenants.

- Wine Retail Outlet

  Inadequate accountability arrangements applying between the Centre and the external operator of the retail outlet including reporting requirements and debtor recovery.

As many of these matters existed throughout the financial reporting period, the Audit Opinions expressed in respect of both the financial statements of the Centre and the Centre's internal controls, have been qualified.

**CONTROLS OPINION**

As required by subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*, the audit of the National Wine Centre included an assessment of the controls exercised in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities. The assessment also considered whether those controls were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

Audit formed the opinion that the controls exercised by the National Wine Centre in relation to the receipt, expenditure and investment of money; the acquisition and disposal of property; and the incurring of liabilities, except for the matters outlined under 'Audit Findings and Comments', were sufficient to provide reasonable assurance that the financial transactions of the organisation were conducted properly and in accordance with law.

**INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS**

The Centre incurred a net cost on operations of $4.9 million (before recognition of revenues from government) and a net cost of $442 000 (after recognition of revenues from government).

Revenues from government totalled $4.4 million comprising $3.470 million towards operations and $970 000 for asset purchases. Refer Note 6 to the financial statements.

At 30 June total current liabilities exceeded total current assets by an amount of $475 000. Total current liabilities included an cash overdraft amount of $65 000.

The operating loss performance being experienced by the Centre and the cash and liquid shortfall position at 30 June indicate that the ongoing operations of the Centre will continue to be reliant on funding from the Government.

The financial statements recognise for the first time the Centre facility and Yarabee House as contributed building assets from the Government. Buildings ($25.5 million) together with plant and equipment ($1.1 million) recognised in 2001-02 amounted to $26.6 million. Refer Notes 2.2 and 9 to the financial statements.

The independent audit opinion expressed in relation to the financial statements include qualifying comments in respect of the uncertainty regarding the future operations of the Centre and certain financial statements' disclosures. Refer below for extract from Independent Audit Report.

**EXTRACT FROM INDEPENDENT AUDIT REPORT**

***QUALIFICATION***

***Continuity of Operations***

*Note 1.3 to the financial statements refers to the uncertain status regarding the future operations of the National Wine Centre. Uncertainty regarding future operations translates to uncertainty regarding the values that can be attributable to the Centre's property, plant and equipment and stock in trade at the date of this financial report.*

***Accounting Records and Controls***

*During the reporting period certain weaknesses existed in respect of the maintenance of the Centre's financial accounting records and controls. As a result, certain financial reporting disclosure requirements have not been satisfied and Audit has not been able to attest with sufficient certainty to some disclosure items. Particulars regarding these matters follow:*

*The cash position of the Centre as recorded in the financial statements at 30 June 2002 has not been able to be reconciled with an absolute degree of certainty.*

*Property, plant and equipment has not been appropriately disaggregated in all instances into specific asset classifications to enable depreciation charges to be accurately determined in recognition of their estimated useful lives.*

*The value of in-kind support received by the Centre during the year has not been determined and recorded in the financial statements.*

***QUALIFIED AUDIT OPINION***

*In my opinion, except for the effects on the financial report of the matters referred to in the qualification paragraphs, the financial report presents fairly in accordance with the Treasurer's instructions promulgated under the provisions of the* Public Finance and Audit Act 1987*, applicable accounting standards and other mandatory professional reporting requirements in Australia, the financial position of the National Wine Centre as at 30 June 2002, its financial performance and its cash flows for the year then ended.*

## Statement of Financial Performance for the year ended 30 June 2002

| | Note | 2002 $'000 | 2001 $'000 |
|---|---|---|---|
| **EXPENSES FROM ORDINARY ACTIVITIES:** | | | |
| Employee costs | | **2 780** | 655 |
| Board fees | 15 | **112** | 136 |
| Accommodation and services costs | | **879** | 68 |
| Depreciation | | **706** | 27 |
| Interest expense | | **43** | - |
| Other expenses from ordinary activities | 3 | **4 566** | 1 540 |
| **Total Expenses** | | **9 086** | 2 426 |
| **REVENUES FROM ORDINARY ACTIVITIES:** | | | |
| Operating revenue | 4 | **2 586** | - |
| Interest income | | **85** | 46 |
| Other revenue from ordinary activities | 5 | **1 533** | 433 |
| **Total Revenues** | | **4 204** | 479 |
| **NET (COST) OF SERVICES BEFORE REVENUES FROM GOVERNMENT** | | **(4 882)** | (1 947) |
| **REVENUES FROM GOVERNMENT:** | | | |
| Appropriation | 6 | **4 440** | 2 831 |
| **Total Revenues from Government** | | **4 440** | 2 831 |
| **NET (COST) SURPLUS FROM SERVICES AFTER REVENUES FROM GOVERNMENT** | | **(442)** | 884 |
| **CONTRIBUTED ASSETS FROM GOVERNMENT RECOGNISED FOR THE FIRST TIME** | 9 | **25 487** | - |
| **NET SURPLUS AFTER CONTRIBUTED ASSETS** | | **25 045** | 884 |
| **TOTAL CHANGES IN EQUITY** | | **25 045** | 884 |

## Statement of Financial Position as at 30 June 2002

| | Note | 2002 $'000 | 2001 $'000 |
|---|---|---|---|
| **CURRENT ASSETS:** | | | |
| Cash | 2.1 | **-** | 404 |
| Trading stock | | **300** | - |
| Receivables | 7 | **344** | 299 |
| Accrued revenue | | **42** | - |
| **Total Current Assets** | | **686** | 703 |
| **NON-CURRENT ASSETS:** | | | |
| Property, plant and equipment | | **26 056** | 120 |
| Land | | **3 600** | 3 600 |
| **Total Non-Current Assets** | 9 | **29 656** | 3 720 |
| **Total Assets** | | **30 342** | 4 423 |
| **CURRENT LIABILITIES:** | | | |
| Cash overdraft | 2.1 | **65** | - |
| Payables | 8 | **929** | 222 |
| Unearned revenue | | **105** | - |
| Provision for employee entitlements | 10 | **62** | 43 |
| **Total Current Liabilities** | | **1 161** | 265 |
| **NON-CURRENT LIABILITIES:** | | | |
| Borrowings | 2.4 | **175** | 175 |
| Payables | 8 | **-** | 10 |
| Provision for employee entitlements | 10 | **-** | 12 |
| **Total Non-Current Liabilities** | | **175** | 197 |
| **Total Liabilities** | | **1 336** | 462 |
| **NET ASSETS** | | **29 006** | 3 961 |
| **EQUITY:** | | | |
| Retained surplus | 11 | **29 006** | 3 961 |
| **TOTAL EQUITY** | | **29 006** | 3 961 |

## Statement of Cash Flows for the year ended 30 June 2002

| | Note | **2002 Inflows (Outflows) $'000** | 2001 Inflows (Outflows) $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| OUTFLOWS: | | | |
| Employee costs | | **(2 734)** | (800) |
| Interest | | **(43)** | - |
| Other payments for ordinary activities | | **(5 152)** | (1 591) |
| GST payments for ordinary activities | | **(605)** | - |
| GST payments to the Australian Taxation Office | | **(9)** | - |
| **Total Outflows** | | **(8 543)** | (2 391) |
| INFLOWS: | | | |
| Operating revenue | | **2 691** | 43 |
| Interest income | | **88** | - |
| Other receipts from ordinary activities | | **1 425** | 111 |
| Revenues from government | | **3 475** | 2 831 |
| GST receipts from ordinary activities | | **500** | - |
| GST receipts from Australian Taxation Office | | **86** | - |
| **Total Inflows** | | **8 265** | 2 985 |
| **Net Cash (used in) provided by Operating Activities** | 12 | **(278)** | 594 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| OUTFLOWS: | | | |
| Purchase of plant and equipment | | **(1 156)** | (116) |
| **Total Outflows** | | **(1 156)** | (116) |
| INFLOWS: | | | |
| Revenue from government | | **965** | - |
| **Total Inflows** | | **965** | - |
| **Net Cash used in Investing Activities** | | **(191)** | (116) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| INFLOWS: | | | |
| Proceeds from borrowings | | **-** | 175 |
| **Net Cash provided by Financing Activities** | | **-** | 175 |
| **NET (DECREASE) INCREASE IN CASH HELD** | | **(469)** | 653 |
| **CASH AT 1 JULY** | | **404** | (249) |
| **CASH AT 30 JUNE** | | **(65)** | 404 |

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 1. Establishment and Operations

***1.1 Establishment***

The National Wine Centre (Centre) was established as a statutory authority under the *National Wine Centre Act 1997* (the Act) with a range of functions associated with the promotion and development of the Australian wine industry and management of a wine exhibition.

In early 2001-02 the Centre was substantially completed at a cost of $26.5 million. It opened for business in October 2001.

