Tasmanian
Audit Office

Report of the Auditor-General
No. 12 of 2016-17

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

Volume 4

State entities 30 June and 31 December 2016

May 2017

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THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and therefore of the Tasmanian Audit Office, are set out in the *Audit Act 2008* (Audit Act).

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. State entities are defined in the Interpretation section of the Audit Act. We also audit those elements of the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing their financial reports, enhancing their value to end users.

Following financial audits, we issue a variety of reports to State entities and we report periodically to the Parliament.

We also conduct performance audits and compliance audits. Performance audits examine whether a State entity is carrying out its activities effectively and doing so economically and efficiently. Audits may cover all or part of a State entity's operations, or consider particular issues across a number of State entities.

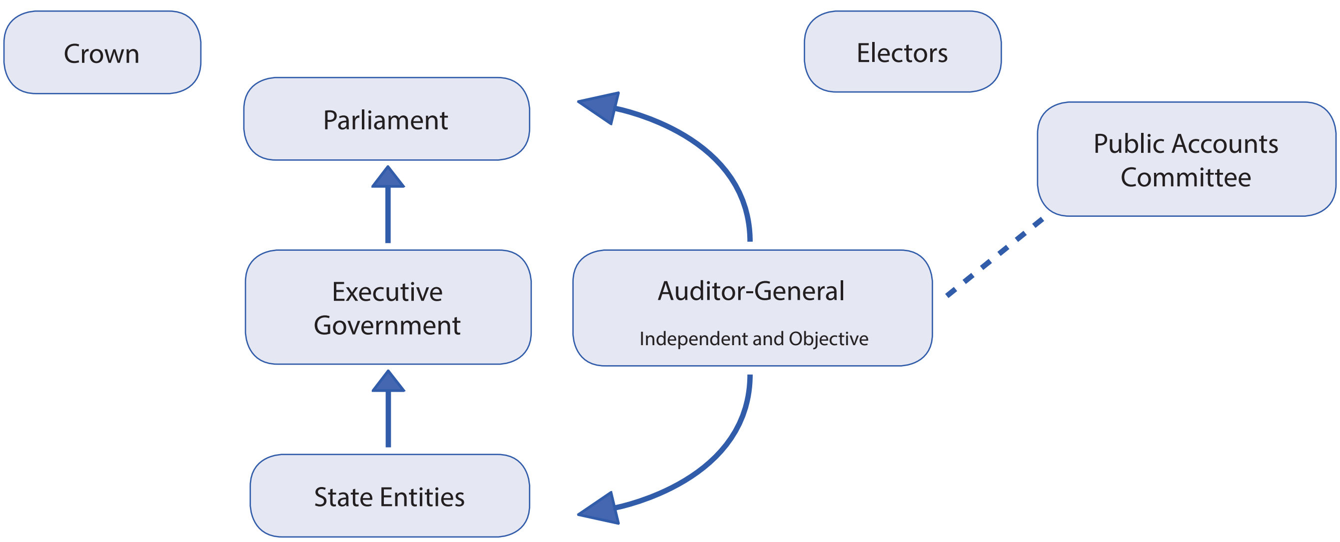
Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

We can also carry out investigations but only relating to public money or to public property.

Performance and compliance audits are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year.

Where relevant, the Treasurer, a Minister or Ministers, other interested parties and accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses, or summaries thereof, are detailed within the reports.

The Auditor-General's role as Parliament's auditor is unique.



2017 (No. 10)

TASMANIA

2017
PARLIAMENT OF TASMANIA

Report of the Auditor-General
No. 12 of 2016-17

Volume 4

State entities 30 June and 31 December 2016

May 2017

Presented to both Houses of Parliament in accordance with the requirements of Section 29 of the *Audit Act 2008*

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23 May 2017

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President

Dear Madam Speaker

Report of the Auditor-General No. 12 of 2016-17, Auditor-General's Report on the Financial Statements of State entities, Volume 4, State entities 30 June and 31 December 2016

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my report on the audit of the financial statements of State entities, Volume 4, State entities 30 June and 31 December 2016.

Yours sincerely

Rod Whitehead
Auditor-General

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FOREWORD

This Report is the fourth and final volume in our series planned for advising Parliament on the outcome of audits for the 2015-16 financial year and the 2016 calendar year (the 2016 audit cycle). It deals with one State entity reporting at 30 June 2016 and State entities which reported at 31 December 2016. The most significant entity covered by this volume is the University of Tasmania which incurred a Net Underlying Deficit before Non-Operating Adjustments of $17.57m (2015, $11.98m) and Total Comprehensive Income of $11.74m (2015, $17.52m) for the year ended 31 December 2016.

