Tasmanian Audit Office

Report of the Auditor-General
No. 7 of 2017-18

Auditor-General's Report on the Financial Statements of State entities

Volume 1

Treasurer's Annual Financial Report and results of General Government Sector Entities 2016-17

November 2017

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INTRODUCTION

The Tasmanian Public Sector, also referred to as the Total State Sector (TSS), comprised the General Government Sector (GGS), the Public Non-Financial Corporations (PNFC) and the Public Financial Corporations (PFC) sectors, with entities classified according to the nature of activities they undertake.

The focus of the Report is on the GGS, which consisted of Government departments and not-for-profit State entities controlled and mainly financed by the Tasmanian Government. The primary function of these entities was to provide public services which were mainly non-market in nature and were for the collective consumption of the community.

Other State entities included in the Report were statutory authorities and other non-profit entities not consolidated into the GGS financial statements.

STATE ENTITIES COVERED IN THE REPORT

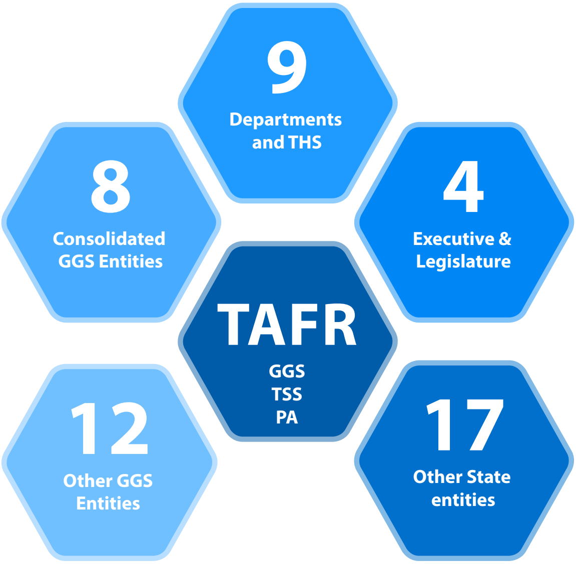
The Treasurer's Annual Financial Report (TAFR) included the audited GGS and TSS financial statements and the Public Account (PA) statements. It also included other information, such as an overview of the Fiscal Strategy and the Loan Council Outcome, which were not audited. The Report provides a financial analysis of the GGS and TSS sector and of the PA statements.

The full Report also contains individual Chapters on each of the eight Government departments and Tasmanian Health Service (THS). The Departments include:

- Department of Education (DoE)
- Department of Health and Human Services (DHHS)
- Department of Justice (DoJ)
- Department of Police, Fire and Emergency Management (DPFEM)
- Department of Premier and Cabinet (DPAC)
- Department of Primary Industries, Parks, Water and Environment (DPIPWE)
- Department of State Growth (State Growth)
- Department of Treasury and Finance (Treasury)

Results and assessments of the financial performance and position of other GGS entities, Executive and Legislature and other State entities have been summarised in a separate Chapter.

The diagram below identifies all of the entities covered by this Report.



The Report also contains our conclusion on compliance with the *Firearms Act 1996* in relation to the disposal of firearms and ammunition.

DEVELOPMENTS

Mersey Community Hospital Transfer

The purpose of the *Tasmanian Public Finance Corporation Amendment (Mersey Community Hospital) Act 2017*, which received royal assent on 30 June 2017, was to facilitate the payment of dividends from the Tasmanian Public Finance Corporation (Tascorp) to the PA to fund the operating costs of the Mersey Community Hospital on an annual basis.

The Act provided that, following the payment of $730.40 million from the Australian Government in exchange for the Tasmanian Government accepting ownership of the Mersey Community Hospital, the Treasurer was to make an equivalent payment to the Tascorp in the form of an equity contribution. The funds were received from the Australian Government on 29 June 2017 and the equity transfer occurred on the same day. The equity contribution, financial returns, and capital gains and losses that accrue from investment of the equity contribution, comprise the Mersey Community Hospital Fund (the Fund).

Tascorp must invest the monies in the Fund and pay a dividend out of the Fund by 15 June each year for the purpose of supporting the operating costs of the Mersey Community Hospital.

Tasmanian Government Superannuation Reform

The *Public Sector Superannuation Reform Act 2016* created the Superannuation Commission with effect from 1 April 2017 and transferred trustee responsibility from the former Retirement Benefits Fund (RBF) to the Superannuation Commission, from that date. The RBF Accumulation Scheme was transferred to Tasplan, with the transfer of the management and administration of the five closed defined benefit schemes to the Superannuation Commission.

Related party transaction disclosures

For 2016-17, the exemption to Australian Accounting Standards Board (AASB) 124 *Related Party Disclosures* was removed for public sector non-for-profit entities. Consequently, GGS entities were required to disclose related party transactions and outstanding balances, including commitments, for the first time in the 2016-17 financial statements. In addition, it was determined that Ministers were also related parties to the Departments and other GGS entities in accordance with AASB 124.