Under the Act a Board was established to govern the Centre and was subject to the control of the responsible Minister. On 14 March 2002, the Treasurer became the responsible Minister. Prior to this the Premier was the responsible Minister.

***1.2 Financial Difficulties***

The Centre experienced financial difficulties from the commencement of operations necessitating government funding commitment beyond that initially envisaged at the time of the introduction of the Act.

In the latter part of 2001-02, the Government, in conjunction with the wine industry, looked to restructure the operational and financial arrangements of the Centre, with the view to the wine industry having a more direct role in the operations of the Centre and the Government limiting its financial exposure.

The Board of the Centre resigned on 3 July 2002. On 4 July 2002, the Governor formally dissolved the Centre Board in accordance with section 9 of the Act. Under section 19 of the Act, the Treasurer became the governing authority and delegated all his powers to an entity under the control of the Winemakers Federation of Australia.

In September 2002, the Winemakers Federation of Australia informed the Treasurer that the Centre could not be made to operate profitably under revised financial arrangements between the Government and the Winemakers Federation of Australia.

On 1 October 2002, the Treasurer withdrew his delegation to the Winemakers Federation of Australia. On the same date, the Treasurer engaged a chartered accounting firm and specifically a partner of that firm to take responsibility for the day-to-day management of the Centre's operations; to review and analyse its operations; and to report by the end of October 2002 with recommendations concerning potential strategies and/or alternatives for the Centre.

### 1.3 Ongoing Operations

A Report, dated 31 October 2002, on the position status and recommended strategies for the Centre, was submitted by the chartered accounting firm to the Treasurer.

At the date of sign-off of this financial report, no determination by the Government has been made regarding the future long term operations of the Centre, and the immediate continuing operations of the Centre will continue to be reliant on funding from the Government.

Uncertainty regarding future operations translate to uncertainty regarding the values that can be attributable to the Centre's property, plant and equipment and stock in trade at the date of this financial report.

Due to the present nature of uncertainty regarding future operations, the Centre's financial report records property, plant and equipment and stock in trade on the cost basis of recognition.

## 2. Summary of Significant Accounting Policies

The accounts have been prepared in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Accounting Standards and applicable Urgent Issues Group Consensus Views.

### 2.1 Cash

For the purposes of the Statement of Cash Flows, cash includes cash deposits which are readily convertible to cash on hand and which are used in the cash management on a day to day basis.

The interest received on the cash balance is based on the Common Public Sector Interest Rate.

### 2.2 Non-Current Assets

All non-current assets controlled by the National Wine Centre are reported in the Statement of Financial Position. The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the National Wine Centre. Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition. Fair value means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

*Land*

Upon creation of the Centre a section of land bordered by Hackney Road and Plane Tree Drive within the City of Adelaide was dedicated for the purposes of the Centre under the care, control and management of the Centre. The land originally designated has been subject to change as a result of an amendment to the *National Wine Centre Act 1997*, assented to in April 1998. The Amendment Act was proclaimed on 30 September 1999. The land has been valued as at 30 June 2000 by the Valuer-General, and was brought to account in the 1999-2000 financial reporting period. Section 5(a) of the *National Wine Centre Act 1997* specifically provides that the land is dedicated for the purposes of the National Wine Centre.

*Centre's Facilities*

Construction of the Centre facilities was substantially completed in early 2001-02. The Centre opened for business on 6 October 2001. The total cost of the building of the facility is recognised in the Statement of Financial Position for the first time. In addition Yarabee House was also recognised as a contributed asset.

These contributed assets from the Government being non-reciprocal transfers are recognised in the Statement of Financial Performance.

### 2.3 Depreciation of Non-Current Assets

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each depreciable non-current asset. Estimates of remaining useful lives are made on an annual basis for all such assets.

| The estimated useful lives of each asset class are as follows: | **Years** |
|---|---|
| Buildings | 40 |
| Office equipment IT | 2.5 |
| Office equipment non-IT | 10 |
| Systems development | 2.5 |
| Furniture, plant and equipment | 2 - 10 |

### 2.4 Financial Instruments Disclosure

Trade accounts receivable generally settled within 60 days are carried at amounts due.

A provision is raised for any doubtful debts based on a review of all outstanding amounts at balance date. Bad debts are written off in the period in which they are identified.

Trade accounts payable, including accruals not yet billed, are recognised when the Centre becomes obliged to make future payments as a result of a purchase of assets or services. Trade accounts payable are generally settled within 30 days.

A long-term loan of $175 000 was secured in July 2000 from the Minister for Industry, Investment and Trade. The loan is for a period of seven years at an interest rate of 5 percent per annum. At maturity it is expected that all interest and principal would be repaid.

Actual values carried in the Statement of Financial Position for all financial instruments are at fair values.

### 2.5 Employee Entitlements

*Wages, Salaries and Annual Leave*

Liabilities for wages, salaries and annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

*Long Service Leave*

A liability for long service leave has not been recorded as the longest serving employee is yet to be entitled to the benefit.

*Superannuation*

Contributions are made by the National Wine Centre to several superannuation schemes operated by both the State Government and the private sector. These contributions are treated as an expense when they occur. There is no liability in the financial statements to beneficiaries as these are the responsibility of the superannuation funds. The only liability outstanding at balance date relates to any contribution due but not yet paid to the superannuation schemes.

*Employment On-costs*

The liability for employment on-costs includes superannuation contributions and payroll tax with respect to outstanding liabilities for Salaries and Wages, Long Service Leave and Annual Leave. These amounts are classified under payables.

### 2.6 Revenue

*Appropriations*

Appropriations from Government are recognised as revenue when the Centre obtains control over the assets comprising the contributions. Control over appropriation is normally obtained upon their receipt.

*Contributed Facilities*

The buildings were transferred to the National Wine Centre's control during the reporting period. Refer Note 2.2.

*Trading Revenue*

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Revenue from the rendering of a service is recognised upon the delivery of the service to customers.

*Rental Revenue*

Rental revenue is recognised as it accrues.

### 2.7 Rounding

All values expressed in the financial report are rounded to the nearest thousand dollars unless otherwise specified.

### 2.8 Goods and Services Tax

In 2000-01 the Department of the Premier and Cabinet prepared the Business Activity Statement on behalf of the Centre under the grouping provisions of the GST legislation. Under these provisions, the Department was liable for the payments and entitled to the receipt of GST. As this activity has now been taken over by the Centre in 2001-02, the GST applicable to the Centre forms part of the Statement of Financial Position and Statement of Cash Flows.

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are recognised with the amount of GST included. The net amount of GST receivable from and payable to the ATO is included as a current asset or liability in the Statement of Financial Position.

| | | **2002** | 2001 |
|---|---|---|---|
| | | **$'000** | $'000 |
| **3.** | **Other Expenses from Ordinary Activities** | | |
| | General operating expenses | **614** | 277 |
| | Food and beverage | **893** | - |
| | Travel and accommodation | **102** | 89 |
| | Consultants and contractors | **685** | 679 |
| | Doubtful debts | **20** | - |
| | Marketing and advertising | **1 302** | 214 |
| | Centenary of Federation project | **950** | 281 |
| | | **4 566** | 1 540 |
| **4.** | **Operating Revenue** | | |
| | Food and beverage | **2 169** | - |
| | Exhibition admissions | **340** | - |
| | Other | **77** | - |
| | | **2 586** | - |
| **5.** | **Other Revenue from Ordinary Activities** | | |
| | Centenary of Federation Project | **950** | 281 |
| | Sponsorship and donations* | **109** | 66 |
| | Rental income | **474** | 59 |
| | Other sundry items | **-** | 27 |
| | | **1 533** | 433 |

* Represents amounts received/receivable by the Centre. During the year the Centre received some in-kind support, the value of which has not been determined for inclusion in the financial report.

**6. Appropriation**

| | 2002 | 2001 |
|---|---|---|
| | $'000 | $'000 |
| Support for operations | **3 475** | 2 831 |
| Asset purchases* | **965** | - |
| | **4 440** | 2 831 |

* Represents amounts from the Department for Administrative and Information Services of $645 000 and from the Department of Treasury and Finance of $320 000.