As it relates to the 2016 audit cycle, the Report includes summaries relating to :

- audit findings
- the timeliness and quality of financial reporting
- audit opinions on financial statements
- improving presentation of financial statements
- audits dispensed with
- setting audit fees for financial audits
- developments in financial reporting and auditing.

Over a number of years we have monitored and reported on the usefulness of publicly reported performance information in annual reports and budget papers of State entities. Last year, in *Report of the Auditor-General No. 10 of 2015-16, Volume 4, State entities 30 June and 31 December 2015, findings relating to 2014-15 audits and other matters* (our 2015-16 review), we included a detailed chapter on the review of reporting key performance indicators (KPIs) in ten State entities. As the reporting framework in Tasmania has not altered since our previous detailed review, and little has changed for agencies, save some further refinements by a few more proactive agencies, we resolved to look to other jurisdictions to gain insight into other contemporary approaches to performance monitoring and to identify emerging trends.

Rod Whitehead
Auditor-General

EXECUTIVE SUMMARY

INTRODUCTION

This Report is the fourth and final volume in our series advising Parliament on outcomes of our financial audits for 2015-16 and the 2016 calendar year (the 2016 audit cycle) and it includes summaries relating to:

- audit findings
- the timeliness and quality of financial reporting
- audit opinions on financial statements
- improving presentation of financial statements
- audits dispensed with
- setting audit fees for financial audits.

This Report also includes a chapter on developments in financial reporting and auditing which includes sections on future financial reporting requirements and reporting non-financial performance. The latter includes ten key observations arising from a comparison of five other Australian jurisdictions with active performance reporting frameworks and future developments in reporting performance information.

STATE ENTITIES COVERED BY THE REPORT

This Report contains a chapter on the University of Tasmania (the University) and its controlled entities; University of Tasmania Foundation Inc, AMC Search Limited and the Tasmanian University Union Inc. It also includes a summary chapter for other 31 December 2016 State entities; ANZAC Day Trust, the Solicitors' Trust and Theatre Royal Management Board.

The University and the other 31 December 2016 entities included in this Report submitted their financial reports within the statutory deadline apart from the Solicitors' Trust. The audits were completed satisfactorily and unqualified opinions issued in all instances.

The Report also covers audits of the River Clyde Trust which failed to meet the statutory deadline for the submission of its financial statements for the past two years. At the time of writing this Report, the audits for 30 June 2015 and 2016 were yet to be completed and therefore no analysis is included.

The Tasmanian Early Years Foundation ceased to operate on 8 December 2016. An unqualified audit opinion was issued on its financial statements covering the period from 1 July 2016 to the date of its dissolution.

FINDINGS FROM 30 JUNE 2016 AND 31 DECEMBER 2016 AUDITS

Deficiencies in internal controls, matters of governance interest and unresolved issues identified during our audits were communicated to management and those charged with governance in management letters, which included our observations, related implications, recommendations and risk ratings. For the 2016 audit cycle:

- 209 matters were raised, with recommendations made to 60 State entities
- there were 22 high risk finding, 102 moderate risk findings and 85 low risk findings
- the majority of matters raised related to the valuation of non-current physical assets, corporate governance and information systems
- thirty-one percent of issues reported in previous year remained unresolved in 2016.

SUBMISSION OF FINANCIAL STATEMENTS AND TIMELINESS OF AUDIT OPINION

Compliance with the 45-days statutory deadline for submission of financial statements improved in the 2016 audit cycle. Three state entities failed to comply with the requirement (Central Coast Council, the River Clyde Trust and the Solicitors' Trust), compared to eight entities the year before. Our compliance with the requirement to complete audits of financial statements within 45 days of their receipt also improved. One audit was completed outside the time required, compared to nine audits in the 2015 audit cycle.

AUDIT OPINIONS ON FINANCIAL STATEMENTS

We issued unmodified audit opinions on all financial statement audits completed during the 2016 audit cycle, except for the following qualified audit opinion.

National Trust of Australia (Tasmania)	The Trust possesses certain heritage collections, but not all of these assets were recognised. Due to the nature of the assets, we were unable to quantify the financial effect.

Two of the unmodified audit opinions contained an emphasis of matter paragraph.

Forestry Tasmania	Emphasis of matter paragraph drew attention to a note which discussed the ability of Forestry to continue as a going concern.
Tasmanian Water and Sewerage Corporation Pty Ltd	Emphasis of matter paragraph drew attention to a note which stated that the adopted valuation technique used to measure the fair value of infrastructure assets had not been applied consistently since the initial valuation on 1 July 2013, being the date TasWater commenced trading.

