

State Government  
Insurance Corporation

Annual Report 2002 - 2003

**STATE GOVERNMENT INSURANCE CORPORATION**  
**2003 ANNUAL REPORT**

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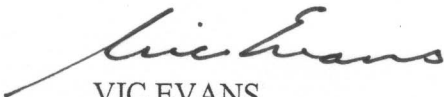
**CONTACT DETAILS**

State Government Insurance Corporation  
Level 13, The Forrest Centre, 221 St George's Terrace, PERTH WA 6000  
Postal Address: GPO Box U1908, PERTH WA 6845  
Telephone: (08) 9264 3333, Facsimile: (08) 9264 3690

**TO THE MINISTER****Statement of Compliance****TO THE HON NICK GRIFFITHS LLB MLC  
MINISTER FOR GOVERNMENT ENTERPRISES**

In accordance with Section 66 of the *Financial Administration and Audit Act 1985*, we hereby submit to the Minister for Government Enterprises, for information and presentation to Parliament, the Annual Report of the State Government Insurance Corporation for the financial year ended 30 June 2003.

The Annual Report has been prepared in accordance with the provisions of the *Financial Administration and Audit Act 1985* and any other relevant written law.



VIC EVANS  
CHAIRMAN  
27 August 2003



MICHAEL E WRIGHT  
DEPUTY CHAIRMAN  
27 August 2003

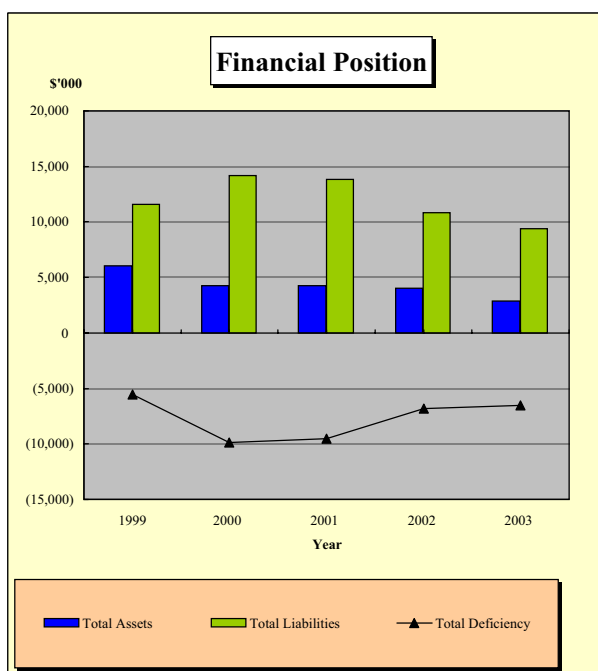
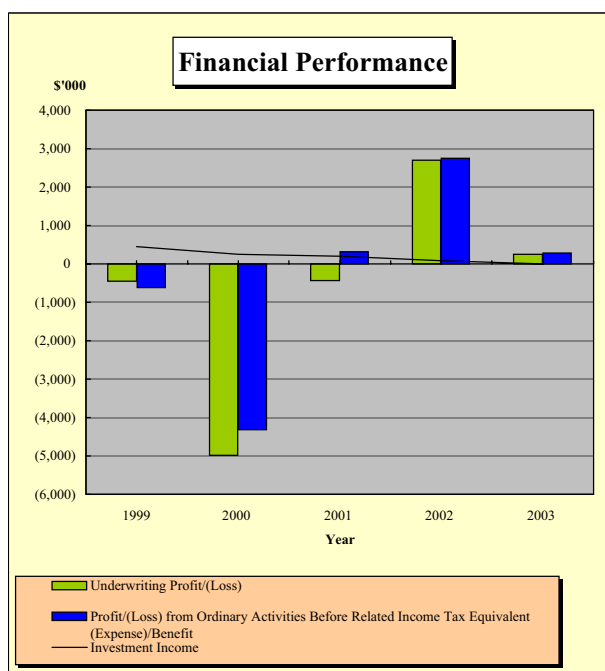
In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation, passed on 27 August 2003.

## Financial History - Corporation

	2003 \$'000	2002 \$'000	2001 \$'000	2000 \$'000	1999 \$'000
<b>STATEMENT OF FINANCIAL PERFORMANCE</b>					
Net Earned Premium	307	151	(184)	(21)	103
Claims Incurred	127	2,684	(101)	(4,710)	(348)
Reinsurance and Other Recoveries Revenue	5	42	20	2	51
<b>Net Claims Credit/(Incurred)</b>	<b>132</b>	<b>2,726</b>	<b>(81)</b>	<b>(4,708)</b>	<b>(297)</b>
Underwriting and Administration Expenses	(185)	(183)	(169)	(254)	(255)
<b>Underwriting Profit/(Loss)</b>	<b>254</b>	<b>2,694</b>	<b>(434)</b>	<b>(4,983)</b>	<b>(449)</b>
Investment Income	-	81	201	243	442
Other Income	37	(29)	549	429	(609)
<b>Profit/(Loss) from Ordinary Activities Before Related Income Tax Equivalent (Expense)/Benefit</b>	<b>291</b>	<b>2,746</b>	<b>316</b>	<b>(4,311)</b>	<b>(616)</b>

## STATEMENT OF FINANCIAL POSITION

Other Financial Assets	-	-	3,380	3,168	4,632
Other Assets	2,875	4,043	906	1,116	1,409
<b>Total Assets</b>	<b>2,875</b>	<b>4,043</b>	<b>4,286</b>	<b>4,284</b>	<b>6,041</b>
Outstanding Claims	9,373	10,813	13,663	13,961	11,568
Other Liabilities	13	32	171	187	26
<b>Total Liabilities</b>	<b>9,386</b>	<b>10,845</b>	<b>13,834</b>	<b>14,148</b>	<b>11,594</b>
<b>Net Liabilities</b>	<b>(6,511)</b>	<b>(6,802)</b>	<b>(9,548)</b>	<b>(9,864)</b>	<b>(5,553)</b>
Share Capital	100,000	100,000	100,000	100,000	100,000
Accumulated Losses	(106,511)	(106,802)	(109,548)	(109,864)	(105,553)
<b>Total Deficiency</b>	<b>(6,511)</b>	<b>(6,802)</b>	<b>(9,548)</b>	<b>(9,864)</b>	<b>(5,553)</b>



## CHAIRMAN'S REVIEW

The Corporation underwrote small lines of Australian and overseas business from 1988 to 1992. The Insurance Commission's Reinsurance and Underwriting Section is responsible for the management of the run-off of the business.