To facilitate disclosure with the requirements of the standard, the DPAC included a separate note disclosure of all Ministers remuneration, as part of its disclosure of key management personnel remuneration. Ministerial remuneration was disclosed in aggregate (totals only) but separated into components including salary, other short-term benefits, superannuation, other long-term benefits and long service leave and termination benefits. As the disclosure applied prospectively, comparative information was not required in 2016-17.

With respect to related party transactions for Ministers, Treasury co-ordinated the collection of declarations and other information to identify any potential transactions that required disclosure, and then advised each of the associated entities the results of the review. For the 2016-17 financial year, there were no related party transactions identified for Ministers.

As all members of Cabinet were subject to the Ministerial disclosures, with any related party transactions to be reported by the relevant State entity, there was no additional aggregated presentation of information on the Cabinet group within TAFR, at either the GGS or TSS level.

Financial Management Act 2016

The new *Financial Management Act 2016* (FMA) received royal assent on 17 October 2017 and will be applicable from 1 July 2018. The FMA broadens the scope of Tasmania's financial management framework. Currently, only government departments and parliamentary and integrity entities operate within the financial management framework, with other GGS entities operating in accordance with their individual enabling legislation. The new FMA includes all GGS entities under a single framework.

The FMA will also see a change to the PA, where it will move from the current two fund structure, being the Consolidated Fund and the Special Deposits and Trust Fund (SDTF), to a single fund structure with a single set of rules, providing the Government with significantly enhanced control over the entire PA. Any money held by Government in trust will be clearly accounted for in Agency Trust Accounts, as determined by the Treasurer, and will not form part of the PA. The FMA will also change the existing carry forward arrangements.

The FMA will commence from 1 July 2018, associated Treasurer's Instructions will be issued and also apply from 1 July 2018. Until they have been released, the full impact of the new Act on financial reporting cannot be determined.

FINDINGS FROM FINANCIAL AUDITS

Audits of Departments and GGS entities were completed satisfactorily; however a number of matters were raised during the course of the audits. Depending on the significance of the matters, they were either discussed and cleared with management (generally low risk issues) or formally communicated to those charged with governance. Where required, responses to these matters were sought from management and these will be followed up during the course of the next audit.

32

Audit matters raised this year

21

Audit matters raised in prior periods assessed as unresolved

5 High Risk Findings

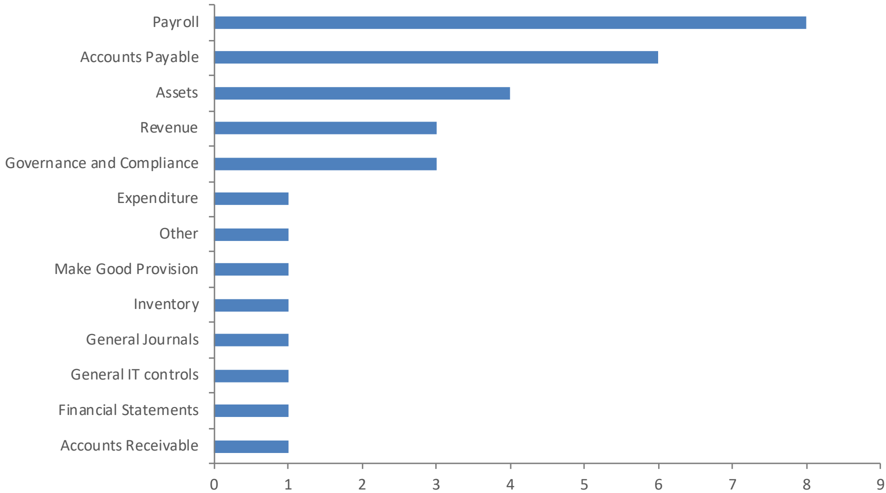
21 Moderate Risk Findings

6 Low Risk Findings

As a result of our audits, we raised 32 audit matters, with five matters rated as high risk and 21 rated as moderate risk.

The areas where findings were most commonly raised were payroll and accounts payable, as illustrated in Figure 1 below.

Figure 1: Current year audit findings



Findings relating to payroll included weaknesses in to controls around system changes and valuation of leave balances. Accounts payable findings also related to weaknesses in controls, including approvals for system changes. Matters specific to each audit are discussed within individual Chapters in the full Report.

SUBMISSION OF FINANCIAL REPORTS AND TIMELINESS OF AUDIT OPINIONS

In addition to the requirement for all State entities to submit financial statements within 45 days after the end of each financial year, section 19 of the *Audit Act 2008* (the Audit Act) required the Auditor-General to finalise audits within 45 days from the day the financial reports were received. Appendix B details when financial statements were received and audit opinions were issued.

The Treasurer is required to prepare TAFR by no later than 31 October immediately following the financial year to which the report relates. The Treasurer submitted the GGS financial statements and PA statements for audit on 29 September 2017. Final GGS and TSS financial statements were signed on 23 October 2017.

96%

Financial statements submitted on time

98%

Audits completed on time

Financial Statements for the Aboriginal Land Council and River Clyde Trust were not received within the 45 day deadline. The Aboriginal Land Council financial statements were received on 15 August 2017, one day after the deadline, whereas signed financial statements for the River Clyde Trust were received on 22 November 2017.

