
Regulatory and Legislative Framework

Our mandate is clear as a result of a strong legislative framework

The Role of the Auditor-General.....

The Office is part of the accountability framework where we assist the Parliament in holding the Government accountable for fulfilling its responsibilities.

The Government is obliged to account to the citizens of Tasmania, through the Parliament, for its management of public funds and in the achievement of agreed outputs. It must ensure that funds are properly raised, protected from loss and spent with maximum efficiency and effectiveness for the purposes approved by the Parliament. This duty to account is discharged in part by the production of annual financial statements. The information in these statements needs to be examined by a suitably qualified independent person to ensure that it is sound, accurate and complete. The Auditor-General is responsible for ensuring that this is done.

Is Enshrined in Legislation.....

The *Financial Management and Audit Act 1990* is the main legislation governing the appointment, tenure, duties, responsibilities and authority of the Auditor-General. This Act provides the legal basis for the Auditor-General's access to all government information and the freedom to report findings arising from audits to Parliament.

The Auditor-General is responsible for audits under the *Financial Management and Audit Act 1990*, *Government Business Enterprises Act 1995*, *Local Government Act 1993* and other relevant legislation such as the *Corporations Act 2001*. The Auditor-General also has audit responsibilities in respect of Commonwealth grants and payments to the State under Commonwealth legislation.

The Tasmanian Audit Office is a government department established to assist the Auditor-General in meeting his statutory requirements. The Auditor-General is the administrative head of the Office and the Auditor-General may engage private sector firms as his agents.

That Ensures His Independence.....

The Audit Office is responsible for the administration of the *Financial Management and Audit Act 1990* in so far as it relates to audit matters and it is not part of the Government itself. This independence from the Executive Government of the day is vital if the Audit Office is to perform its work effectively and make independent and unbiased judgments.

The Auditor-General is an independent Officer appointed by the Governor and is not subject to control or direction either by the Parliament or the Government.

The independence of the Auditor-General is assured by wide powers assigned by legislation. This independence ensures that findings that arise from a range of financial and wider performance audits are communicated regularly to the Parliament without interference.

And Defines His Mandate

The Auditor-General has a broad-scope mandate for comprehensive auditing that embodies the components generally referred to as financial audit, compliance audit and performance audit. The areas subject to examination under these audit components can include the management of financial, human and other resources. The Auditor-General reports the results of audits directly to Parliament.

The Auditor-General must provide an audit opinion on the annual financial statements of all audited agencies, on components of the Treasurer's Annual Financial Report and on the Consolidated Financial Statements of the State. The Auditor-General may also investigate instances of waste, impropriety or lack of financial prudence in the use of public resources, and has the power to investigate whether the government and its agencies effectively, efficiently and economically use public resources.

And Strengthen With New Audit Act.

Strengthening and modernising the role of the Auditor-General is the aim of initiatives proposed in Treasury's review of Tasmania's Financial Management Framework.

Announced by the Premier in the State of the State Address in 2006, the initiatives involve replacing the current combined *Financial Management and Audit Act 1990* with a separate Financial Management Bill and a separate Audit Bill. The proposed separate Audit Act will give the Auditor-General additional powers to oversight all government entities, whether they be government departments, government businesses or statutory bodies. The proposed Audit Act would also provide the sole authority for audit functions across the state and local government sectors and make it explicit that the Auditor-General has the same powers in relation to local government that he has in relation to the state sector.

Other changes to be included in the new Audit Bill are:

- changes to the appointment arrangements for the Auditor-General;
- an enhanced role for the Parliament, through the Public Accounts Committee;
- a requirement for the Auditor-General to prepare an Annual Work Plan;
- enhancements to the Auditor-General's independence;
- changes to audit fee setting arrangements; and
- enhanced accountability arrangements in regard to the Tasmanian Audit Office.

The new Audit Act will be our enabling legislation and is expected to be introduced into Parliament during the 2008 Spring session.

Governance

We take governance seriously

Our aim is to manage the Office and our people in such a manner as to ensure that we maintain an effective and sustainable organisation.

This aim underpins all aspects of our operations: sustainable business performance, highly regarded products and services, continuously improving operational performance and motivated employees.