It is expected that it will take a number of years for all the claims to be finalised.

A high degree of uncertainty remains in regard to the final outcome of the run-off due to; the small portfolio of business under management; the advanced state of the run-off; and the heavy liability weighting of the portfolio.

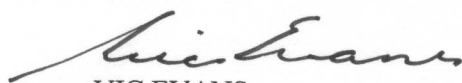
The gross outstanding claims provision reduced during the year ending 30 June 2003, principally as a result of claim payments made; a small reduction in the estimated undiscounted ultimate incurred losses; and appreciation of the Australian dollar relative to 30 June 2002. Other factors, such as the fall in discount rates for the Australian, UK and US government markets and an increase in the allowance for expenses, had a negative impact on the results, reducing the extent of the reduction in the claims provision.

A risk margin providing a 75% level of adequacy is incorporated in the outstanding claims provision. In addition, due to even greater uncertainty of Australian casualty and professional indemnity risks, additional risk margins are retained for these classes.

New Tax Consolidation legislation was enacted on 21 October 2002. As a result, on 26 February 2003, the Board of Directors of the Corporation and the Board of Commissioners of the Insurance Commission resolved that the Corporation would join the Insurance Commission, the Parent entity for tax purposes, in a tax consolidation group. This was effective from 1 July 2002 and resulted in the Corporation's tax losses, at that date totalling \$61.9 million, being consolidated into those of the Insurance Commission.

I am pleased to report that after accounting for the above factors, the Corporation's operating profit (after tax) is \$291,000.

On a personal note, I extend my sincere gratitude and thanks to former Directors Graham Reynolds and Frank Daly. Both their terms on the Board expired on 31 December 2002 after eight years and one year of service respectively. Their contributions during their time on the State Government Insurance Corporation Board are appreciated. I also welcome incoming Directors Denyse Phillips and Sharon Brown.



VIC EVANS  
CHAIRMAN

**STATE GOVERNMENT INSURANCE CORPORATION**

**BOARD OF DIRECTORS**

The Board of Directors of the State Government Insurance Corporation has been appointed in accordance with the *Insurance Commission of Western Australia Act 1986*. The Board as at 30 June 2003 was comprised of:

**VIC EVANS** Dip Bus Mgt, AFAIM  
**Chairman of the Board of Directors**

Managing Director, Insurance Commission of WA  
Expiry of present term: 21 June 2006

**MICHAEL E WRIGHT** FAICD  
**Deputy Chairman**

Chairman, Insurance Commission of WA  
Consultant, Mallesons Stephen Jaques  
Expiry of present term: 30 November 2004

**PETER D EASTWOOD** FCA, FAICD  
**Director**

Deputy Chairman, Insurance Commission of WA  
Consultant, Grant Thornton Chartered Accountants  
Director, Capricorn Mutual Limited  
Director, Capricorn New Zealand Insurance Limited  
Expiry of present term: 30 September 2003

**DENYSE PHILLIPS** LLB  
**Director**

Commissioner, Insurance Commission of WA  
Senior Member, Veterans' Review Board  
Referee, Small Claims Tribunal.  
Expiry of present term: 30 November 2004

**SHARON BROWN** Director

Commissioner, Insurance Commission of WA  
Councillor, National Museum of Australia Council  
Councillor, WA Online Advisory Council  
Councillor, WA Technology and Industry Advisory Council  
Councillor, Defence Reserves Support Council  
Director, Censorship Board  
Deputy Convenor, E-Commerce Committee for Industry and Government  
Director, Federal Industry Research & Development Board  
Expiry of present term: 30 November 2004

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**Directors' Attendance at Meetings 2002/2003**

<b>Board of Directors (Total of 11 Meetings)</b>	
<b>Director</b>	<b>Number of Meetings Attended</b>
Vic Evans	10
Michael E Wright	9
Peter D Eastwood	11
Graham N Reynolds*	4
Frank Daly*	4
Denyse Phillips#	6
Sharon Brown#	6

\*Term expired December 2002

# Appointed January 2003

**DISCLOSURE OF INTEREST IN AN EXISTING OR PROPOSED CONTRACT**

Deputy Chairman, Mr M E Wright, is a consultant to Mallesons Stephen Jaques which, during 2002/2003, received professional fees for legal advice provided to the Insurance Commission of Western Australia.

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**ANNUAL ESTIMATES 2003/2004**

In accordance with Section 42 of the *Financial Administration and Audit Act 1985*, the State Government Insurance Corporation's Annual Estimates for 2003/2004 have been approved by the Minister.

As required by Treasurer's Instruction 953, the approved Annual Estimates are detailed below:

	<u><b>\$'000</b></u>
Premium Revenue	-
	-----
<b>Net Earned Premium</b>	-
Claims Expense	161
Reinsurance and Other Recoveries Revenue	15
	-----
<b>Net Claims Incurred</b>	176
Underwriting and Administration Expenses	(163)
	-----
<b>UNDERWRITING PROFIT</b>	13
Investment Income	218
	-----
<b>PROFIT FROM ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EQUIVALENT EXPENSE</b>	231
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# **CERTIFICATION OF FINANCIAL STATEMENTS BY THE MEMBERS OF THE BOARD AND PRINCIPAL ACCOUNTING OFFICER**

## **State Government Insurance Corporation**

The accompanying financial statements of the State Government Insurance Corporation (the "Corporation") have been prepared on the assumption that the Corporation is a "going concern" and will continue its business operations in the normal manner. This necessarily assumes that the obligations of the Corporation will be discharged as and when they fall due in the normal course of business.