One of the unmodified audit opinions contained an other matter paragraph. We include an other matter paragraph to highlight non-disclosures we believe are important to inform the users of the financial statements. Including an other matter paragraph does not modify our audit opinion.

West Coast Council	The other matter paragraph drew attention to West Coast Council failing to disclose overnight recreational vehicle parking and camping services as a significant business activity as required by the *Local Government Act 1993*. The disclosure was not made on the basis that Council disagreed with the findings of the Regulator and disputed that it provided any services at all.

IMPROVING PRESENTATION OF FINANCIAL STATEMENTS

Amendments to AASB 101 *Presentation of Financial Statements* clarified that entities should not disclose information that is qualitatively and quantitatively immaterial. The process of doing this is described as 'decluttering'.

A number of State entities, mainly ministerial departments, some Government businesses and local government councils decluttered their financial statements. Several examples are included in this Report to illustrate how decluttering improved financial statement presentation.

AUDITS DISPENSED WITH

The Auditor-General has the authority to dispense with the audits of State entities, but must consult with the Treasurer prior to exercising such dispensation. Audits are dispensed with on the condition the entity demonstrated appropriate financial reporting or the entity was controlled by a State entity and financial transactions and balances of the controlled entity were subject to audit procedures as part of the group audit of the controlling entity. In 2015-16, 39 (2014-15, 41) audits were dispensed with.

BASIS FOR SETTING AUDIT FEES

Fees for financial audits are determined by the Auditor-General pursuant to Section 27 of the *Audit Act 2008* (the Audit Act). Fees are set for each State entity commensurate with the size, complexity and risks of the engagement. Charge rates for Tasmanian Audit Office (the Office) audit staff are based on the principle of the Office being able to recover its costs of operation. Charge rates comprise two parts, direct salary cost and overhead recovery.

Where circumstances surrounding an audit engagement have materially changed, additional audit fees may be sought from the State entity.

For the 2016-17 financial year audits, fees were increased by 2% for all entities.

DEVELOPMENTS IN FINANCIAL REPORTING AND AUDITING

This report includes a chapter summarising developments in financial reporting and audit requirements. Topics covered include:

- the future of public sector accounting
- financial reporting developments of significance for 2016-17
- financial reporting developments for financial years after 2016-17
- financial audit developments.

REPORTING NON-FINANCIAL PERFORMANCE

It is commonly accepted that public sector entities must report on their performance as part of their accountability obligations to demonstrate their effective stewardship and responsibility for the use of resources. Being transparent, and accurately measuring and effectively communicating performance to Parliament and the community is critical in holding public sector entities to account for their performance.

In this chapter we:

- revisit the findings of our 2015-16 review of reporting key performance indicators by ten State entities
- review and compare the performance reporting frameworks for five Australian states and territories
- summarise developments relating to the reporting of service performance information by not-for-profit entities being considered by the Australian Accounting Standards Board (AASB).

REPORTING AND AUDIT RESPONSIBILITIES

Reporting Framework

All entities included in this volume were required to prepare financial reports complying with Australian Accounting Standards (AAS).

Legislative Framework

The legislative frameworks covering the entities included in this volume were:

Entity	Framework
University of Tasmania	*University of Tasmania Act 1992* *Higher Education Support Act 2003 (Financial Statement Guidelines)* *Australian Charities and Not-for-Profits Commission Act 2012*
AMC Search	*Australian Charities and Not-for-profits Commission Act 2012*
Tasmanian University Union Inc	*Associations Incorporation Act 1964*
University of Tasmania Foundation Inc	*Australian Charities and Not-for-profits Commission Act 2012*
ANZAC Day Trust	*ANZAC Day Observance Act 1929*
Theatre Royal Management Board	*Theatre Royal Management Act 1986*
The Solicitors' Trust	*Legal Profession Act 2007*

Responsible Ministers

The Ministers responsible for the entities included in this volume were:

Entity	Responsible Minister
University of Tasmania	Education and Training
AMC Search	Education and Training
Tasmanian University Union Inc	Education and Training
University of Tasmania Foundation Inc	Education and Training
ANZAC Day Trust	Sport and Recreation
Theatre Royal Management Board	Arts
The Solicitors' Trust	Justice

Accountability Requirements

All entities came under the provisions of the Audit Act. Section 17 required accountable authorities as soon as possible and within 45 days after the end of each financial year to prepare and forward to the Auditor-General a copy of the financial report for that financial year.