**7. Receivables**

| | 2002 | 2001 |
|---|---|---|
| Trade debtors | **364** | 18 |
| Provision for doubtful debts | **20** | - |
| | **344** | 18 |
| Centenary of Federation | **-** | 281 |
| | **344** | 299 |

**8. Payables**

| | 2002 | 2001 |
|---|---|---|
| Current: | | |
| Creditors | **578** | 222 |
| Employee costs | **162** | - |
| Accruals | **189** | - |
| | **929** | 222 |
| Non-Current: | | |
| Employee costs | **-** | 2 |
| Accruals | **-** | 8 |
| | **-** | 10 |
| | **929** | 232 |

**9. Property, Plant and Equipment**

| | At Valuation and Historical Cost | | Accumulated Depreciation | | Written Down Value | |
|---|---|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Buildings | **25 487** | - | **463** | - | **25 024** | - |
| Plant and equipment | **1 312** | 156 | **280** | 36 | **1 032** | 120 |
| Land | **3 600** | 3 600 | **-** | - | **3 600** | 3 600 |
| | **30 399** | 3 756 | **743** | 36 | **29 656** | 3 720 |

| 2002 | Buildings | Plant & Equipment | Land | Total |
|---|---|---|---|---|
| Valuation at Current Cost and Historical Cost: | **$'000** | **$'000** | **$'000** | **$'000** |
| Balance at 1 July 2001 | **-** | **156** | **3 600** | **3 756** |
| Additions | **25 487** | **1 156** | **-** | **26 643** |
| Disposals | **-** | **-** | **-** | **-** |
| **Balance at 30 June 2002** | **25 487** | **1 312** | **3 600** | **30 399** |
| Accumulated Depreciation: | | | | |
| Balance at 1 July 2001 | **-** | **(36)** | **-** | **(36)** |
| Disposals | **-** | **-** | **-** | **-** |
| Depreciation expense | **(463)** | **(244)** | **-** | **(707)** |
| **Balance at 30 June 2002** | **(463)** | **(280)** | **-** | **(743)** |
| Net Book Value: | | | | |
| As at 1 July 2001 | - | 120 | 3 600 | 3 720 |
| **As at 30 June 2002** | **25 024** | **1 032** | **3 600** | **29 656** |

**10. Employee Entitlement Liability**

| | 2002 | 2001 |
|---|---|---|
| Current: | **$'000** | $'000 |
| Annual leave | **62** | 43 |
| Long service leave | **-** | - |
| | **62** | 43 |
| Non-Current: | | |
| Long service leave | **-** | 12 |
| | **-** | 12 |
| **Total Employee Liabilities** | **62** | 55 |

**11. Retained Surplus**

| | 2002 | 2001 |
|---|---|---|
| Balance at 1 July | **3 961** | 3 077 |
| Increase in net assets resulting from operations | **25 045** | 884 |
| **Balance at 30 June** | **29 006** | 3 961 |

**12. Reconciliation of Net Cash used in Operating Activities to Net Surplus after Contributed Assets**

| | 2002 $'000 | 2001 $'000 |
|---|---|---|
| Net cash (used in) provided by operating activities | **(278)** | 594 |
| Non-Operating Activities and Non-Cash Items: | | |
| Depreciation expense | **(706)** | (27) |
| Assets recognised for the first time | **25 487** | - |
| (Loss) on Disposal of Assets | **-** | (2) |
| Government revenue received for investing activities | **965** | - |
| Change in operating assets and liabilities: | | |
| Increase (Decrease) in receivables | **45** | 299 |
| Increase (Decrease) in operating assets | **342** | - |
| (Increase) Decrease in payables | **(698)** | 47 |
| (Increase) Decrease in unearned revenue | **(105)** | - |
| (Increase) Decrease in employee entitlements | **(7)** | (27) |
| **Net Surplus after Contributed Assets** | **25 045** | 884 |

**13. Auditors' Remuneration**

| | 2002 | 2001 |
|---|---|---|
| Amounts paid or payable to the Auditor-General's Department | **20** | 10 |

**14. Remuneration of Employees**

The number of employees whose remuneration packages for the year equal or exceed $100 000 fell within the following band:

| | 2002 Number of Employees | 2001 Number of Employees |
|---|---|---|
| $110 000 - $119 999 | **2** | 1 |
| Total employees with remuneration over $100 000 | **2** | 1 |

For the year ending 30 June 2002 the amount paid to employees whose remuneration packages for the year were equal to or exceeded $100 000 totalled $235 000 ($117 000).

The above remuneration excludes termination payments as per Accounting Policy Statement APS 13 'Form and Content of General Purpose Financial Reports'.

On 31 October 2001 the term of George William Mackey as director expired. He was subsequently appointed as Chief Executive. These figures include George William Mackey as an employee only.

**15. Remuneration of Board Members**

Remuneration fell within the following bands:

| | 2002 Number of Members | 2001 Number of Members |
|---|---|---|
| $0 - $9 999 | **12** | 12 |
| $10 000 - $19 999 | **5** | - |
| $20 000 - $29 999 | **-** | 1 |
| $120 000 - $129 999 | **1** | - |
| | **18** | 13 |

For the year ended 30 June 2002 the amount paid to board members totalled $112 000 ($136 000).

In addition, the figures include another six directors whose terms expired on 31 October 2001 and were not reappointed and one director who resigned on 31 January 2002.

On 31 October 2001 the term of George William Mackey expired. He was subsequently appointed as Chief Executive. These figures include George William Mackey as a board member and as Chief Executive.

**16. Expenses Incurred for Consultants**

Expenditure fell within the following bands:

| | 2002 Number of Consultancies | 2001 Number of Consultancies |
|---|---|---|
| $0 - $10 000 | **7** | 4 |
| $10 001 - $50 000 | **2** | 6 |
| $50 001 - $100 000 | **1** | 2 |
| $100 001 - $150 000 | **1** | 1 |
| $150 001 - $200 000 | **-** | 1 |
| $200 001 - $250 000 | **1** | - |
| | **12** | 14 |

Total expenditure for consultants for the year ended 30 June 2002 was $532 000 ($613 000).

**17. Related Party Disclosures**

The following persons held the position of Member of the Board during the financial year:

Brian Croser AO
Richard Allert AM
Perry Gunner
John Harvey
Philip Laffer
John Lamb
George William Mackey
Don McWilliam
John Pendrigh AM
Chris Pfeiffer
Anabel Sherars-Carter
Dianne Davidson
Ian Sutton
Christopher Barnes
Robin Day
Bruce McDougall
William Taylor
Graham Walters

**17. Related Party Disclosures (continued)**

The Centre is responsible for the payment of travelling and accommodation for board members to attend board meetings and the amounts paid for the period ended 30 June 2002 were $27 000 ($29 000).

Mr George William Mackey resigned from the Board and was appointed to Chief Executive.

Related party transactions with the Centre were undertaken on normal commercial terms and conditions.

**18. Post Balance Day Events**

Note 1 of this financial report includes comment on important events associated with the management and operations of the Centre that commenced in the latter part of 2001-02 and continued into the 2002-03 financial year.

# PARLIAMENTARY SUPERANNUATION SCHEME

## FUNCTIONAL RESPONSIBILITY

The South Australian Parliamentary Superannuation Board (the Board) established under the *Parliamentary Superannuation Act 1974* (the Act), is responsible for the collection of contributions from members of the Parliamentary Superannuation Scheme (the Scheme) and for the payment of superannuation benefits to members and members' families.

The main financial administration arrangements that apply in relation to the Scheme involve the Parliamentary Superannuation Fund (the Fund). The Fund, established under the Act, records as income to the Fund, members' and the Government's contributions and revenue derived from the investment of those monies, and also records as payments from the Fund, benefit payments and administration costs.

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

The Board utilises the services of the Department of Treasury and Finance - Superannuation Office (Super SA) to administer the Scheme.

## SIGNIFICANT FEATURES

- Investment activity for the year resulted in a negative return of $5.4 million compared to a positive return of $3.3 million in the previous year.
- Benefits expense increased by $10.6 million to $19 million.
- Investments decreased by $11.3 million to $94.9 million.

## AUDIT MANDATE AND COVERAGE

### Audit Authority

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

### Scope of Audit

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

During 2001-02 specific areas of audit attention included:

- contributions from members and employers
- pension payments.

### Audit Communications to Management

A management letter conveying the scope and results of the audit has been forwarded to the Chairman, Parliamentary Superannuation Board.

## AUDIT FINDINGS AND COMMENTS

### Commentary on General Financial Controls

The general financial control structure was found to be satisfactory.

## CONTROLS OPINION

As required by subsection 36(1)(a)(iii) of the *Public Finance and Audit Act 1987*, the audit of the Parliamentary Superannuation Scheme included an assessment of the controls exercised in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities. The assessment also considered whether those controls were consistent with the prescribed elements of the Financial Management Framework as required by Treasurer's Instruction 2 'Financial Management Policies'.

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

## INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

### Operating Statement

The operating result for the year records a deficiency of $21.1 million compared to a deficiency of $1.9 million last year. This year's result represents the excess of benefits expense of $19 million and negative net investment revenue of $5.4 million over total contributions of $3.5 million.

Note 1(d) to the financial statements explains that the small size of the scheme, the nature of the way members' benefits accrue, the effect of elections and variations in investment performance mean that deficiencies and surpluses will arise from year to year.