The financial statements have been prepared on this basis (notwithstanding the excess of liabilities over assets) based on confirmation received from the Government of Western Australia that the Corporation is an Agent of the Crown in the right of the State under the *Insurance Commission of Western Australia Act 1986* and that its ultimate financial viability (including its ability to meet its financial obligations as and when they fall due) is subject to that support.

The financial statements of the Corporation have been prepared in compliance with the provisions of the *Financial Administration and Audit Act 1985* from proper accounts and records to present fairly the financial transactions for the year ended 30 June 2003 and the financial position as at 30 June 2003.

At the date of signing we are not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.



**VIC EVANS**  
**CHAIRMAN**  
27 August 2003



**MICHAEL E WRIGHT**  
**DEPUTY CHAIRMAN**  
27 August 2003



**RICHARD A HASELGROVE**  
**PRINCIPAL ACCOUNTING OFFICER**  
27 August 2003

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation passed on 27 August 2003.





## AUDITOR GENERAL

### INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

### STATE GOVERNMENT INSURANCE CORPORATION FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

#### Audit Opinion

In my opinion,

- (i) the controls exercised by the State Government Insurance Corporation provide reasonable assurance that the receipt, expenditure and investment of moneys, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (ii) the financial statements are based on proper accounts and present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions, the financial position of the Corporation at June 30, 2003 and its financial performance and cash flows for the year ended on that date.

#### Scope

##### *The Corporation's Role*

The Board of Directors is responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing the financial statements, and complying with the Financial Administration and Audit Act 1985 (the Act) and other relevant written law.

The financial statements consist of the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and the Notes to the Financial Statements. They have been prepared on a going concern basis notwithstanding that liabilities exceed assets at June 30, 2003. As stated in Note 1(a) to the financial statements, the Corporation has received a letter from the Premier confirming financial support by the State Government of Western Australia to ensure that the Corporation is able to meet its financial obligations as and when they fall due.

##### *Summary of my Role*

As required by the Act, I have independently audited the accounts and financial statements to express an opinion on the controls and financial statements. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the financial statements is error free. The term "reasonable assurance" recognises that an audit does not examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial statements.

D D R PEARSON  
AUDITOR GENERAL  
August 27, 2003

## STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2003

	<u>Notes</u>	2003 \$'000	2002 \$'000
Premium Revenue		307	8
Outwards Reinsurance Expense		-	143
Net Earned Premium		307	151
Claims Incurred		127	2,684
Reinsurance and Other Recoveries Revenue		5	42
Net Claims Incurred	4	132	2,726
Underwriting and Administration Expenses	3	(185)	(183)
<b>UNDERWRITING PROFIT</b>		254	2,694
Investment Income		-	81
Other Income	2	37	(29)
<b>PROFIT FROM ORDINARY ACTIVITIES BEFORE RELATED INCOME TAX EQUIVALENT EXPENSE</b>		291	2,746
Related Income Tax Equivalent Expense Attributable to Ordinary Activities	5	-	-
<b>NET PROFIT ATTRIBUTABLE TO MEMBERS</b>		291	2,746

The Statement of Financial Performance should be read in conjunction with the Notes to and forming part of the financial statements.

# STATEMENT OF FINANCIAL POSITION

at 30 June 2003

	<u>Notes</u>	<b>2003</b> \$'000	<b>2002</b> \$'000
<b>CURRENT ASSETS</b>			
Cash Assets		2,727	3,869
Receivables	6	17	50
Total Current Assets		2,744	3,919
<b>NON-CURRENT ASSETS</b>			
Receivables	6	131	124
<b>TOTAL ASSETS</b>		<b>2,875</b>	<b>4,043</b>
<b>CURRENT LIABILITIES</b>			
Payables	7	13	25
Outstanding Claims	8	1,223	1,510
Other		-	7
Total Current Liabilities		1,236	1,542
<b>NON-CURRENT LIABILITIES</b>			
Outstanding Claims	8	8,150	9,303
<b>TOTAL LIABILITIES</b>		<b>9,386</b>	<b>10,845</b>
<b>NET LIABILITIES</b>		<b>(6,511)</b>	<b>(6,802)</b>
<b>EQUITY</b>			
Share Capital	9	100,000	100,000
Accumulated Losses	10	(106,511)	(106,802)
<b>TOTAL DEFICIENCY</b>		<b>(6,511)</b>	<b>(6,802)</b>

The Statement of Financial Position should be read in conjunction with the Notes to and forming part of the financial statements.

# STATEMENT OF CASH FLOWS

for the year ended 30 June 2003

	<b>Notes</b>	<b>2003 \$'000</b>	<b>2002 \$'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Premium Received		307	-
Reinsurance and Other Recoveries Received		31	69
Interest Received		-	86
Other Receipts		16	22
Internal Interest		114	38
Claims Paid		(1,335)	(157)
Outwards Reinsurance Paid		(12)	(24)
Underwriting and Administration Expenses Paid		(170)	(183)
<b>Net Cash Outflow from Operating Activities</b>	<b>(i)</b>	<b>(1,049)</b>	<b>(149)</b>
<b>NET DECREASE IN CASH HELD</b>		<b>(1,049)</b>	<b>(149)</b>
<b>CASH AT THE BEGINNING OF THE YEAR</b>		<b>3,869</b>	<b>4,151</b>
Effects of Exchange Rate Changes on the Balance of Cash Held in Foreign Currencies		(93)	(133)
<b>CASH AT THE END OF THE YEAR</b>	<b>(ii)</b>	<b>2,727</b>	<b>3,869</b>

The Statement of Cash Flows should be read in conjunction with the notes to and forming part of the financial statements.