Audit Requirements

Section 18 of the Audit Act required the Auditor-General to audit the financial report and any other information submitted by a State entity or and audited subsidiary of a State entity.

Section 19 of the Audit Act required the Auditor-General to:

- prepare and sign an opinion on an audit carried out in accordance with requirements determined by the Australian Auditing and Assurance Standards
- provide the opinion prepared and signed and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the appropriate Minister and provide a copy to the relevant accountable authority.

The Auditor-General must finalise his audit opinion within 45 days of receiving financial report from the accountable authority.

The auditor's report, which includes the audit opinion, provides assurance about the reliability of the financial report, including compliance with legislative requirements.

In accordance with Australian Auditing Standards, the Auditor-General may issue one or more audit opinion types:

- An ***unmodified opinion*** (often interchanged with unqualified opinion) is issued when the financial statements comply with relevant accounting standards and prescribed requirements.
- A ***qualified opinion*** is issued when the financial statements as a whole comply with relevant accounting standards and legislative requirements, with the exceptions noted in the opinion.
- An ***adverse opinion*** is issued when the financial statements as a whole do not comply with relevant accounting standards and legislative requirements.
- A ***disclaimer of opinion*** is issued when the auditor is unable to express an opinion as to whether the financial statements comply with relevant accounting standards and legislative requirements.
- An ***emphasis of matter*** paragraph may be included with the audit opinion to highlight an issue of which the auditor believes the users of the financial statements need to be aware. The inclusion of an emphasis of matter paragraph does not modify the audit opinion.
- an ***other matter*** paragraph may be included with the audit opinion to refer to a matter other than those presented or disclosed in the financial report that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

31 DECEMBER AUDITS

UNIVERSITY OF TASMANIA

INTRODUCTION

The University was established in 1890 and is the fourth oldest university in Australia. It has campuses in the three main regions of the State: Hobart in the south, Launceston in the north and Burnie in the north-west. The University is organised into six faculties and three University institutes: Australian Maritime College, Institute for Marine and Antarctic Studies and Menzies Institute for Medical Research.

KEY RESULTS AND DEVELOPMENTS

$618m	$603m	($18m)	$15m
Total income	Total expenses	Underlying result	Net result

The University incurred an Underlying deficit of $17.57m for 2016 compared to an Underlying deficit of $11.98m in 2015. The higher Underlying deficit was mainly attributed to an increase in employee related costs of $24.02m, partially offset by higher user charges and fees of $12.50m following an increase in revenue from fee-paying overseas students of $7.29m.

Australian Government operating grant funding was 50.0% of total revenue compared to 48.0% for the prior year.

For 2016, expense categories as a percentage of total operating expenses were relatively consistent (within 1.0%) with last year's percentages.

Employee costs were the largest component of expenditure in 2016 at $354.21m, which was $18.62m (excluding restructure costs) higher compared to 2015. Academic salary costs were $185.84m (31.0% of operating expenses) and non-academic salary costs were $168.37m (28.0% of operating expenses).

Other significant operating expenses included scholarships and prizes, $27.86m, consultancy and advisory services, $26.45m, research sub-contractors, $18.92m, travel and staff development, $17.92m and consumables, $10.79m.

The University's Net result for the year was a surplus of $14.93m compared to a surplus of $8.92m in 2015.

Net investment returns from the University's investment portfolio were $18.34m (2015, $24.67m) with the net return on the average investment portfolio for the year being lower in 2016 at 6.4% (2015, 8.8%). The investment returns in 2015 included a valuation increase of $9.20m in Education Australia Limited.

The Australian Government provided capital funding of $7.50m towards the construction of the new performing arts complex, the Hedberg Centre. The University also received capital funding from the State and Local governments totalling $6.67m in 2016, comprising the value of the Makers Workshop in Burnie, $5.65m, and the Hedberg Centre, $0.52m.

During 2016, the University impaired the text books within its library collection by $10.13m (2015, $10.27m). The trigger for impairment was the move towards electronic text books, which significantly reduced the useful life of hard copy text books.

4	**:**	**1**	
Domestic Student Load		International Student Load	

1.1	**:**	**1**	
Academic Staff		Non-academic Staff	

Total student equivalent full time student load (EFTSL) increased by 1 160 students in 2016, or 5.9%, which was a higher growth than in 2015 (736 students or 3.9%). Domestic students increased by 809 EFTSL to 16 681 EFTSL, an increase of 5.1% from the previous year (2015, 2.7%). Fee paying overseas and off-shore student numbers increased by 350 EFTSL to 4 206 EFTSL, an increase of 9.1% from the previous year (2015, 9.0%).