### Statement of Financial Position

As at 30 June 2002, there was an excess of liabilities over net assets of $18.3 million compared to $2.8 million surplus of net assets over liabilities as at 30 June 2001. This is due mainly to a decrease in the value of investments of $11.3 million to $94.9 million and an increase of $10 million in the liability for accrued benefits, partly due to the commencement of 14 new pensions to members retiring during the year.

## FURTHER COMMENTARY ON OPERATIONS

### Contributors and Pensioners

As at 30 June 2002 there were 69 (69) contributors to the Scheme and 104 (96) pensioners.

## Operating Statement for the year ended 30 June 2002

| | Note | 2002 $'000 | 2002 $'000 | 2001 $'000 |
|---|---|---|---|---|
| **INVESTMENT REVENUE:** | | | | |
| Net investment revenue | | | **(5 371)** | **3 299** |
| **INTEREST INCOME** | | | **13** | 10 |
| **CONTRIBUTIONS:** | | | | |
| Contributions by members | 1(d) | **897** | | 865 |
| Contributions by employers | 1(d) | **2 566** | | 2 573 |
| | | | **3 463** | 3 438 |
| **ADMINISTRATION EXPENSE** | 4 | | **(125)** | (144) |
| **ACTUARIAL EXPENSE** | 12 | | **(2)** | (14) |
| **AUDIT EXPENSE** | 13 | | **(12)** | (12) |
| **GST EXPENSE** | 14 | | **(3)** | (4) |
| **BENEFITS EXPENSE** | 6 | | **(19 047)** | (8 484) |
| **OPERATING RESULT FOR THE PERIOD** | | | **(21 084)** | (1 911) |

## Statement of Financial Position as at 30 June 2002

| | Note | 2002 $'000 | 2002 $'000 | 2001 $'000 |
|---|---|---|---|---|
| **INVESTMENTS:** | | | | |
| Inflation linked securities | 2(b) | **12 786** | | 14 093 |
| Property | | **9 932** | | 9 954 |
| Australian equities | | **33 020** | | 38 943 |
| International equities | | **31 213** | | 37 323 |
| Fixed interest | | **4 386** | | 5 362 |
| Cash | | **3 586** | | 576 |
| | | | **94 923** | 106 251 |
| **FIXED ASSETS** | | | **2** | 2 |
| **OTHER ASSETS:** | | | | |
| Cash and deposits at Treasury | | **123** | | 133 |
| Cash and deposits at Treasury – Funds SA | | **24** | | 3 |
| Interest, dividends and rent due – Funds SA | | **4** | | 11 |
| Prepaid expenses – Funds SA | | **-** | | 1 |
| Sundry debtors | 10 | **21** | | 14 |
| Contributions receivable | 3 | **339** | | 375 |
| | | | **511** | 537 |
| **Total Assets** | | | **95 436** | 106 790 |
| **CURRENT LIABILITIES:** | | | | |
| Rend paid in advance – Funds SA | | **41** | | 32 |
| Tax Payable for Pensions | | **11** | | - |
| Benefits payable | | **-** | | 156 |
| Sundry creditors and provisions | 11 | **104** | | 116 |
| | | | **156** | 304 |
| **NON-CURRENT LIABILITIES:** | | | | |
| Loan and finance facilities – Funds SA | | | **614** | 736 |
| **Total Liabilities** | | | **770** | 1 040 |
| **NET ASSETS AVAILABLE TO PAY BENEFITS** | 5 | | **94 666** | 105 750 |
| **LESS: LIABILITY FOR ACCRUED BENEFITS** | 6 | | **113 000** | 103 000 |
| **EXCESS OF (LIABILITIES OVER NET ASSETS) NET ASSETS OVER LIABILITIES** | 1(d), 6 | | **(18 334)** | 2 750 |

## Statement of Cash Flows for the year ended 30 June 2002

| | Note | 2002 Inflows (Outflows) $'000 | 2002 Inflows (Outflows) $'000 | 2001 Inflows (Outflows) $'000 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | | |
| CONTRIBUTIONS RECEIVED: | | | | |
| Contributions by members | | | **899** | 867 |
| Contributions by employers | | | **2 601** | 2 470 |
| | | | **3 500** | 3 337 |
| INTEREST RECEIVED | | | **13** | 10 |
| BENEFITS PAID: | | | | |
| Pensions | | **(4 671)** | | (3 840) |
| Commutation of pension benefits | | **(4 530)** | | (330) |
| | | | **(9 201)** | (4 170) |
| Administration expense | | | **(125)** | (195) |
| Actuarial expense | | | **(2)** | (14) |
| Audit expense | | | **(12)** | (12) |
| GST expense | | | **7** | (1) |
| **Net Cash used in Operating Activities** | 9 | | **(5 820)** | (1 045) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | 2(a) | | | |
| Receipts from Superannuation Funds Management Corporation | | | **7 650** | 2 610 |
| Payments to Superannuation Funds Management Corporation | | | **(1 840)** | (1 440) |
| **Net Cash provided by Investing Activities** | | | **5 810** | 1 170 |
| **NET (DECREASE) INCREASE IN CASH HELD** | | | **(10)** | 125 |
| **CASH AT 1 JULY** | | | **133** | 8 |
| **CASH AT 30 JUNE** | | | **123** | 133 |

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

**1. Objectives of the Financial Statements**

***(a) Parliamentary Superannuation Scheme***

The Parliamentary Superannuation Scheme (the Scheme) is a compulsory superannuation scheme which exists pursuant to the *Parliamentary Superannuation Act 1974* (the Act). The Act provides for the payment of superannuation benefits to persons who have served as members of Parliament and makes provisions for the families of such persons.

Section 14(2) of the Act requires every member of Parliament with less than 20 years and one month's service, to make contributions of 11.5 percent of their salary (including any additional salary) to the Treasurer. Section 14(3) requires members of Parliament with 20 years and one month's service or over, to make contributions of 5.75 percent of their basic salary and 11.5 percent of any additional salary.

Member contributions are deposited by the Treasurer into the Parliamentary Superannuation Fund, established under section 13 of the Act. The Fund is managed and invested by Superannuation Funds Management Corporation.

A member is entitled to a pension based benefit determined in accordance with the Act to be a percentage of the members' salary. A member may elect to commute to a lump sum a percentage of their pension entitlement.

***(b) The South Australian Parliamentary Superannuation Board***

The South Australian Parliamentary Superannuation Board (the Board) a body corporate, is established under section 8(1) of the Act.

***(c) Superannuation Funds Management Corporation of South Australia***

The Superannuation Funds Management Corporation of South Australia (Funds SA), a body corporate, was established for the purpose of managing and investing the accounts of various public sector superannuation schemes. Funds SA is responsible for the management and investment of the Parliamentary Superannuation Fund.

For further information on the investment of the Parliamentary Superannuation Fund, reference should be made to the financial statements of Funds SA.

***(d) Funding Arrangements***

Under Section 39(1) of the Act, any payment to a member must be made out of the Consolidated Account (which is appropriated to the necessary extent) or from a Special Deposit Account established for that purpose. During the year ended 30 June 2002 payments were made from a Special Deposit Account.

Members' contributions are paid to the Treasurer, who deposits these contributions into the Parliamentary Superannuation Fund, with $897 000 ($865 000) being credited during the year ended 30 June 2002.

The Government as the employer has paid $2.6 million into the Parliamentary Superannuation Fund during the year ended 30 June 2002, to fund future superannuation benefits.

Since 30 June 1994 the Government has undertaken a process of funding its accrued past service liabilities and the scheme assets have broadly matched liabilities since 1997. The small size of the Scheme, the nature of the way member benefits accrue, the effect of elections and variations in investment performance mean that deficiencies and surpluses will arise from year to year. The reduction in the value of net assets in 2001-02 is due to the negative investment earnings and also the commencement of 14 new pensions to members retiring during the year.

**2. Summary of Significant Accounting Policies**

***(a) Basis of Accounting***

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

Funds SA operates a unitised investment portfolio utilising a number of asset class funds, each of which holds assets of a different category. The Scheme holds an interest in the asset class funds by way of notional 'units', as determined by Funds SA, rather than holding assets directly. As funds of the Scheme are regularly subscribed to and redeemed from the asset class funds, in line with the Scheme's cash flow requirements, it is not possible to accurately determine the separate contribution by realised and unrealised gains to the Scheme's income. For this reason, unrealised gains are not separately identified as required by AAS 25 and the Statement of Cash Flows only reflects a net result for cash flows from investing activities. In addition direct investment expenses and change in net market value of investments held at reporting date and realised during the reporting period are not reported. For information regarding the manner in which Funds SA operates its investment portfolio, and the contributions that realised and unrealised gains make to Funds SA's total investment return, reference should be made to the financial statements of Funds SA.