(i) and (ii), refer to the following page.

## STATEMENT OF CASH FLOWS

for the year ended 30 June 2003 (continued)

	<u>Notes</u>	2003 \$'000	2002 \$'000
<b>(i) Reconciliation of Operating Profit After Related Income Tax Equivalent Expense to Net Cash Flows from Operating Activities</b>			
<b>Operating Profit After Related Income Tax Equivalent Expense</b>		<b>291</b>	2,746
Foreign Exchange Losses		<b>93</b>	90
<b>Changes in Assets and Liabilities</b>			
Decrease/(Increase) in Reinsurance and Other Recoveries Receivable		<b>26</b>	(1)
Decrease in Investment Debtors		-	5
Decrease in Outstanding Claims		<b>(1,440)</b>	(2,850)
Decrease in Other Liabilities		<b>(19)</b>	(139)
<b>Net Cash Outflow from Operating Activities</b>		<b>(1,049)</b>	(149)
<b>(ii) Reconciliation of Cash</b>			
Cash at the end of the year as shown in the Statement of Cash Flows is reconciled to the related items of the Statement of Financial Position as follows:			
Cash		<b>2,727</b>	3,869
		<b>2,727</b>	3,869

The Corporation has no stand-by credit arrangements or loan facilities. The Corporation's ability to meet its financial obligations as and when they fall due is ultimately supported by the Government of Western Australia. The cash detailed in (ii) above is available to the Corporation without restriction.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

To facilitate a better understanding of the financial statements, presented below are the significant accounting policies adopted by the State Government Insurance Corporation ("Corporation") in the preparation of the financial statements.

### (a) Basis of Accounting

The financial statements constitute a general purpose financial report, which has been prepared in accordance with Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board and UIG Consensus Views as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording. The *Financial Administration and Audit Act 1985* and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board and UIG Consensus Views. The modifications are intended to fulfil the requirements of general application to the public sector, together with the need for greater disclosure and also to satisfy accountability requirements. If any such modification has a material or significant financial effect upon the reported results, details of that modification and, where practicable, the resulting financial effect, are disclosed in individual notes to these financial statements. No such modifications were required to be reported either this year or last year.

The financial statements have been prepared on the accrual basis of accounting using the historical cost convention, except for certain assets and liabilities which, as noted, are measured at valuation.

The accounting policies used are consistent with those adopted in the previous year.

The financial statements have been prepared on the assumption that the Corporation is a "going concern", will continue its business operations in the normal manner and that it will be able to meet its liabilities as and when they fall due. The financial statements have been prepared on this basis notwithstanding the excess of liabilities over assets.

The Corporation is an Agent of the Crown in the right of the State under Section 4(a) of the *Insurance Commission of Western Australia Act 1986*. A letter has been received from the Premier confirming that the State Government fully supports the financial viability of the Corporation and will continue to support the Corporation and its Board as a going concern. The State Government has also confirmed that it is committed to ensuring the Corporation can meet its financial obligations as and when they fall due.



**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Principal Activities**

The Corporation ceased writing Inwards Reinsurance in August 1992. During the financial year the Corporation's only activity has been the further "run-off" of this operation.

**(c) Income Tax Effect Accounting**

Pursuant to the *State Enterprises (Commonwealth Tax Equivalents) Act 1996* the Corporation operates within the National Tax Equivalent Regime ("NTER"), and is liable to pay to the State Treasurer a tax equivalent sum in respect of each financial year.

The purpose of the NTER is to achieve competitive neutrality between government and privately owned trading enterprises by ensuring they bear similar taxed-based imposts.

On 26 February 2003 the Board of Directors of the Corporation and the Board of Commissioners of the Insurance Commission of Western Australia (the Commission) resolved that the Corporation would join the Commission (the tax consolidation parent entity) in a tax consolidation group with effect from 1 July 2002. As a result, all income tax expenses, revenues, assets and liabilities of the members of the tax consolidation group are recognised in the financial statements of the Commission.

The tax equivalent sum, payable by the Corporation in respect of each financial year, is equal to the amount of any income tax for which the Corporation would have been liable in respect of the financial year if it were not exempt from that tax under the relevant Commonwealth Act.

The calculation of the liability in respect of the tax equivalent is governed by the NTER guidelines and directions approved by Government.

As the NTER obligations are equivalent to those of a public company, compliance with Australian Accounting Standard AAS 3 "Accounting for Income Tax (Tax Effect Accounting)" is required.

Timing differences which arise due to income and expense items being recognised in different periods for accounting and taxation purposes, are brought to account as either a provision for deferred income tax (liability) or as a future income tax benefit (asset) at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(d) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised.

- **Premium Revenue**

Premium revenue comprises amounts charged to other insurers. Stamp duty and other amounts collected on behalf of third parties are excluded. Premiums on unclosed business are brought to account as revenue, based upon an actuarial assessment. As the periods of cover provided by all underwritten contracts have now expired, all premium is earned, whether on closed or unclosed business.

- **Reinsurance and Other Recoveries**

Reinsurance and other recoveries on paid claims, claims reported but not paid, claims incurred but not reported and claims incurred but not enough reported are recognised as revenue. Recoveries receivable for long-tail classes of insurance are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims. The details of discount and inflation rates used are set out in Note 8.

- **Interest Income**

Income from interest is recognised as it accrues.

- **Foreign Exchange Revenue**

Refer Note 1(f) - "Foreign Currencies".

**(e) Outwards Reinsurance**

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received.

**(f) Foreign Currencies**

- Transactions in foreign currencies are converted to Australian currency at the rates of exchange ruling at the dates of the transactions.
- Assets and liabilities of the Corporation denominated in foreign currencies at balance date are converted to Australian currency using rates of exchange ruling at that date. Resulting exchange differences are

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

recorded as exchange gains or losses in the Statement of Financial Performance in that financial year.