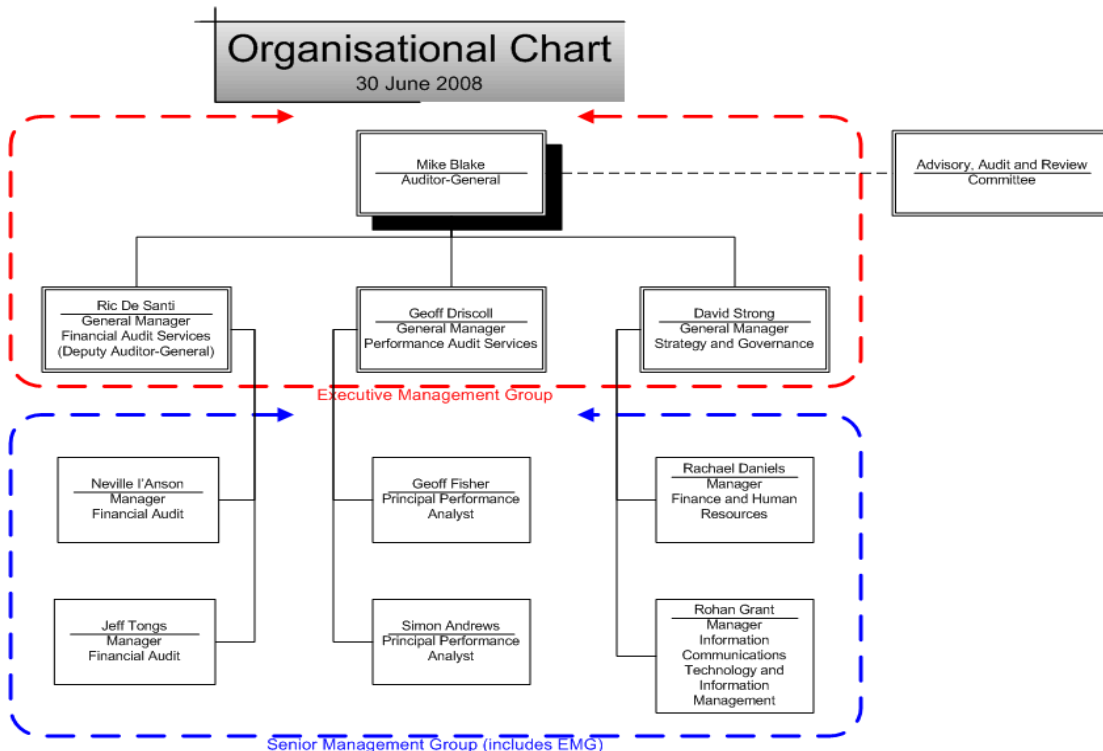
These aims are supported by a strong governance framework.

Our governance is based on being accountable and transparent for our performance and operations. It requires:

- effective management oversight including setting our direction, goals and values
- appropriate leadership, ethics, culture and responsible decision-making
- safeguards for assuring integrity in both internal and external financial reporting
- effective approaches to managing external stakeholder relationships
- that we recognise and manage risks
- appropriate processes to ensure integrity in monitoring and reporting performance against goals and
- safeguards for assuring that we are complying with the law.

Organisational structure

Our organisational structure at 30 June 2008 is recorded in the Chart below.



The Executive Management Group

Our Executive Management Group (EMG) meets formally every two months and focuses on:

- setting corporate direction, objectives, goals and policies
- monitoring key operational matters, emerging issues and progress against plans
- managing risk
- reviewing resources and
- advising the Auditor-General of important developments in the public sector and in accounting and auditing.

Details of EMG members are:

Auditor-General

Mike Blake B Com FCA FCPA FCS

Mike commenced as Auditor-General for Tasmania on 10 May 2004 after being the Auditor-General of the Northern Territory. He is currently a member of AUASB. Mike's career in auditing covers a period of 30 years including senior management positions in private sector auditing firms in Malawi, Zimbabwe and Western Australian followed by periods with the Western Australian Office of the Auditor-General (five years) and WA's Metropolitan Health Service Board (four years) prior to moving to the Northern Territory.

Deputy Auditor-General

Ric De Santi B Bus FCPA

Ric started his working career with us as an audit cadet in 1976. Based in Launceston Ric progressed to the position of Director of Audit. In 1998 he moved to Racing Tasmania as Business Manager. In 2004 he returned as Director Quality Assurance and was promoted to Deputy Auditor-General in 2006.

General Manager – Performance Audit Services

Geoff Driscoll BEc BSc CPA

Geoff joined us in 1992 as a Senior EDP Auditor after working at the Australian National Audit Office for eight years. In 1998 he joined the Department of Justice as a Finance Systems Officer. Geoff returned to the Office in 2000 as a Senior Performance Auditor and was subsequently promoted to Director Performance Audit. In December 2007 Geoff was appointed General Manager – Performance Audit Services.