Full Time Equivalent (FTE) staff numbers over the past four years remained consistent, marginally increasing from 2 400 at the end of 2012 to 2 451 at 31 December 2016. Academic staff numbers increased by 20 to 1 073 FTEs in twelve months to 31 December 2016. Non-academic numbers increased by 31 to 1 378 FTEs over the same period.

$605M	**$306M**	**$103M**	**$88M**
Land and buildings	Cash and investments	Borrowings	Employee provisions

The University's Net assets increased by $11.74m representing the Net result for the year of $14.93m less the net decrement on revaluation of assets, $3.74m, plus the actuarial gain relating to superannuation plans, $0.54m.

Property, plant and equipment represented 66.3% of total assets and were valued at $783.87m at 31 December 2016. Significant changes in the value of property, plant and equipment from 31 December 2015 were:

- additions totalling $87.67m, largely represented by expenditure of $74.54m on capital projects and $6.19m on buildings

less

- write-down of $3.74m in the value of the Bagot Street property located at Beauty Point upon its reclassification as a non-current asset classified as held for sale
- impairment of the library collection, $10.13m
- $6.48m carrying value of assets disposed of, predominantly surplus student accommodation properties
- depreciation of $28.17m.

Capital expenditure during 2016 totalled $74.54m and included $44.89m for the student accommodation development in Melville Street, Hobart.

Capital projects totalling $45.80m were completed during the year and capitalised as buildings and plant and equipment. Significant completed projects included:

- student accommodation facility in Burnie, $4.51m
- student accommodation facility in Inveresk, $17.25m
- heating, ventilation and air conditioning at Sandy Bay campus, $3.77m
- alterations to the Makers Centre at West Park in Burnie, $3.06m.

Capital projects in progress at 31 December 2016 totalled $90.13m with significant projects being:

- student accommodation development in Melville Street, Hobart, $66.48m
- the Hedberg Centre, $10.46m.

Cash, short and long-term investments, $305.81m, represented 25.9% of total assets at 31 December 2016.

The University had a deficiency in working capital of $91.01m at the end of 2016, (2015, $52.91m). This was not considered to be a concern as investments (classified as non-current assets) could be redeemed to cover any potential working capital deficiency.

Funding was received from the Australian Government based on estimated student enrolments and associated courses, with actual enrolments confirmed post year-end. It was estimated that $22.48m was repayable due to differences in estimated and actual student enrolments. The amount payable included funding received in 2016 and prior years.

Borrowings obtained from the Tasmanian Public Finance Corporation under a Master Loan Facility Agreement were $103.10m at 31 December 2016, a reduction of $15.50m from the prior year. Borrowings mostly related to the construction of student accommodation facilities.

Employee related provisions totalled $87.83m at 31 December 2016, an increase of $8.53m. Of the increase, $4.57m was related to a provision for restructuring costs. Excluding these costs, the increase was $3.96m which represented a 4.6% rise in employee related provisions from the prior year.

The University was in negotiations with both the Australian and Tasmanian Governments over funding agreements for its Northern Transformation project. The carrying values of affected land and buildings, including remaining useful lives and residual values (being the estimated proceeds from disposal less disposal costs), will be reassessed once funding arrangements are agreed.

CONCLUSION

The signed financial report was received on 10 February 2017 and an unqualified audit opinion was issued on 15 February 2017.

In performing our audit we did not identify any significant deficiencies in internal control and no high risk audit findings were identified during the course of the audit. We identified two moderate risk findings related to excessive employee leave entitlement balances and monitoring of compliance with loan facility covenants.

BACKGROUND

The University is governed by the University Council (the Council) established under the *University of Tasmania Act 1992*. The Council has responsibility for high-level strategic direction, major financial planning, monitoring management performance and compliance, staff appointments and the allocation of funds.

The Council delegates broad powers to the Vice-Chancellor (the managerial and academic leader) to manage the operations of the University in conformity with agreed plans, principles and policies. The Vice-Chancellor, in turn, empowers other members of the Senior Management Team.

The financial report comprises the financial statements of the University, being the parent entity, and the following entities that were controlled by the University during the year and made up the consolidated entity:

- University of Tasmania Foundation Inc (University Foundation)
- AMC Search Limited (AMC Search)
- Tasmania University Union Inc (TUU)
- UTAS Holdings Pty Ltd (UTAS Holdings)
- Sense-Co Tasmania Pty Ltd (Sense-Co).

The results reported in this Chapter relate to the University's consolidated financial performance and position.