**(g) Outstanding Claims**

The liability for outstanding claims at balance date comprises:

- claims that have been reported but not paid,
- claims incurred but not reported (“IBNR”),
- claims incurred but not enough reported (“IBNER”),

together with the anticipated direct and indirect claims’ settlement costs.

The liability for outstanding claims is the present value of expected future claim payments (including claims management expenses), which is affected by factors arising during the period to settlement such as normal (eg. wage) inflation and “superimposed” inflation. Superimposed inflation refers to factors like trends in court awards and changes in legislation, for example increases in the level and period of compensation for injury. The expected future claims payments are then discounted to a present value at balance date using market-determined risk adjusted rates of return.

The details of discount and inflation rates used are set out in Note 8.

The liability for outstanding claims is estimated following an independent actuarial assessment. Inwards Reinsurance is a long-tail class of insurance. Long-tail claims are typically not settled within one year of the occurrence of the events giving rise to those claims. Protracted legal proceedings may be involved to resolve the issues of negligence or liability and/or to establish the amount of claims settlement.

In determining the liability for outstanding claims the Board has added a prudential margin to the central estimate of the discounted future claims payments. The prudential margin provides for a higher degree of certainty that the estimated liability will be adequate to cover possible adverse developments. The degree of certainty required by the Board has been achieved by adding a prudential margin to the central estimates of claims liabilities that allows for a 75% (2002-75%) level of confidence. Refer Note 8.

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(h) Net Fair Value of Financial Assets and Liabilities**

Net fair values of financial assets and liabilities are determined on the following basis:

- **Recognised Financial Assets**

For financial assets traded in an organised market, net fair value equates to net market value.

Where financial assets are not traded in an organised market, net fair value is the historical carrying cost net of any provision for diminution in value or doubtful debt.

- **Recognised Financial Liabilities**

Where financial liabilities are not traded in an organised market, net fair value is the historical carrying value.

**(i) Cash**

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in banks, together with short-term discount securities and deposits at call which are investments integral to the Corporation's general insurance activities (all of which are readily convertible to cash and are not subject to a significant risk of changes in value).

**(j) Management Fee**

The Corporation is charged a management fee in proportion to its usage of the Commission's services.

**(k) Comparatives**

In accordance with Treasurer's Instruction 949, where appropriate, certain reclassifications are made to the prior year's financial statements in order to enhance comparability with those of the current year.

**(l) Rounding**

In accordance with Treasurer's Instruction 948, all amounts shown in the financial statements are rounded to the nearest thousand dollars unless otherwise stated.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 2. REVENUE FROM ORDINARY ACTIVITIES

#### Revenue from Operating Activities

	2003 \$'000	2002 \$'000
Premium Revenue (i)	307	8
Reinsurance Recoveries Revenue	5	42
Investment Interest	-	81
Other		
Interest	130	61
Foreign Exchange Loss	(93)	(90)
	37	(29)
<b>Total Revenue from Ordinary Activities</b>	<b>349</b>	<b>102</b>

(i) The premium revenue is due to premium adjustments from unclosed business.

### 3. EXPENSES AND NET LOSSES/(GAINS)

Operating Profit Before Income Tax Expense includes the following specific expenses and net losses/(gains):

#### NET LOSSES

Foreign Exchange Loss	93	90
-----------------------	----	----

#### EXPENSES

Claims Incurred	(127)	(2,684)
Outwards Reinsurance Expense	-	(143)
Underwriting and Administration		
Acquisition Cost Adjustment	23	-
Amounts paid or due and payable to the Auditor General		
- Auditing the financial statements	-	7
Contractors and Consultants	-	36
Other Underwriting and Administration (i)	162	140
	185	183
<b>Total Expenses</b>	<b>58</b>	<b>(2,644)</b>

(i) Auditing and Contractors and Consultants fees for 2003 are accounted for by a management fee within "Other Underwriting and Administration".

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 4. NET CLAIMS INCURRED

#### Inwards Reinsurance

Gross Claims Incurred and Related Expenses

- Undiscounted

(890)

(1,934)

Reinsurance and Other Recoveries

- Undiscounted

5

(26)

Net Claims Incurred

- Undiscounted

(885)

(1,960)

Discount and Discount Movement

- Gross Claims Incurred

763

(750)

Discount and Discount Movement

- Reinsurance and Other Recoveries

(10)

(16)

Net Discount Movement

753

(766)

**Net Claims Incurred**

(132)

(2,726)

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 5. INCOME TAX EQUIVALENT

#### (a) Calculation of Income Tax Expense

	2003 \$'000	2002 \$'000
Operating Profit before Income Tax Expense	291	2,746
Prima Facie Income Tax Equivalent Expense on the Operating Profit at 30%	(87)	(824)
Tax Effect of Timing Differences not brought to account	(58)	28
Tax Effect of Losses not brought to account	145	796
Income Tax Equivalent Expense attributable to Operating Profit	-	-
<b>(b) Tax Losses</b>		
Tax Losses at the Beginning of the Year	(61,917)	(64,569)
Tax Losses transferred (i)	61,917	-
Tax Profit arising in year	-	2,652
Tax Losses at the End of the Year	-	(61,917)

- (i) Under the New Tax Consolidation legislation enacted 21 October 2002, the Board of Directors of the Corporation and the Board of Commissioners of the Insurance Commission of Western Australia (the Commission) resolved on 26 February 2003 that the Corporation would elect to join the Commission, the parent entity for tax purposes, in a tax consolidation group with effect from 1 July 2002 and consolidate the Corporation's tax losses at that date totalling \$61.9 million into those of the Commission.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 6. RECEIVABLES

#### Current

Reinsurance and Other Recoveries Receivable  
Less: Provision for Doubtful Debts

#### Non-Current

Reinsurance and Other Recoveries Receivable

#### Movement in Provision for Doubtful Debts

Balance at Beginning of the Year  
Previously provided for but provision no longer required  
Balance at End of the Year