***(b) Basis of Valuations of Assets and Liabilities***

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

*(i) Inflation Linked Securities*

The inflation linked securities portfolio comprises two sub-sectors:

- *Internally Managed*

  These investments, the returns of which are linked to movements in either the Consumer Price Index (CPI) or Average Weekly Earnings (AWE), have been valued using the discounted cash flow method. The valuation as at 30 June 2002 was performed by an independent valuer, Macquarie Bank Limited.

- *Externally Managed*

  The externally managed portfolio is invested and managed by an external manager. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

*(ii) Property*

The property portfolio comprises three sub-sectors:

- *Directly Held Properties*

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

  In addition, a secured short-term loan provided to a third party has been valued on the basis of principal outstanding at the balance date.

- *Externally Managed Listed Property Trusts*

  The externally managed listed property trust portfolio is invested and managed by two managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at the balance date.

- *Externally Managed Unlisted Property Trusts*

  Investments in externally managed unlisted property vehicles have been valued in accordance with the exit valuations supplied by the managers.

*(iii) Australian Equities*

The Australian equities portfolio comprises two sub-sectors:

- *Listed Australian Equities*

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

- *Private Equity*

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

*(iv) International Equities*

The international equities portfolio comprises two sub-sectors:

- *Listed International Equities*

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

*(iv)* *International Equities (continued)*

- *Private Equity*
  The international private equity portfolio comprises holdings in a number of externally managed specialist funds. These funds have been valued by the managers in accordance with the National Venture Capital Association (NVCA) guidelines.

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

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

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

*(viii)* *Fixed Assets*
Fixed assets are shown as cost less accumulated depreciation. Depreciation is calculated over the estimated useful lives of the assets, using straight line or diminishing value methods. The Directors of Funds SA are of the opinion that this provides a reasonable estimate of market value.

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

***(c)*** ***Taxation***
All of the public sector superannuation funds under the management of Funds SA are exempt from federal income tax by virtue that they are declared as 'constitutionally protected funds' under the Regulations to the *Income Tax Assessment Act 1936*. Consequently, no income tax expense has been brought to account in these financial statements.

***(d)*** ***Accounting for Leases***
Incentives received on entering into operating leases are recognised as liabilities. Lease payments are allocated between rental expense and reduction of the liability of straight-line basis. The allocation of lease rental payments in this manner ensures that the rental expense is recognised on a basis which is representative of the pattern of benefits derived from the leased asset.

**3. Contributions Receivable**

| | 2002 | 2001 |
|---|---|---|
| Contributions receivable from: | **$'000** | $'000 |
| Members | **60** | 61 |
| Employers | **279** | 314 |
| | **339** | 375 |

**4. Administration**

Costs of administering the Scheme comprise those costs incurred by Funds SA in administering the investment activities (deducted from investment revenue, that is investment revenue is reported net of direct investment expenses) and those costs incurred by the Department of Treasury and Finance in administering the Scheme.

Costs incurred by the Department of Treasury and Finance in administering the Scheme are met in the first instance from the Department of Treasury and Finance Operating Account. The Department of Treasury and Finance seeks reimbursement from the Parliamentary Superannuation Fund.

**5. Net Assets Available to Pay Benefits**

| | 2002 | 2001 |
|---|---|---|
| | **$'000** | $'000 |
| Funds held at 1 July | **105 750** | 103 661 |
| *Add:* | | |
| Contributions by members | **897** | 865 |
| Contributions by employers | **2 566** | 2 573 |
| Investment earnings(i) | **(5 371)** | 3 299 |
| Other income | **13** | 10 |
| | **(1 895)** | 6 747 |
| *Less:* | | |
| Net benefits paid | **9 047** | 4 484 |
| Administration expense | **125** | 144 |
| Actuarial expense | **2** | 14 |
| Audit expense | **12** | 12 |
| GST expense | **3** | 4 |
| | **9 189** | 4 658 |
| **Funds held at 30 June** | **94 666** | 105 750 |

(i) Shown net of direct investment expenses.

**6. Liability for Accrued Benefits**

The expected future benefit payments have been determined using the same pensioner mortality assumptions as the 2001 triennial review of the South Australia Superannuation Scheme. Salary increases of one percent per annum above the Adelaide Consumer Price Index (CPI) have been assumed. In accordance with Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans' the expected future benefit payments have been discounted to present values by a market based, risk adjusted discount rate of four percent per annum above the CPI.

The accrued superannuation liability as determined by the State Superannuation Office of the Department of Treasury and Finance is estimated at $113 million ($103 million) as at 30 June 2002. The vested superannuation liability as at 30 June 2002 is estimated at $129 million.

| | 2002 | 2001 |
|---|---|---|
| | $'000 | $'000 |
| Liability for accrued benefits at 1 July | **103 000** | 99 000 |
| *Add:* Benefits expense(i) | **19 047** | 8 484 |
| *Less:* Benefits paid | **9 047** | 4 484 |
| **Liability for Accrued Benefits at 30 June** | **113 000** | 103 000 |

(i) This figure represents the change in liability for accrued benefits plus benefits paid for the year.

The increase in the accrued liability in 2001/02 was partly due to the commencement of 14 new pensions to members retiring during the year.

**7. Vested Benefits**

Vested benefits are benefits which are not conditional upon continued membership in the Scheme, or any factor other than resignation from the Scheme. Vested benefits include benefits which members are entitled to receive had they terminated their membership as at the reporting date. The value of vested benefits is greater than the liability for accrued benefits, as vested benefits are based on the involuntary expiration of service, and this would result in an entitlement to benefits occurring immediately.

| | 2002 | 2001 |
|---|---|---|
| | $'000 | $'000 |
| Vested benefits | **129 000** | 120 000 |

**8. Guaranteed Benefits**

The entitlements of members are specified by the *Parliamentary Superannuation Act 1974*.

**9. Reconciliation of Net Cash used in Operating Activities to Operating Result**

| | 2002 | 2001 |
|---|---|---|
| Operating result | **(21 084)** | (1 911) |
| Benefits expense | **19 047** | 8 484 |
| Benefits paid | **(9 047)** | (4 484) |
| Decrease in benefits payable | **(156)** | - |
| Decrease in sundry debtors | **3** | 302 |
| Decrease (Increase) in contributions receivable | **36** | (101) |
| Decrease in sundry creditors | **(1)** | (36) |
| Increase in Tax Payable | **11** | - |
| Investment earnings | **5 371** | (3 299) |
| **Net Cash used in Operating Activities** | **(5 820)** | (1 045) |

**10. Sundry Debtors**

| | 2002 | 2001 |
|---|---|---|
| Other debtors | **8** | - |
| Funds SA accruals | **12** | 2 |
| GST refundable | **1** | 12 |
| | **21** | 14 |

**11. Sundry Creditors and Provisions**

| | 2002 | 2001 |
|---|---|---|
| Funds SA accrual | **90** | 101 |
| GST payable | **14** | 14 |
| Transfer to Southern State Superannuation Scheme | **-** | 1 |
| | **104** | 116 |

**12. Actuarial Fees**

Actuarial fees for the 2001-02 financial year have been deducted from the Scheme. These fees relate to Superannuation Policy and Actuarial advice received.

**13. Audit Fees**

Audit fees charged by the Auditor-General for the 2001-2002 financial year have been deducted from the Scheme.

**14. GST Expense**

The GST expense represents the GST paid by the Scheme on administration fees, actuarial fees, and audit fees, less reduced input tax credits.

**15. Additional Financial Instrument Disclosures**

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

# POLICE SUPERANNUATION SCHEME

## FUNCTIONAL RESPONSIBILITY

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

During 2000-01 the *Police Superannuation (Miscellaneous) Amendment Act 2001* was passed by Parliament. Under this Act the benefits of the Police Occupational Superannuation Scheme (POSS) were merged into the Police Superannuation Scheme. The legislative changes came into operation on 1 July 2001.

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

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

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

  Under the Act, the investment management responsibility for the Fund is vested with the Superannuation Funds Management Corporation of South Australia (Funds SA).

- The Police Superannuation Scheme Employer Contribution Account (Police Employer Contribution Account) was established in 1994-95 to record employer contributions on behalf of the police officers and cadets.

  Pursuant to the *Police Superannuation (Miscellaneous) Amendment Act 2001,* the net assets of the former Police Occupational Superannuation Scheme Contribution Account (POSS Employer Contribution Account) were combined with the Police Superannuation Scheme Employer Contribution Account for the year ended 30 June 2002.

  The employer share of the benefits paid and administration costs is met from the Police Employer Contribution Account. Monies deposited into the account are invested and managed by Funds SA but do not form part of the Fund.

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

## SIGNIFICANT FEATURES

- Net assets available to pay benefits decreased by $33.3 million to $412.8 million.

- Investment revenue totalled negative $23.6 million compared to a positive $14.4 million in the previous year.

- Benefits paid totalled $37.8 million compared to $41.8 million in the previous year.