Additionally, the financial report was prepared in accordance with the requirements of the following Acts:

- *University of Tasmania Act 1992*
- *Higher Education Support Act 2003 (Financial Statement Guidelines)*
- *Australian Charities and Not-for-Profits Commission Act 2012* .

The University reports on a calendar year basis and therefore the financial results were for the year ended 31 December 2016.

The Responsible Minister was the Minister for Education and Training.

The University operated in an environment influenced by the following:

Major capital projects

The National Rental Affordability Scheme (NRAS) project at Inveresk in Launceston was completed in early 2016. Construction of the Melville Street accommodation compex continued into 2017.

The University commenced the construction of its new performing arts centre, the Hedberg Centre, in late 2016. The development is a partnership between the University, the Tasmanian Government and the Theatre Royal Management Board and will house the Tasmanian Conservatorium of Music and the Creative Exchange Institute, which will focus research on performance, design and creativity. The new facility is expected to be completed during 2019 and is estimated to cost $90.00m.

University transformation projects

The University has announced plans to relocate its Launceston campus from Newnham to Inveresk (estimated cost $260.00m), and its Burnie campus from Mooreville Road to West

Park (estimated cost $40.00m), to attract more students. The University has entered into a Memorandum of Understanding with the State Government, TasTAFE and the City of Launceston for moving the Newnham campus to the city centre. The Australian Government has committed to providing $150.00m to the project. A Memorandum of Understanding has also been signed by the University, State Government, TasTAFE, Burnie City Council and the Cradle Coast Authority relating to the Burnie campus relocation.

The University has also announced a proposal to move the University's science, technology, engineering and maths (STEM) research and training facilities into the central business district. The move will involve an expansion of its existing STEM facilities.

Future of higher education reform

As part of its 2014–15 Budget, the Australian Government announced a package of higher education reforms to address the challenges facing the higher education sector. These reforms were intended to strengthen the higher education system and ensure Australia is not left behind at a time of rising performance by universities around the world, foster greater innovation in education offerings and to widen opportunity and access to support the growing diversity of student needs and aspirations.

In May 2016 the Australian Government released a paper titled *Driving Innovation, Fairness and Excellence in Australian Higher Education,* which sets out options for reform that support the Government's vision of a stronger, more sustainable system of higher education. The Government is seeking feedback on the individual elements of a new higher education reform package. To facilitate this consultation, the Government has decided to delay implementation of the reforms to 2018. The Government will also not be pursuing full fee deregulation for Commonwealth supported places. It will consider future arrangements as part of its consultation on the future of higher education.

AUDIT RESULTS

Key matters considered during the audit

Land and buildings

The University owned a significant number of properties throughout the State. Many of these were specific purpose buildings such as lecture theatres, class rooms and laboratories. The estimation of the useful lives of these buildings was dependent upon the nature and purpose of the buildings.

During 2016, significant building projects were either completed or underway at different sites around the State, including the NRAS projects at Inveresk in Launceston and Melville Street in Hobart and the Hedberg Centre project.

Land and buildings were measured at fair value, which required significant judgement and estimation.

To address identified audit risks we performed the following audit procedures:

- reviewed the University's assessment of impairment for capital projects under construction. We raised an issue that management does not document its assessment as to whether capital work in progress is impaired.
- tested the University's assessment of useful lives of buildings
- tested the appropriateness of capitalisation of costs
- verified capital work-in-progress during the year and at year end
- reviewed allocation between interest capitalised and expensed
- tested the appropriateness of the timing of capital project conversion to depreciable buildings
- reviewed recent valuations
- followed up on the matter concerning ownership of land at Burnie campus
- reviewed the disclosure of future capital commitments in the notes to the financial report.

Investment portfolio

At 31 December 2016 the University held $288.38m in investments with a large portion of this balance managed by an investment manager. Investments were held in 17 unlisted managed funds (72.8%), two direct equity portfolios (9.7%) and cash deposits with banks (17.5%). The majority of unlisted funds were invested in Australian and international listed equities or listed equity derivatives, with some investments in Australian and international fixed interest/hybrid funds.

All managed funds prepared audited financial statements at 30 June 2016, and the majority of funds provided audit reports on the design, implementation and operating effectiveness of controls around investment management services for the year ended on that date. As the University has a calendar year balance date, additional audit procedures were undertaken to cover the period from 30 June 2016 to 31 December 2016.

In addition, the University held a direct investment in an unlisted public company, Education Australia Limited which was valued at $10.89m at 31 December 2016.