	2003 \$'000	2002 \$'000
	82	115
	(65)	(65)
	17	50
	131	124
	65	65
	-	-
	65	65

### 7. PAYABLES

Reinsurance Creditors

	13	25
--	----	----



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 8. OUTSTANDING CLAIMS

Liability for Outstanding Claims (undiscounted)  
Discount to present value

Liability for Outstanding Claims (discounted)

Current  
Non-Current

Weighted average expected term to settlement

	2003 \$'000	2002 \$'000
	12,409	15,147
	(3,036)	(4,334)
	9,373	10,813
	1,223	1,510
	8,150	9,303
	9,373	10,813
	6 yrs 1 mths	5 yrs 10 mths

#### Liability for Outstanding Claims

The liability for outstanding claims is based on development patterns derived from the International Underwriting Association statistics, or derived from the experience of particular treaties. These development patterns indicate the manner in which the liability, in respect of individual years of underwriting, are expected to change over future periods. The estimate allows implicitly for the same rates of claim inflation as those occurring during the periods from which the development patterns were derived.

#### Inwards Reinsurance

The Board has added a prudential margin to the central estimate of the discounted future claims payments to provide for a higher degree of certainty that the estimated liability, at balance date, will be adequate in the event of any possible adverse developments. Refer Note 1(g). The degree of certainty required by the Board has been achieved by a prudential margin that allows for a 75% (2002 - 75%) level of confidence. The prudential margin has added \$1.0 million (2002 - \$1.1 million) to the liability for outstanding claims at balance date. In addition, due to adverse experience in two segments of the claims portfolio in recent years, namely in the Australian Casualty Proportional business and on a professional indemnity contract (MIPI), the Board has accepted an actuarial recommendation to include additional margins in these two segments, of \$0.9 million (2002 - \$0.8 million) and \$0.9 million (2002 - \$1.0 million) respectively.

#### Discount Rates

The following discount rates were used in measuring the liability for outstanding claims, reinsurance and other recoveries:

Financial Year	% Rates Used - 2003			% Rates Used - 2002		
	Australia	UK	US	Australia	UK	US
2003	N/A	N/A	N/A	5.3	4.3	2.2
2004	4.4	3.3	1.1	5.7	5.4	3.4
2005	4.5	3.6	1.6	6.0	5.4	4.5
2006	4.7	3.9	2.4	6.2	5.3	5.2
2007	5.0	4.2	3.2	6.3	5.3	5.8
2008	5.4	4.4	3.9	6.4	5.2	6.1
2009	5.5	4.6	4.4	6.5	5.2	6.1
2010	5.5	4.7	4.9	6.5	5.1	6.1
2011	5.5	4.8	5.3	6.5	5.0	6.1
2012	5.5	4.8	5.5	6.5	5.0	6.1
2013	5.5	4.8	5.7	6.5	4.8	6.1
2014 and later	5.5	4.8	5.8	6.5	4.8	6.1

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 9. SHARE CAPITAL

	2003		2002	
	SHARES	\$'000	SHARES	\$'000
Authorised shares of \$100 each	1,000,000	100,000	1,000,000	100,000
<b>Issued and paid up share capital</b>				
Balance at beginning and end of year	1,000,000	100,000	1,000,000	100,000

The ultimate holding entity is the Insurance Commission of Western Australia which holds all the shares issued by the Corporation.

### 10. ACCUMULATED LOSSES

	2003 \$'000	2002 \$'000
Accumulated Losses at beginning of the year	(106,802)	(109,548)
Net Profit for the year	291	2,746
<b>Accumulated Losses at end of the year</b>	<b>(106,511)</b>	(106,802)

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 11. FINANCIAL INSTRUMENTS

### (a) Interest Rate Risk Exposure

Interest rate risk is the risk that the Corporation will suffer a financial loss due to adverse movements in interest rates.

The following table details the Corporation's exposure to interest rate risk at balance date:

Current Year	2003 \$'000			Weighted Average Interest Rate (%)
	Fixed Interest Rate Maturing in Less than 1 Year	Non-Interest Bearing	Total	
<b>Financial Assets</b>				
Cash	2,727	-	2,727	3.99
Total Financial Assets	2,727	-	2,727	
<b>Financial Liabilities</b>				
Other Liabilities: Current	-	-	-	-
Total Financial Liabilities	-	-	-	
<b>Net Financial Assets/(Liabilities)</b>	2,727	-	2,727	

Previous Year	2002 \$'000			Weighted Average Interest Rate (%)
	Fixed Interest Rate Maturing in Less than 1 Year	Non-Interest Bearing	Total	
<b>Financial Assets</b>				
Cash	3,869	-	3,869	4.08
Total Financial Assets	3,869	-	3,869	
<b>Financial Liabilities</b>				
Other Liabilities: Current	-	7	7	-
Total Financial Liabilities	-	7	7	
<b>Net Financial Assets/(Liabilities)</b>	3,869	(7)	3,862	

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 11. FINANCIAL INSTRUMENTS (continued)

### (i) Reconciliation of Net Financial Assets to Net Liabilities

	<b>Notes</b>	<b>2003 \$'000</b>	<b>2002 \$'000</b>
Net Financial Assets	<b>11(a)</b>	<b>2,727</b>	<b>3,862</b>
Receivables (current and non-current)	<b>6</b>	<b>148</b>	<b>174</b>
Payables	<b>7</b>	<b>(13)</b>	<b>(25)</b>
Outstanding Claims (current and non-current)	<b>8</b>	<b>(9,373)</b>	<b>(10,813)</b>
Net Liabilities per Statement of Financial Position		<b>(6,511)</b>	<b>(6,802)</b>

### (b) Credit Risk Exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Corporation.

The following table details the Corporation's maximum credit risk exposure at balance date without taking into account the value of any collateral or other security obtained. 100% of the Corporations recognised financial assets are held in Australia. The Corporation's credit risk exposure is to one single counterparty, the financial assets having a Standard & Poors rating of A1+.