General Manager – Strategy and Governance

David Strong B Bus FCPA MAHRI ISACA

David joined us in 1988 as an EDP Auditor after spending eight years with the Tasmanian Development Authority. In 1989 he became responsible for managing our IT infrastructure and in 1993 was promoted to Manager Corporate Services taking responsibility for financial management, human resources management, information and communications technology, information management and corporate planning. In August 2007 David was appointed General Manager – Strategy and Governance.



The EMG members (L to R) David Strong, Ric De Santi, Mike Blake and Geoff Driscoll.

The Senior Management Group



From L to R Neville I'Anson, Geoff Fisher, Rohan Grant, Rachael Daniels, Simon Andrews and Jeff Tongs.

During the year the Senior Management Group (SMG) was formed and it meets prior to each EMG meeting. The SMG comprises members of the EMG and their direct reports and provides a forum for addressing tactical and operational matters to assist in achieving our objectives and strategies as outlined in our strategic and business plans.

The SMG also supports the Auditor-General in meeting his statutory responsibilities under the FMAA.

Operational committees

We have several committees the roles of which were reviewed during the year. Details follow:

Audit Methodology Committee

This Committee provides a strategic role in the relevance and maintenance of our financial audit and performance audit methodologies; provides assurance that the methodologies meet our needs and conforms to professional standards; and reviews the effectiveness of these methodologies.

Following the implementation of ipsam, our financial audit methodology, it was decided that the Committee would be disbanded with the EMG taking over its functions. In addition, the FAS business unit has established a group with responsibility for addressing the impacts of new auditing standards, recommendations arising from quality reviews and matters arising from the implementation of ipsam.

Information Management Committee

This Committee has responsibility for ensuring that the use and application of our information resource is consistent with the corporate direction and business functions of the Office. It also ensures the efficient and effective deployment of our information technology in the performance of Office business.

The Committee met on several occasions during the year addressing policies, strategic plans, infrastructure upgrades and corporate application upgrades.

Human Resources Committee

This Committee (HRC) assists the EMG with strategic direction and policy and practices development for human resources. It met on several occasions during the year and developed a Human Resources Strategic Plan for the period 2008-2011, several policies and procedures and addressed several recommendations from a 2007 external review.

Health and Safety Committee

This Committee was created during the year and is a sub-committee of the HRC. It aims to provide and maintain a safe and healthy work environment where all employees understand and comply with health and safety (H&S) principles. It also provides a forum where employees can openly communicate and discuss H&S matters and concerns. The Committee and the Employee Safety Representatives play a key role in promoting employee wellbeing.

Make A Difference Team

The Make A Difference (MAD) Team was established at the Corporate Planning day in December 2007. Its task was fine tuning our proposed vision, purpose and values which it completed in April 2008 when it presented its proposals to the EMG. These proposals, along with a values implementation plan, were all endorsed by the EMG and launched with all staff at a function in mid-June. This Team's efforts were most effective.

Independent scrutiny, both external and internal

We engage in internal and external reviews and independent benchmarking to gauge our performance and seek to improve where we can.

The elements of this independent scrutiny include:

- Our Advisory, Audit and Review Committee
- Our Internal audit function
- Other internal reviews
- External audit and
- Benchmarking

Advisory, Audit and Review Committee

This committee, established in 2007, has two primary objectives. Its advisory objective is aimed at providing the Auditor-General with advice from time to time on matters that may be raised by him or on matters initiated by the Committee collectively and individually. The audit and review objectives are to provide independent assurance and assistance to the Auditor-General on the Office's governance, risk, control, and compliance framework, its external accountability responsibilities and in meeting the Office's corporate objectives.

During the year the Committee met four times with attendance by committee members as follows:

Committee member	Attendance Record
Mr Graeme Kennedy – Chair	4
Dr Elaine Stratford	4
Dr Michael Vertigan (resigned March 2008)	3
Mr Michael Harris (appointed April 2008)	1

During the year the Committee considered and advised the Auditor-General on the following:

- governance polices and compliance mechanisms
- the risk management framework
- code of conduct and staff conflict of interest declaration
- responses to internal and external audit reports
- ACAG benchmarking results
- the internal control framework for soundness and effectiveness
- risk management report
- the internal audit charter and noted the appointment of the internal auditor
- the 2006-07 annual report
- reviewed its charter and its performance.

Internal Audit

During the year an Internal Audit Charter was finalised and the internal audit function was tendered. Moore Stephens (MS) of Melbourne was selected as our internal auditor for the next three years. MS conducted a risk assessment and developed a three year internal audit plan which commences in 2008-09.