To address audit risks associated with investment balances we:

- reviewed the contract between the University and the investment manager to understand the rights and obligations of each party
- reviewed and evaluated the monitoring controls exercised by the University over the performance of the investment manager
- obtained confirmations from investment managers as to their controls over the existence, completeness and valuation of assets under their management
- obtained directly from the managed funds:
    - audited financial statements for the latest financial year
    - confirmation of units held by the University at 30 November 2016 and unit valuation at that date
    - control reports on the design, implementation and operating effectiveness of controls at the service organisation
    - confirmation that existing (and any new) controls were operating effectively from the date of the last control report to the date of the confirmation.

Student related revenue

Funding from the Australian Government accounted for 50.0% of the University's revenue. The Australian Government provided funding based on estimated student enrolments and associated courses. The funding is adjusted each year to reflect the difference in estimated and actual student enrolments.

In auditing student related revenue, we:

- tested receipts of income for Commonwealth Grant Scheme and Higher Education Contribution Scheme income to Australian Government statements
- tested calculations of adjustments of overpayments in the student management system and reconciled to the financial statements
- performed analytical procedures over international student fees and student accommodation charges, including NRAS.

Employee expenditure, benefits and provisions

The University had approximately 2 450 FTE employees located throughout the State. Employee related expenses represented 60.0% of the University's total expenditure in 2016. There were several identified audit risks:

- the use of manual timesheets, which could result in input errors
- the number and complexity of industrial awards in existence increased the risk that pay could be calculated incorrectly
- the wide geographical dispersal of staff increased the risk that payments were made for time not worked.

Employee entitlements represented approximately 32.5% of the University's total liabilities at 31 December 2016 and there was significant management estimation involved in the calculation of employee provisions. As part of the audit we tested the calculation of employee provisions against the requirements of AASB 119 *Employee Benefits*.

A new payroll system was implemented at the beginning of the year. There was an additional audit risk that data was not transferred correctly from the previous payroll system. In addition, internal audit identified weaknesses in internal control and as a consequence we did not place reliance on controls and performed extended detailed testing with a larger sample size.

Additional audit procedures performed included:

- testing employee commencements and terminations, payroll payments to timesheet and other supporting records
- analytical review of employee benefit expense
- testing employee provision calculations
- testing the reconciliation of balances between the new payroll systems and the previous payroll system.

FINANCIAL ANALYSIS

Figure 1 provides a snapshot of the University's financial results for 2016 in comparison to prior years.

Figure 1: University Financial Snapshot

	2016		2015		2014		2013	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial Performance								
Total Australian Government financial assistance	420 249	●	406 726	●	393 525	▲	372 763	▲
Employee related expenses	360 747	▼	336 727	●	324 912	▼	302 514	●
Reconciliation from underlying result to net result								
Underlying result	(17 573)	▼	(11 981)	▲	(24 663)	▼	(8 148)	▲
Net investment revenue	18 342	▼	24 668	▲	19 720	▼	35 244	▼
Capital income	10 831	▲	5 776	▼	6 672	▼	21 750	▼
Capital grants received	6 672	▼	10 550	▲	0	●	0	▼
Net movement in unspent research grants	4 013	▼	6 532	▲	4 272	▲	(7 212)	▼
Commonwealth grant scheme and HECS adjustments	2 776	▲	(7 109)	▼	(1 862)	▼	(631)	▲
Impairment expense and loss on disposal	(10 127)	●	(10 268)	▼	(446)	▼	(220)	▲
Gain(Loss) on disposal of assets	0	▲	(9 250)	▼	0	●	0	●
Net result for the year	14 934	▲	8 918	▲	3 693	▼	40 783	●
Total comprehensive income	11 736	▼	17 520	▲	3 351	▼	41 754	▲
Financial position[1]								
Investments	288 375	●	279 864	●	276 471	▲	255 408	▲
Property, plant and equipment	783 869	▲	745 636	▲	688 066	▲	665 937	▲
Borrowings	(103 100)	▲	(118 600)	▼	(95 601)	●	(93 600)	▼
Employee provisions	(87 833)	▼	(79 308)	●	(80 095)	●	(78 465)	▲
Net assets	911 565	●	899 829	●	882 309	●	878 958	▲
Key financial ratios								
Operating margin	0.96	●	0.98	●	0.96	●	0.98	▲
Own source revenue	40.1%	●	39.8%	●	40.3%	▼	42.8%	▲
Liquidity ratio	0.76	▼	1.13	▼	1.69	▼	4.10	▲
Self-financing ratio	7.1%	▲	4.5%	▼	5.7%	▲	2.8%	●
Debt to equity	11.3%	▲	13.2%	▼	10.8%	●	10.6%	▼
Building sustainability	63%	▼	106.0%	▲	100.0%	▼	133.0%	▲

Indicators:

▲ *improvement from prior year*

▼ *deterioration from prior year*

● *no material change from prior year*

[1]*Assets are positive, liabilities are negative*

UNIVERSITY CONTROLLED ENTITIES

Entities included in this section are:

- University Foundation
- AMC Search
- TUU
- UTAS Holdings
- Sense-Co.