Credit Risk Exposure

**2,727** **3,869**

### (c) Net Fair Value

The recognised financial assets and financial liabilities are carried at amounts that approximate net fair value. The recognised financial assets and liabilities, with the exception of those listed below, are readily traded on organised markets. The following table details the net fair value, at balance date, of each class of recognised financial asset and liability, which are not readily traded on organised markets:

#### *Not Readily Traded on Organised Markets*

#### **Recognised Financial Liabilities**

Other Liabilities

**-** **7**

**-** **7**

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 12. SEGMENT REPORTING

The general insurance activities of the Corporation relate to the "run-off" of its Inwards Reinsurance business. The Corporation underwrote small lines of Australian and overseas reinsurance between 1988 and August 1992. The Inwards Reinsurance account was an international book of business, where half of the insured risks assumed were retrocessions from other Reinsurers. The ultimate location of all the insured risks and/or the original risk carrier is therefore not readily identifiable.

As the Inwards Reinsurance account is in "run-off" it is considered that the disclosure of the net claims liabilities, which will be settled in Australian and foreign currencies, and the assets held to meet those net claims liabilities, would provide equivalent relevant information to users. Refer Note 13.

### 13. FUNDING OF INWARDS REINSURANCE NET CLAIMS LIABILITIES

As claims are payable in the currency designated by the Reinsurance agreement, the Corporation seeks to maintain a natural hedge by holding assets in the respective currencies. For practical reasons, this policy is limited to the following major currencies, which collectively account for the substantial majority of the business. These currencies are Australian dollars (\$A), Canadian dollars (\$C), Great British pounds sterling (£UK) and United States dollars (\$US).

The following sets out the net liabilities in the respective currencies:

30 June 2003	Currency of Exposure (in Australian dollars equivalent)				Total
	\$A \$'000	\$C \$'000	£UK \$'000	\$US \$'000	
Net Liability	4,836	12	448	3,929	9,225
Amount of Assets Held	2,211	-	403	113	2,727
Funding Deficit	(2,625)	(12)	(45)	(3,816)	(6,498)

30 June 2002	Currency of Exposure (in Australian dollars equivalent)				Total
	\$A \$'000	\$C \$'000	£UK \$'000	\$US \$'000	
Net Liability	4,744	14	570	5,346	10,674
Amount of Assets Held	3,126	-	690	62	3,878
Funding (Deficit)/Surplus	(1,618)	(14)	120	(5,284)	(6,796)

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 14. AMOUNTS RECEIVABLE AND PAYABLE DENOMINATED IN FOREIGN CURRENCIES (Australian dollars equivalent)

#### Receivables

##### Current

United States dollars

3

3

##### Non-current

United States dollars

19

21

#### Total Receivables

22

24

#### Payables

##### Current

Canadian dollars

2

2

Great British pounds

68

96

United States dollars

596

810

666

908

##### Non-current

Canadian dollars

10

12

Great British pounds

380

474

United States dollars

3,356

4,560

3,746

5,046

#### Total Payables

4,412

5,954

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### 15. EXPLANATORY STATEMENT

	PROFIT INCREASE/(DECREASE) FROM ACTUAL 2003 TO						
	ACTUAL	BUDGET	ACTUAL				
	2003 \$'000	2003 \$'000	2002 \$'000	2003 BUDGET \$'000	%	2002 ACTUAL \$'000	%
Premium Revenue	307	-	8	307	0.0	299	3,737.5
Outwards Reinsurance Expense	-	-	143	-	0.0	(143)	(100.0)
Net Earned Premium	307	-	151	307	0.0	156	103.3
Claims Incurred	127	131	2,684	(4)	(3.1)	(2,557)	(95.3)
Reinsurance and Other Recoveries Revenue	5	20	42	(15)	(75.0)	(37)	(88.1)
Net Claims Incurred	132	151	2,726	(19)	(12.6)	(2,594)	(95.2)
Underwriting and Administration Expenses	(185)	(159)	(183)	(26)	(16.4)	(2)	(1.1)
UNDERWRITING PROFIT/(LOSS)	254	(8)	2,694	262	3,275.0	(2,440)	(90.6)
Investment Income	-	218	81	(218)	(100.0)	(81)	(100.0)
Other Income	37	-	(29)	37	0.0	66	227.6
PROFIT ON ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE	291	210	2,746	81	38.6	(2,455)	(89.4)

The Corporation underwrote small lines of Australian and overseas reinsurance between 1988 and August 1992. The general insurance activities of the Corporation relate to the "run-off" of its Inwards Reinsurance business. During the 2003 and 2002 financial years, the Corporation's only activity has been the winding down of this operation.

Due to the nature of reinsurance, it is expected that it will take a number of years for all claims to be finalised. Reinsurance is, by nature, highly variable, especially where there is a heavy exposure to the liability class of insurance. As a result, significant variations between actual and budget and the current and comparative years are expected to occur.

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

### **16. CONTINGENT LIABILITIES**

There are no contingent liabilities that materially affect the financial statements of the Corporation.

### **17. EXPENDITURE COMMITMENTS**

There are no material expenditure commitments, which have not been provided for at balance date.

### **18. EVENTS OCCURRING AFTER BALANCE DATE**

No events have occurred after balance date that materially affect the financial statements of the Corporation.



**CERTIFICATION OF PERFORMANCE INDICATORS**

We hereby certify that the Performance Indicators for the State Government Insurance Corporation for the financial year ended 30 June 2003.

- are based on proper records;
- are relevant and appropriate for assisting users to assess the performance of the Corporation; and
- fairly represent the performance of the Corporation.