## AUDIT MANDATE AND COVERAGE

### Audit Authority

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

### Scope of Audit

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

During 2001-02, the aspects of financial operations that were the subject of audit attention included:

- contributions from members and employers
- pension and lump sum payments
- administrative expenses
- deposit account reconciliations.

### Audit Communications to Management

Issues arising from the audit of the scheme will be the subject of a letter to be forwarded to the Presiding Member, Police Superannuation Board in November 2002. Further comments relating to these issues are contained in 'Audit Findings and Comments' hereunder.

## AUDIT FINDINGS AND COMMENTS

### Commentary on General Financial Controls

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

## CONTROLS OPINION

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

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

## INTERPRETATION AND ANALYSIS OF FINANCIAL STATEMENTS

### Statement of Changes in Net Assets

The net assets available to pay benefits (net assets) decreased by $33.3 million to $412.8 million. Reflected in this result was:

- net investment revenue of negative $23.6 million ($14.4 million) derived by Funds SA from the Scheme's financial assets;

- benefits paid by the Scheme in the form of pension and lump sum payments of $37.8 million, a decrease of $4 million from the previous year.

### Funding of Liabilities

The net assets of the Scheme comprise Fund net assets of $233 million and the Police Employer Contribution Account with $179.8 million.

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

## FURTHER COMMENTARY ON OPERATIONS

### Contributors and Pensioners

As at 30 June 2002, the Scheme had 2939 (3045) members of which 2783 (2897) were contributing to the Fund. The number of ex-police officers, spouses and children in receipt of pensions at 30 June 2002 was 1098 (1076).

### Financial Statements for the year ended 30 June 2002

The Police Superannuation Board, established under the *Police Superannuation Act 1990*, is responsible for all aspects of the administration of the Police Superannuation Scheme, under the Act, except the management and investment of the Police Superannuation Fund (Member Contributions) and the Police Superannuation Scheme Employer Contribution Account (Employer Contributions) (Police Employer Account). The investment management responsibility for the Police Superannuation Fund and the Police Employer Account is vested with the Superannuation Funds Management Corporation of South Australia (Funds SA) under the *Police Superannuation Act 1990*.

The *Police Superannuation (Miscellaneous) Amendment Act 2001* was passed by Parliament during 2000-01. Under this Act, the benefits and the administration of the previously separate Police Occupational Superannuation Scheme (POSS), were merged into the Police Superannuation Scheme. The legislative changes came into operation on 1 July 2001.

The assets of POSS, previously held in the POSS Employer Account, were merged in to the Police Employer Account on 1 July 2001.

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

## Statement of Net Assets as at 30 June 2002

| | Note<br>13 | $'000 | 2002<br>$'000 | $'000 | 2001<br>$'000 |
|---|---|---|---|---|---|
| **INVESTMENTS:** | 2 | | | | |
| Inflation linked securities | | **55 582** | | | 58 906 |
| Property | | **43 173** | | | 41 605 |
| Australian equities | | **143 540** | | | 162 770 |
| International equities | | **135 681** | | | 155 999 |
| Australian fixed interest | | **9 385** | | | 11 248 |
| International fixed interest | | **9 679** | | | 11 163 |
| Cash | | **15 590** | | | 2 405 |
| Adelaide Plaza | | **-** | | | 4 891 |
| **Total Investments** | | | **412 630** | | 448 987 |
| **OTHER ASSETS:** | 2 | | | | |
| Cash and deposits at Treasury | | **3 396** | | | 2 107 |
| GST receivable | | **7** | | | 19 |
| Income due and accrued | | **20** | | | 45 |
| Prepaid expenses | | **-** | | | 6 |
| Sundry debtors | | **49** | | | 254 |
| Fixed assets | | **8** | | | 8 |
| **Total Other Assets** | | | **3 480** | | 2 439 |
| **Total Assets** | | | | **416 110** | 451 426 |
| **CURRENT LIABILITIES:** | 2 | | | | |
| Rent paid in advance | | **177** | | | 130 |
| Provisions | | **34** | | | 8 |
| Sundry creditors | | **413** | | | 2 098 |
| | | | **624** | | 2 236 |
| **NON-CURRENT LIABILITIES** | 2 | | **2 668** | | 3 076 |
| **Total Liabilities** | | | | **3 292** | 5 312 |
| **NET ASSETS AVAILABLE TO PAY BENEFITS** | | | | **412 818** | 446 114 |

## Statement of Changes in Net Assets for the year ended 30 June 2002

| | Note<br>14 | $'000 | 2002<br>$'000 | $'000 | 2001<br>$'000 |
|---|---|---|---|---|---|
| **NET ASSETS AVAILABLE TO PAY BENEFITS AT 1 JULY** | | | | **446 114** | 442 493 |
| **INVESTMENT REVENUE** | 2 | | **(23 637)** | | 14 447 |
| **OTHER INCOME** | | | **102** | | 145 |
| **ADMINISTRATION EXPENSE** | 9 | | **(348)** | | (365) |
| **GST EXPENSE** | 10 | | **(8)** | | (9) |
| **CONTRIBUTIONS:** | | | | | |
| Contributions by employer | | **22 746** | | | 25 760 |
| Contributions by members | | **7 073** | | | 7 161 |
| Voluntary contributions by members | | **89** | | | - |
| | | | **29 908** | | 32 921 |
| **BENEFITS PAID:** | | | | | |
| Pensions | 15 | **(23 160)** | | | (21 187) |
| Lump sums | 15 | **(14 652)** | | | (20 579) |
| | | | **(37 812)** | | (41 766) |
| **REFUNDS TO MEMBERS:** | | | | | |
| Contributions | 15 | **(769)** | | | (921) |
| Interest | 15 | **(732)** | | | (831) |
| | | | **(1 501)** | | (1 752) |
| **NET INCREASE IN FUNDS** | | | | **(33 296)** | 3 621 |
| **NET ASSETS AVAILABLE TO PAY BENEFITS AT 30 JUNE** | | | | **412 818** | 446 114 |

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

**1. Format of Accounts**

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

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

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

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

**1. Format of Accounts (continued)**

The Scheme provides defined benefits for members of the Pension and Lump Sum Divisions. All benefit payments were met from the Consolidated Account which was then reimbursed in accordance with the prescribed employer and employee shares. The employer and employee shares of all benefits are determined by the Board, in accordance with the *Police Superannuation Act 1990*, taking into account the most recent Actuarial Report.

The *Police Superannuation (Miscellaneous) Amendment Act 2001* was passed by Parliament during 2000-01. Under this Act, the benefits and the administration of the previously separate Police Occupational Superannuation Scheme (POSS), were merged into the Police Superannuation Scheme. The legislative changes came into operation on 1 July 2001.

Employer Contributions on behalf of members of the Scheme are deposited into the ‘Police Superannuation Scheme Employer Contribution Account’ (Police Employer Account). Employer contributions are based on a percentage of salary at rates based on actuarial valuations. As from 1 July 2001 the rates for the Pension and Lump Sum Schemes were 15.5 percent and 11 percent respectively. The employer share of benefits paid from the Scheme is met from the Police Employer Account. The employee share of benefits of the Scheme is met from the Fund.

For the year ended 30 June 2002 $22.7 million ($25.8 million) was deposited into the Police Employer Account in relation to employer contributions on behalf of members.

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

Since 30 June 1994 the Government has commenced a process of funding its accrued past service superannuation liabilities. For the year ended 30 June 2002 the Government did not transfer any additional funding (Nil in 2000-01) to the Police Employer Account to meet liabilities in respect of the Scheme. The Government will continue to pay contributions to the Police Employer Account to meet the accrued past service liability so that liability will be fully funded by 30 June 2034.

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

**2. Summary of Significant Accounting Policies**

***(a) Basis of Accounting***

The financial statements are general purpose statements and have been prepared on an accrual basis in accordance with Australian Accounting Stands, Urgent Issues Group Consensus Views, Treasurer’s Instruction 19 ‘Financial Reporting’ and Department of Treasury and Finance Accounting Policy Statements issued pursuant to the *Public Finance and Audit Act 1987*.

The financial statements are prepared in accordance with the Australian Accounting Standard AAS 25 ‘Financial Reporting by Superannuation Plans’. The members of the Board believe that this policy best discloses the financial status of funds under management and provides consistency with the Scheme’s financial statements. Consequently, assets and liabilities are recorded at net market values as at the balance date, and realised and unrealised gains or losses are brought to account through the Statement of Changes in Net Assets.

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

***(b) Basis of Valuations of Assets and Liabilities***

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

*(i) Inflation Linked Securities*

The Inflation Linked Securities portfolio comprises two subsectors:

- *Internally Managed*

  These investments, the returns of which are linked to movements in either the Consumer Price Index (CPI) or Average Weekly Earnings (AWE), have been valued using the discounted cash flow method. The valuation as at 30 June 2002 was performed by an independent valuer, Macquarie Bank Limited.