Internal Reviews

Under a reciprocal arrangement with the ACT Audit Office a quality assurance review of a number of 30 June 2007 financial audit files was carried out. The purpose of this review was to assess the quality of our financial audit work and advising us of any areas for improvement.



Rob Luciani in the ACT Audit Office conducting a quality assurance review of financial audit files as part of the reciprocal arrangements.

Based on this review, the ACT concluded that our audit work satisfactorily supported our audit conclusions and that our implementation of ipsam was effective and appropriately addressed issues identified from the 2005-06 review. The ACT reviewers also recommended further improvements, particularly regarding audit planning, documentation, timeliness of review procedures, reporting and quality reviews all of which the FAS business unit is addressing.

During 2007-08 we undertook a self evaluation for compliance with the requirements of APES 320 "Quality Control for Firms" issued by the Accounting Professional And Ethical Standards Board (www.apesb.org.au). This evaluation was undertaken by the General Managers of the FAS and PAS business units. While findings were satisfactory, amendments to our performance audit manual resulted and we have identified the need to review various corporate activities which is underway.

External Peer Reviews

We initiate independent peer reviews of our whole of office activities once every three years with the most recent completed in 2006. Relevant recommendations from that review have been implemented. The next review is scheduled for 2008-09.

External Audit

Under section 45 of the *Financial Management and Audit Act 1990*, the Governor appoints an independent registered company auditor to perform an audit of the financial statements of the Tasmanian Audit Office.

In June 2005 the Governor appointed Hall Chadwick (now McLean Delmo) from Melbourne for a three year term commencing with the audit for the year ended 30 June 2005. Last year this appointment was extended by one year with McLean Delmo again conducting the external audit.

Their audit report is attached to the financial statements contained in this annual report. In their management letter they noted:

“It was also pleasing to observe the attention being given to the matters raised in our earlier management letters, thereby reflecting a continuing desire by management to recognise opportunities to strengthen and reinforce existing systems and internal controls on an ongoing manner.”

Benchmarking

We participate in benchmarking coordinated by the Australasian Council of Auditors-General (ACAG) which covers entire office operations and is referred as the ACAG Macro Benchmarking. In addition, certain state based audit Offices participate in parliamentary and client satisfaction surveys relating to our financial and performance audit functions.

The ACAG Macro Benchmarking project is an annual exercise that has been conducted since 1994. The overall purpose of the project is to provide, to the extent practicable, comparable information to audit Offices across Australia on qualitative and quantitative benchmarks of the operations of their Offices while recognising the specific characteristics of each jurisdiction. The information obtained identifies areas for improvement.

The following benchmarks record our performance against the average for all states and territories (S&T) in Australia excluding the Commonwealth.

Measure	Year	Tasmania	Average S & T
Contracting out as a % of number of audits	05-06	13%	36%
	06-07	16%	41%
Contracting out as a % of audit fees	05-06	19%	33%
	06-07	24%	37%

The % of audits contracted out compared to other states and territories are influenced by the Northern Territory which contracts 100% of its audits. The Office's target is 20 – 25% of audits based on value.

Measure	Year	Tasmania \$	Average S & T \$
Total audit costs per \$'000 of public sector transactions	02-03	0.36	0.39
	03-04	0.37	0.40
	04-05	0.39	0.41
	05-06	0.36	0.38
	06-07	0.38	0.41
Total audit costs per \$'000 of public sector assets	02-03	0.17	0.21
	03-04	0.17	0.22
	04-05	0.18	0.22
	05-06	0.16	0.20
	06-07	0.17	0.21
Total financial audit costs per \$'000 of public sector transactions	05-06	0.26	0.31
	06-07	0.32	0.34
Total financial audit costs per \$'000 of public sector assets	05-06	0.12	0.16
	06-07	0.14	0.18

Bearing in mind our relative in-efficiency due to economies of scale, our costs per transaction or per asset value have remained constant and compare favourably with our peers.

Measure	Year	Tasmania	Average S & T
Percentage of total (whole of office) paid hours charged to audit activities	05-06	51%	50%
	06-07	47%	49%
Percentage of total (whole of office) paid hours charged to financial audit activities	05-06	35%	39%
	06-07	38%	40%
Percentage of total (whole of office) paid hours charged to performance audit activities	05-06	15%	11%
	06-07	9%	9%
Percentage of total paid hours of financial audit staff charged to financial audit activities	06-07	52%	56%
Percentage of total paid hours of performance audit staff charged to performance audit activities	06-07	33%	49%
Cost per audit hour charged to audit activities	05-06	\$97	\$122
	06-07	\$103	\$128

Our percentage of time charged to audit activities to paid hours for all office staff is below the S & T average reflecting staff shortages and impact of the re-organisation and the recruitment exercises previously referred to. Our hourly charge rate has moved in line with the S & T average.