VIC EVANS  
CHAIRMAN  
27 August 2003



MICHAEL E WRIGHT  
DEPUTY CHAIRMAN  
27 August 2003

In accordance with a resolution of the Board of Directors of the State Government Insurance Corporation passed on 27 August 2003.





## AUDITOR GENERAL

### INDEPENDENT AUDIT OPINION

**To the Parliament of Western Australia**

### **STATE GOVERNMENT INSURANCE CORPORATION PERFORMANCE INDICATORS FOR THE YEAR ENDED JUNE 30, 2003**

#### **Audit Opinion**

In my opinion, the key effectiveness and efficiency performance indicators of the State Government Insurance Corporation are relevant and appropriate to help users assess the Corporation's performance and fairly represent the indicated performance for the year ended June 30, 2003.

#### **Scope**

##### ***The Corporation's Role***

The Board of Directors is responsible for developing and maintaining proper records and systems for preparing performance indicators.

The performance indicators consist of key indicators of efficiency and effectiveness.

##### ***Summary of my Role***

As required by the Financial Administration and Audit Act 1985, I have independently audited the performance indicators to express an opinion on them. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the performance indicators is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the performance indicators.

A handwritten signature in black ink, appearing to read 'D D R Pearson'.

**D D R PEARSON**  
**AUDITOR GENERAL**  
August 27, 2003

# STATE GOVERNMENT INSURANCE CORPORATION

## PERFORMANCE INDICATORS

The State Government Insurance Corporation ("Corporation") ceased underwriting Inwards Reinsurance in August 1992 and its remaining activity is the "run-off" of its Inwards Reinsurance business. As such, output measures have not been separately identified. The output measures of cost, quantity, quality and timeliness are embedded in the Performance Indicators below. Further, the key effectiveness and efficiency Performance Indicators listed here for the Corporation only relate to these operations.

Where appropriate, prior year figures have been restated in order to enhance comparability with those of the current year.

## OUTCOMES

### (a) That The Corporation Has Sufficient Assets To Meet Its Liabilities

	2003	2002	2001	2000	1999
<i>Effectiveness</i>					
Ratio Of Total Assets To Total Liabilities (%)	30.6	37.3	31.0	30.3	52.1
<i>Efficiency</i>					
Net Operating Cash Outflow (\$'000)	(1,049)	(148)	(516)	(2,039)	(2,249)

### (b) Minimise The Financial Liability Of Insurers And Reinsurers

	2003	2002	2001	2000	1999
<i>Effectiveness</i>					
Number Of Outstanding Claims	147	151	157	159	167
<i>Efficiency</i>					
Underwriting And Administration Costs Per Outstanding Claim (\$)	1,259	1,212	1,076	1,597	1,527

## COMMENTS

### Ratio of Total Assets to Total Liabilities

The assets of the Corporation are not sufficient to meet the total liabilities and the ratio of assets to liabilities is expected to deteriorate over time.

### Net Operating Cash Outflow

The level of cash outflow is largely dependant on the settlement of large claims during the year. The Corporation paid a total of \$1.335 million claim payments during 2002/2003.

### Number of Outstanding Claims

The Corporation's Inwards Reinsurance business is in "run off" and therefore the "number of outstanding claims" is expected to progressively reduce.

### Underwriting and Administration Costs Per Outstanding claim

Overall, administration costs have increased slightly and a reduction in claim numbers has resulted in an increase in the cost per outstanding claim.

## GLOSSARY

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The following definitions have been provided to assist readers in gaining a better understanding of the Annual Report and Financial Statements.

### 1. PREMIUMS

#### **Premium Revenue**

Premium revenue comprises amounts in relation to Inwards Reinsurance, charged to other insurers.

#### **Net Earned Premium**

Premium revenue plus the outwards reinsurance commission earned less the outwards reinsurance expense.

#### **Outwards Reinsurance Expense**

Premium paid to a reinsurer in consideration for the insurance liability assumed by the reinsurer, adjusted for any amount prepaid at balance date.

### 2. CLAIMS

#### **Claims Expense**

The amount paid for losses suffered under the terms of an insurance policy/cover, adjusted for :

- claims which have been reported but not paid;
- claims incurred but not reported (“IBNR”)
- claims incurred but not enough reported (“IBNER”);

together with the anticipated direct and indirect claims settlement costs.

#### **Central Estimate**

The estimate of the liability for outstanding claims based on a 50% level of confidence that the liability will be adequate in meeting the actual amount of claim liability to which it relates.

#### **Prudential Margin**

An amount added to the central estimate of the liability for outstanding claims, to increase the level of confidence that the liability will be adequate in meeting the actual amount of claim liability to which it relates.

#### **IBNR and IBNER Claims**

IBNR claims are claims arising from events which have occurred but have not been reported at balance date. IBNER claims are claims arising from events which have occurred and been reported at balance date, but the amount reported may be understated.

The liability for outstanding claims in the Statement of Financial position includes a provision for both IBNR and IBNER claims.

## GLOSSARY

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### **Net Claims Incurred**

Net Claims Incurred comprises claims paid and the movement in the liability for outstanding claims, net of reinsurance and other amounts recoverable.

### **Liability for Outstanding Claims**

A provision for the future estimated cost of claims outstanding at balance date. Outstanding claims incorporate those which have been reported but not paid, IBNRs and IBNERs, gross of any GST that may be paid.

### **Reinsurance Recoveries**

Amounts recovered or recoverable in respect of reinsurance cover purchased. Reinsurance cover provides some protection against single large claims or many claims arising out of a single event.

### **Other Recoveries**

Other amounts recovered or recoverable (eg. salvage) in relation to claims.

### **3. REINSURANCE**

Cover provided by a general insurer (the “reinsurer”) to indemnify another general insurer (the “reinsured”) against all or part of a loss, which the latter may sustain.

### **4. OTHER**

“Run-off” refers to closed insurance portfolios where the applicable claims liabilities are being progressively extinguished to their final liquidation. The State Government Insurance Corporation is in run-off.

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