- *Externally Managed*

  The externally managed portfolio is invested and managed by an external manager. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

*(ii) Property*

The Property portfolio comprises three subsectors:

- *Directly Held Properties*

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

  In addition, a secured short-term load provided to a third party has been valued on the basis of principal outstanding at the balance date.

- *Externally Managed Listed Property Trusts*

  The externally managed listed property trust portfolio is invested and managed by two managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at the balance date.

*(ii)* *Property (continued)*

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

*(iii)* *Australian Equities*

The Australian Equities portfolio comprises two subsectors:

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

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

*(iv)* *International Equities*

The International Equities portfolio comprises two subsectors:

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

- *Private Equity*
  The international private equity portfolio comprises holdings in a number of externally managed specialist funds. These funds have been valued by the managers in accordance with National Venture Capital Association (NVCA) guidelines.

*(v)* *Adelaide Plaza*

The Adelaide Plaza Fund comprised Funds SA's investment in the Funds SA Subsidiary Holding Corporation, a former wholly owned subsidiary of Funds SA (refer Note 11). Both the Funds SA Subsidiary Holding Corporation and the Adelaide Plaza Fund were dissolved during the financial year. Funds SA's investment in the Adelaide Plaza Fund as at 30 June 2001 was valued by the Directors having regard to the 30 June 2001 consolidated management accounts of the Funds SA Subsidiary Holding Corporation.

*(vi)* *Australian Fixed Interest*

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

*(vii)* *International Fixed Interest*

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

*(viii)* *Cash*

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

*(ix)* *Fixed Assets*

Fixed assets are shown at cost less accumulated depreciation. Depreciation is calculated over the estimated useful lives of the assets, using straight line or diminishing value methods. The Directors are of the opinion that this provides a reasonable estimate of market value.

*(x)* *Other Assets and Liabilities*

These items have been assessed and the Directors are of the opinion that for most items, book values provide a reasonable estimate of their market values. Where material items are not likely to be realised within a short period following the balance date, the book values of these items have been discounted back to the balance date using relevant market interest rates applying on balance date.

***(c)*** ***Other Disclosures***

The investment of the Police Superannuation Scheme is subject to the management and control of the Superannuation Funds Management corporation of South Australia (Funds SA).

Specific disclosure requirements of Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans' and Australian Accounting Standard AAS 33, 'Presentation and Disclosure of Financial Instruments' are fully set out in the notes to the financial statements of Funds SA and have not been repeated in this financial report.

**3. Liability for Accrued Benefits**

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

The *Police Superannuation (Miscellaneous) Amendment Act 2001* has enhanced the benefits of the Police Superannuation Scheme to include the benefits that were payable under the Police Occupational Scheme (POSS) effective from 1 July 2001. The liabilities in this Note take into account these amendments.

The accrued liabilities are the present values of expected future benefit payments arising from membership of the Schemes up to 30 June 2001.

The expected future benefit payments have been determined using the 30 June 1999 actuarial Scheme review assumptions relating to mortality, disability, withdrawal, preservation, and retirement. The review salary promotion scale has also been used, while general salary increases of 1.5 percent per annum above the level of increase in the Consumer Price Index (CPI) have been allowed for. In accordance with Australian Accounting Standard AAS 25 'Financial Reporting by Superannuation Plans', the expected future benefit payments have then been discounted to present values by a discount rate of 5 percent per annum above CPI.

| ***Accrued Liabilities 30 June 2001*** | Pension Scheme Division $'million | Lump Sum Scheme Division $'million | Total $'million |
|---|---|---|---|
| Police Superannuation Fund | 173.1 | 5.9 | 179.0 |
| Police Employer Account | 632.0 | 16.9 | 648.9 |
| **Total** | 805.1 | 22.8 | 827.9 |

The Scheme's accrued liabilities as at 30 June 2002 have been calculated using the data as at 30 June 2001 and the same assumptions as above.

| ***Accrued Liabilities 30 June 2002*** | **Pension Scheme Division $'million** | **Lump Sum Scheme Division $'million** | **Total $'million** |
|---|---|---|---|
| Police Superannuation Fund | **181.9** | **7.1** | **189.0** |
| Police Employer Account | **662.9** | **19.8** | **682.7** |
| **Total** | **844.8** | **26.9** | **871.7** |

Pursuant to the *Police Superannuation Act 1990* actuarial reviews of the Police Superannuation Scheme must be conducted three yearly to address, inter alia, the ability of the Fund to meet its current and future liabilities. The review as at 30 June 1999 was carried out by Mr P Crump, FIAA of Buck Consultants. His report, dated 14 June 2000, to the Minister was tabled in Parliament on 4 July 2000. These reviews take account of assets held, future contributions to be received from members and future benefits to be paid by the Fund. In contrast, the purpose of the accrued liability calculations, which are made annually, is to estimate the value of future payments that can be attributed to service up to the date of the calculation.

**4. Vested Benefits**

Vested benefits are benefits which are not conditional upon continued membership of the Police Superannuation Scheme and include benefits which members would be entitled to receive on termination of membership of the Schemes.

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

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

As for accrued benefits, vested benefits have been calculated as at 30 June 2001 and as at 30 June 2002.

| ***Vested Benefits 30 June 2001*** | Pension Scheme Division $'million | Lump Sum Scheme Division $'million | Total $'million |
|---|---|---|---|
| Police Superannuation Fund | 153.0 | 4.1 | 157.1 |
| Police Employer Account | 540.7 | 9.9 | 550.6 |
| **Total** | 693.7 | 14.0 | 707.7 |

| ***Vested Benefits 30 June 2002*** | **Pension Scheme Division $'million** | **Lump Sum Scheme Division $'million** | **Total $'million** |
|---|---|---|---|
| Police Superannuation Fund | **160.8** | **4.9** | **165.7** |
| Police Employer Account | **567.1** | **11.6** | **578.7** |
| **Total** | **727.9** | **16.5** | **744.4** |

**5. Benefits which Accrued Between 30 June 2000 and 30 June 2001**

Benefits accrued during the financial year 2000-01 are measured as the sum of the net changes in the accrued liabilities over the year and the amount of benefits paid to beneficiaries during the year.

| ***Benefits Accrued 2000-01*** | Pension Scheme Division $'million | Lump Sum Scheme Division $'million | Total $'million |
|---|---|---|---|
| Police Superannuation Fund | 12.0 | 0.7 | 12.7 |
| Police Employer Account | 61.6 | 3.5 | 65.1 |
| **Total** | 73.6 | 4.2 | 77.8 |

**6. Guaranteed Benefits**

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

**7. Purchase of Additional Benefits**

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

**8. Taxation**

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

**9. Administration**

The Scheme's administration costs comprise of:

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

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

Administration costs incurred by the Board are financed in the first instance by the Police Superannuation Scheme (the Scheme) from the 'Police Superannuation Scheme Employer Contribution Account' through a Special Deposit Account. Under the provisions of the Act, the Fund is required to meet a prescribed proportion, currently 30 percent, of the administration costs incurred by the Scheme. Administration costs incurred by the Scheme for 2001-02 amounted to $348 000 ($365 000) of which the Fund is required to reimburse $104 000 ($109 000) to the Scheme through the Police Employer Contribution Account.

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

**10. Net GST Paid**

As a result of the introduction of the GST on 1 July 2000, an additional line has been inserted into the Statement of Changes in Net Assets. This figure represents the GST paid on administration costs less any credits received from the Australian Taxation Office (ATO) as the Scheme is entitled to a 75 percent refund on all GST paid. A refund is due from the ATO for the June 2002 quarter. The credit of $7 000 has been disclosed as a debtor in the financial statements.

**11. Members' Remuneration**

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

Total remuneration received or due and receivable by the members of the Board in 2001-02 was $8 000 ($8 000).

| The number of Board members whose remuneration was within the following bands are as follows: | **2002 Number of Members** | 2001 Number of Members |
|---|---|---|
| $Nil | **3** | 3 |
| $1 - $10 000 | **2** | 2 |

**12. Remuneration of Auditors**

Amounts received or due and receivable by the Auditors for auditing the Accounts of the Board in 2001-02 total $19 000 ($18 000).