Measure	Year	Tasmania	Average S & T
Cost per financial audit opinion	05-06	\$28 620	\$45 522
	06-07	\$32 857	\$47 953

Measure	Duration	Tasmania	Average S & T
Timeframes for issuing financial audit opinions	5+ mths	18%	12%
	4 – 5 mths	26%	20%
	3 – 4 mths	34%	26%
	2 – 3 mths	16%	35%
	1 – 2 mths	6%	8%
	< 1 mth	0%	0%

The above measures relate to financial audit activities. The average cost for a financial audit increased by a greater percentage than the S & T average, 14.8% compared to 5.3%. We are behind the average timeframe taken to issue financial statement audit opinions with this once again being due to the disruption caused by the recruitment exercise. Despite this, our audits were completed in time to facilitate finalization by clients of their annual reporting obligations.

Measure	Year	Tasmania	Average S & T
Cost per performance audit report	05-06	\$84 189	\$237 457
	06-07	\$74 000	\$230 879
Average elapsed time (mths) per performance audit report	05-06	8.7	8.3
	06-07	15.2	10.1

The above measures relate to performance audit activities. It is very pleasing to note the considerably lower average cost per audit. In 2006-07 due to staff turnover and subsequent delays in finding replacements, four audits were delayed and resulted in completion timeframes in excess of eight months. In addition, projects were delayed by our taking on audits not included on our program. The other five audits completed in 2006-07 were finished in five to six months.

Managing Risk

A structured approach to risk management

Reviewing key business risks is fundamental to our strategic and business processes. We also apply risk management to all major projects undertaken including those relating to our financial and performance auditing services, and to key corporate service functions.

An independently facilitated risk management assessment identified that our key business risks are:

- Inadequate management of risks
- Issuance of an inappropriate audit opinion/parliamentary report
- Inappropriate governance structure
- Inappropriate or unauthorised use of client information
- Inadequate business continuity plan or disaster recovery plan
- Loss of key resources/inability to maintain appropriate staff levels
- Injury or harm to employees
- Poor financial budgeting leading to a cash deficiency and
- Financial fraud.

We maintain strategic and operational risk registers, which provide a detailed assessment of the likelihood and consequences of various risks, and actions taken to mitigate these risks. Each year the registers are reviewed, evaluated and updated.

A report on the status of risk treatments identified on the registers is presented to the EMG regularly.

We address our risks through steps such as:

- identifying audit topics of public interest
- regularly meeting with Parliamentarians and key clients
- quality assurance reviews
- peer reviews
- allocating responsibility for managing risks to appropriate staff and in business plans
- continuing to improve the quality, readability and balance in our reporting
- ensuring we have a workplace that attracts and retains the staff we need
- as noted in the governance section of this report, ensuring we are properly governed.

Staff ethics

All our staff must adhere to the Tasmanian State Service code of conduct and principles under the *State Service Act 2000*. We have developed our own statement of values which we all adhere to.

Formal procedures require disclosure of any real or apparent conflict of interest and in this regard Staff are required to take no part in decisions or audits where real or apparent conflicts of interest may arise. All staff sign an annual declaration stating that they will conduct their work in accordance with codes, policies and values and must state real or apparent conflicts of interest.

Complaints about staff

We maintain internal procedures for investigating complaints about how we behave and carry out our responsibilities; this includes formal inquiry and/or disciplinary procedures under the *State Service Act 2000*.

During the year one internal grievance and one external complaint was lodged. Both grievances were resolved to the satisfaction of the parties involved.

Confidential information

We develop and/or receive information while conducting audits of public sector entities that must be protected from unauthorised disclosure. All staff, immediately on joining, sign an acknowledgement that all information gained when conducting audits remains confidential.

Our policies and procedures also respect the privacy of personal information we receive.

We maintain a variety of security systems and procedures designed to safeguard confidential information. Our internal and external auditors review our general and IT security arrangements, business continuity systems and procedures from time to time.

Disclosure

To operate transparently, while protecting confidential information, we:

- comply with the *Freedom of Information Act 1991*
- practice openness and transparency through information provided in our annual report and business plans, and all our reports are placed on our external web site
- issue media releases when performance audit reports are tabled in Parliament and
- update information in publications and on our website.

Insurance

Our insurance arrangements are with the Tasmanian Risk Management Fund and cover the following:

- travel insurance
- general property
- personal accident
- transit
- motor vehicles and
- general liability.