Apart from the River Clyde Trust audit, which is yet to commence, the audit of Treasury was the only audit not completed within the 45 day timeframe. The audit of Treasury was completed on 10 October 2017, which was twelve days after the statutory deadline.

CERTIFICATION OF SUBMITTED FINANCIAL REPORTS

Section 17 of the Audit Act requires State entities to submit financial statements to the Auditor-General within 45 days after the end of the financial year. Previously, we required State entities to submit statements certified by the accountable authority. For Departments, the responsible authority is the Secretary, whereas there are numerous other accountable authorities across the different GGS entities.

For 2016-17, we changed the process for submission of financial statements whereby statements submitted within 45 days only needed to be certified by the Chief Financial Officer (or equivalent). This allowed the audit to be completed and clearance provided to GGS entities and audit committees, if relevant, prior to certification by the Secretary or accountable authority.

In 2016-17, 21 of the 50 GGS entities chose to submit management certified financial statements.

AUDIT OPINIONS ON FINANCIAL STATEMENTS

48	1
Unmodified audit opinions issued on financial statements	Modified audit opinion

The audits of Government departments and THS were completed satisfactorily and unmodified audit opinions were issued in all cases.

For other GGS and State entities, unmodified audit reports were issued in all cases except for the National Trust of Australia (Tasmania).

Separate unmodified audit opinions were issued on the GGS and TSS financial statements and PA statements on 27 October 2017, with no issues identified.

MODIFIED AUDIT OPINION

This year, as in previous years, we modified our audit opinion on the financial statements of the National Trust of Australia (Tasmania) because it held heritage collections, but not all of these assets were recognised in the financial statements.

SECTOR ANALYSIS SUMMARY

The GGS Underlying Net Operating Balance was a deficit of $67m in 2016-17, an increase of $48m from the deficit reported last year. This increased deficit was due to increased expenses of $302m, whereas revenue only increased by $254m. The increases in employee costs and superannuation contributions totalled $158m, which accounted for more than half of the increase in expenditure. Over the past four years GGS Underlying Net Operating balance improved each year, until the current year, however the trend does show an improvement over the four year period.
The TSS Underlying Net Operating Balance was a surplus of $10m in 2016-17, $16m lower than the surplus reported in the prior year. An analysis of TSS underlying results for the past four years shows that although the TTS Underlying Net Operating balance varied over the past four years, it was trending in a positive direction, consistent with the GGS result.
Similar to previous years, funding from the Australian Government represented the majority of GGS revenue. Other Australian Government payments, which comprised Specific Purpose Payments, National Partnerships Payments and other grants and subsidies received were the second highest sources of revenue. Overall, funding from the Australian Government totalled 62.4% of underlying operating revenue in 2016-17 and this was higher than the four-year average of 60.7%.
The inherent uncertainty associated with distribution of GST revenue and other funding from the Australian Government was identified as a key risk by Treasury in its Tasmanian Government Fiscal Sustainability Report, issued in April 2016 and we concur with this assessment.
For 2016-17, GGS cash payments for non-financial assets totalled $416m, with Departments and THS contributing to the majority of this balance with $356m. Actual cash payments were $109m lower than original budget of $525m.
Most Departments spent their allocated capital budget over the last four years. However, Departments with the highest capital expenditure in dollar terms consistently did not spend allocated capital budgets within the year, namely State Growth and DHHS.

GSS Net Worth, also referred to as net assets, increased by $2.53bn to $9.69bn at 30 June 2017. The GGS showed a negative Net Debt position in all of the past four years because cash, deposits and investments exceeded borrowings in each of those years, with Net Debt being negative $791m at 30 June 2017.

The TSS Net debt result improved significantly, from $196m in the prior year to a negative Net Debt figure of $811m in the current year. This $1.01bn Net debt decrease was principally due to the impact of the $730 million equity contribution provided by the GGS to Tascorp, relating to the one-off payment received for the transfer of ownership of the Mersey Community Hospital from the Australian Government to the Tasmanian Government.

Following our audit of TAFR, we examined the Tasmanian Government's Fiscal Strategy, and reviewed three of the six key strategic actions, being Strategic Actions 1, 2 and 5. Of the three, only strategic action 1, Annual growth in General Government operating expenses will be lower than the long-term average growth in revenue, was not met during 2016-17.

At 30 June 2017, the GGS unfunded defined benefit superannuation liability was $7.87bn (30 June 2016, $8.84bn). The decreased net liability of $0.97bn in 2016-17 was caused by a combination of decreased present value of the superannuation liability of $0.75bn, and an increase in the fair value of Plan assets of $0.21bn.

An analysis of cash outflows required to meet the emerging cost of superannuation benefits payable to members shows cash required to meet obligations will peak approximately 16 to 20 years from now at around $567m per annum. A key budget risk is the cost to the Budget will increase significantly in coming years, increasing by 68.0% over the next 14 years and peaking in 2029-30.

NOTES:

For the full report go to:
http://www.audit.tas.gov.au/publications/reports-to-parliament/

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