**13. Assets**

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

| | **2002** | | | | 2001 | | | |
|---|---|---|---|---|---|---|---|---|
| **INVESTMENTS:** | **Old Scheme Division $'000** | **New Scheme Division $'000** | **Police(1) Employer Account $'000** | **POSS(1) Employer Account $'000** | Old Scheme Division $'000 | New Scheme Division $'000 | Police(1) Employer Account $'000 | POSS(1) Employer Account $'000 |
| Inflation linked securities | **30 161** | **1 370** | **24 051** | **-** | 31 961 | 1 326 | 21 065 | 4 554 |
| Property | **23 427** | **1 064** | **18 682** | **-** | 22 573 | 937 | 14 878 | 3 217 |
| Australian equities | **77 890** | **3 538** | **62 112** | **-** | 88 315 | 3 663 | 58 206 | 12 586 |
| International equities | **73 626** | **3 344** | **58 711** | **-** | 84 641 | 3 511 | 55 785 | 12 062 |
| Australian fixed interest | **5 093** | **231** | **4 061** | **-** | 6 103 | 253 | 4 022 | 870 |
| International fixed interest | **5 252** | **239** | **4 188** | **-** | 6 057 | 251 | 3 992 | 863 |
| Cash | **8 460** | **384** | **6 746** | **-** | 1 305 | 54 | 860 | 186 |
| Adelaide Plaza | **-** | **-** | **-** | **-** | - | - | 4 021 | 870 |
| **Total Investments** | **223 909** | **10 170** | **178 551** | **-** | 240 955 | 9 995 | 162 829 | 35 208 |

**13. Assets (continued)**

| **OTHER ASSETS:** | **2002 Old Scheme Division $'000** | **2002 New Scheme Division $'000** | **2002 Police[(1)] Employer Account $'000** | **2002 POSS[(1)] Employer Account $'000** | 2001 Old Scheme Division $'000 | 2001 New Scheme Division $'000 | 2001 Police[(1)] Employer Account $'000 | 2001 POSS[(1)] Employer Account $'000 |
|---|---|---|---|---|---|---|---|---|
| Cash and deposits at Treasury | **611** | **142** | **2 643** | **-** | 801 | 105 | 986 | 215 |
| GST receivable | **2** | **-** | **5** | **-** | (2) | - | 18 | 3 |
| Income due and accrued | **11** | **1** | **8** | **-** | 25 | 1 | 16 | 3 |
| Prepaid expenses | **-** | **-** | **-** | **-** | 3 | - | 2 | 1 |
| Sundry debtors | **27** | **1** | **21** | **-** | 13 | 1 | 239 | 1 |
| Fixed assets | **4** | **-** | **4** | **-** | 4 | - | 3 | 1 |
| **Total Other Assets** | **655** | **144** | **2 681** | **-** | 844 | 107 | 1 264 | 224 |
| **Total Assets** | **224 564** | **10 314** | **181 232** | **-** | 241 799 | 10 102 | 164 093 | 35 432 |
| *Less:* **CURRENT LIABILITIES:** | | | | | | | | |
| Rent paid in advance | **96** | **4** | **77** | **-** | 71 | 3 | 46 | 10 |
| Provisions | **18** | **1** | **15** | **-** | 4 | - | 3 | 1 |
| Sundry creditors | **209** | **10** | **194** | **-** | 430 | 35 | 1 601 | 32 |
| **NON-CURRENT LIABILITIES: [(2)]** | **1 448** | **66** | **1 154** | **-** | 1 669 | 69 | 1 100 | 238 |
| **Total Liabilities** | **1 771** | **81** | **1 440** | **-** | 2 174 | 107 | 2 750 | 281 |
| **NET ASSETS AVAILABLE TO PAY BENEFITS** | **222 793** | **10 233** | **179 792** | **-** | 239 625 | 9 995 | 161 343 | 35 151 |

(1) Police Employer Account and POSS Employer Account

*Change in Legislation for the 2001-02 Financial Year*

The *Police Superannuation (Miscellaneous) Amendment Act 2001* was passed by Parliament during 2000-01. Under this Act the benefits of the Police Occupational Scheme were merged into the Police Superannuation Scheme. The legislative changes came into operation on 1 July 2001 and for the 2001-02 financial year the net assets of the Police Employer Account and POSS Employer Account are combined.

(2) Non-Current Liabilities

*Bank Bill Facility*

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

**14. Changes in Net Assets**

Transactions within each Scheme are summarised below:

| | **2002 Old Scheme Division $'000** | **2002 New Scheme Division $'000** | **2002 Police Employer Account $'000** | **2002 POSS Employer Account $'000** | 2001 Old Scheme Division $'000 | 2001 New Scheme Division $'000 | 2001 Police Employer Account $'000 | 2001 POSS Employer Account $'000 |
|---|---|---|---|---|---|---|---|---|
| **NET ASSETS AVAILABLE TO PAY BENEFITS AT 1 JULY** | **239 625** | **9 995** | **196 494** | **-** | 236 582 | 8 882 | 164 629 | 32 400 |
| **INVESTMENT REVENUE** | **(12 554)** | **(545)** | **(10 538)** | **-** | 7 479 | 304 | 5 487 | 1 177 |
| **OTHER INCOME** | **40** | **5** | **57** | **-** | 43 | 7 | 95 | - |
| **ADMINISTRATION EXPENSE** | **(93)** | **(11)** | **(244)** | **-** | (97) | (12) | (256) | - |
| **GST EXPENSE** | **(2)** | **-** | **(6)** | **-** | (2) | (1) | (6) | - |
| **CONTRIBUTIONS:** | | | | | | | | |
| Contributions by employer | **-** | **-** | **22 746** | **-** | - | - | 22 539 | 3 221 |
| Contributions by members | **6 089** | **984** | **-** | **-** | 6 193 | 968 | - | - |
| Voluntary member | **81** | **8** | **-** | **-** | - | - | - | - |
| | **6 170** | **992** | **22 746** | **-** | 6 193 | 968 | 22 539 | 3 221 |
| **BENEFITS PAID:** | | | | | | | | |
| Pensions | **(5 668)** | **(3)** | **(17 489)** | **-** | (4 785) | (4) | (16 398) | - |
| Lump sums | **(3 323)** | **(101)** | **(11 228)** | **-** | (4 185) | (-) | (14 747) | (1 647) |
| | **(8 991)** | **(104)** | **(28 717)** | **-** | (8 970) | (4) | (31 145) | (1 647) |
| **REFUNDS TO MEMBERS:** | | | | | | | | |
| Contributions | **(705)** | **(64)** | **-** | **-** | (824) | (97) | - | - |
| Interest | **(697)** | **(35)** | **-** | **-** | (779) | (52) | - | - |
| | **(1 402)** | **(99)** | **-** | **-** | (1 603) | (149) | - | - |
| **NET INCREASE IN FUNDS** | **(16 832)** | **238** | **(16 702)** | **-** | 3 043 | 1 113 | (3 286) | 2 751 |
| **NET ASSETS AVAILABLE TO PAY BENEFITS AT 30 JUNE** | **222 793** | **10 233** | **179 792** | **-** | 239 625 | 9 995 | 161 343 | 35 151 |

**15. Benefit Payments**

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

| | 2002 | | | | 2001 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Old Scheme Division $'000** | **New Scheme Division $'000** | **POSS Scheme $'000** | **Total $'000** | Old Scheme Division $'000 | New Scheme Division $'000 | POSS Scheme $'000 | Total $'000 |
| **PENSIONS:** | | | | | | | | |
| Gross scheme costs | **23 152** | **8** | **-** | **23 160** | 21 173 | 14 | - | 21 187 |
| Funded from: | | | | | | | | |
| Police Superannuation Fund | **5 668** | **3** | **-** | **5 671** | 4 785 | 4 | - | 4 789 |
| Police Superannuation Scheme Contribution Account | **17 484** | **5** | **-** | **17 489** | 16 388 | 10 | - | 16 398 |
| | **23 152** | **8** | **-** | **23 160** | 21 173 | 14 | - | 21 187 |
| **LUMP SUMS:** | | | | | | | | |
| Gross scheme costs | **14 272** | **380** | **-** | **14 652** | 18 871 | 61 | 1 647 | 20 579 |
| Funded from: | | | | | | | | |
| Police Superannuation Fund | **3 323** | **101** | **-** | **3 424** | 4 185 | - | - | 4 185 |
| Police Superannuation Scheme Contribution Account | **10 949** | **279** | **-** | **11 228** | 14 686 | 61 | - | 14 747 |
| POSS Scheme Contribution Account | **-** | **-** | **-** | **-** | - | - | 1 647 | 1 647 |
| | **14 272** | **380** | **-** | **14 652** | 18 871 | 61 | 1 647 | 20 579 |
| **RESIGNATION BENEFITS:** | | | | | | | | |
| Gross scheme costs: | | | | | | | | |
| Contributions | **705** | **64** | **-** | **769** | 824 | 97 | - | 921 |
| Interest | **697** | **35** | **-** | **732** | 779 | 52 | - | 831 |
| | **1 402** | **99** | **-** | **1 501** | 1 603 | 149 | - | 1 752 |
| Funded from: | | | | | | | | |
| Police Superannuation Fund | **1 402** | **99** | **-** | **1 501** | 1 603 | 149 | - | 1 752 |