The University Foundation is an incorporated association which acts as trustee for the University of Tasmania Foundation Trust. It raises money to endow scholarships, support research and build resources, while developing links between the University, industry and the community.

AMC Search is a company limited by guarantee which provides maritime training and consulting services.

The TUU is an incorporated association established in 1899 and is the body of student representation for tertiary students attending the University. Under AASB 10 *Consolidated Financial Statements*, the University of Tasmania satisfies the definition of control and has consolidated the TUU since 2014.

UTAS Holdings is a company registered on 15 August 2014 and established to act as a holding company for commercialisation activities of the University. The company did not trade during the year ended 31 December 2016.

Sense-Co is a company registered on 19 August 2014 and established to focus on the commercialisation opportunities of sensing technology. The company is a wholly owned subsidiary of UTAS Holdings. The company did not trade during the year ended 31 December 2016.

KEY RESULTS AND DEVELOPMENTS

University Foundation
The University Foundation recorded a Net surplus of \$6.34m in 2016 (2015, \$2.24m).
Total revenue in 2016 was \$12.09m (2015, \$7.05m), which mainly comprised donations, bequests and a University transfer of \$8.29m (2015, \$3.59m), and investment income of \$2.63m (2015, \$2.34m). The increase in revenue was mainly due to a donation of \$2.60m received from Warren Endowed Chair.
Total expenditure in 2016 was \$5.75m (2015, \$4.81m). The Foundation's main expenses were scholarships, bursary and other payments \$4.49m (2015, \$2.50m) which fluctuate from year to year depending upon fund availability or decisions when to offer scholarships and grants, and other expenses of \$1.26m (2015, \$1.40m) which remained consistent.
Net assets were \$53.75m at 31 December 2016 (2015, \$47.41m).

AMC Search
AMC Search recorded a Net surplus of $1.66m in 2016 (2015, $1.60m).
Net assets were $5.24m at 31 December 2016, down from $5.53m in 2015.
Total revenue in 2016 was $10.08m, up from $9.47m in 2015, and total expenditure was $8.42m, up from $7.87m in 2015.
A review was undertaken by the University of the governance of AMC Search which resulted in a new company constitution. The constitution was approved by the Board in September 2016. The document reduced the number of Board members and replaced external Board appointees with University appointees to better reflect the role of the University in AMC Search operations.
The Pacific Patrol Boat Contract with the Department of Defence was extended in April 2016 until July 2018 for the first of three possible contract extension periods.
AMC Search paid a contribution to the University in 2016 of $1.94m (2015, $1.07m), which was based on 80.0% of AMC Search's 2015 surplus and an additional $0.66m special contribution for the upgrade of the Centre for Marine Simulations.

TUU
During the course of the 2016 audit we identified that unspent student services and amenities fee (SSAF) funding was being carried forward on the balance sheet as funding in advance. However, pursuant to AASB 1004 *Contributions*, TUU obtained control of the contribution at the time of receipt of the funds from the University and, therefore, revenue should have been recorded when received. Consequently, a material prior period error was required to be corrected in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* resulting in restatement of prior year comparative figures and inclusion of a three-column balance sheet in the 2016 financial statements.
TUU recorded a Net surplus of $0.51m in 2016 (2015 restated, $0.47m).
Total revenue in 2016 was $2.58m (2015 restated, $2.54m), which mainly comprised SSAF funding of $1.23m (2015 restated, $1.36m), and baseline funding of $0.47m (2015 restated, $0.46m), both of which were received from the University in accordance with an annual baseline funding and student services and amenities fee allocation agreement.
Total expenditure in 2016 was $2.06m (2015 restated, $2.08m), of which $1.19m (2015 restated, $1.16m) was spent by the Board of Management to fund the administration of TUU including employment of relevant staff, and management of the organisation's annual budget. In 2016, the Student Representative and Student Council spent $0.47m (2015 restated, $0.50m) on education and welfare advocacy initiatives as well as student events and activities.
Net assets were $9.01m at 31 December 2016 (2015 restated, $8.50m).

Conclusion

All University consolidated entities submitted their financial statements within the statutory deadline. Unqualified audit reports were issued in all cases.

For AMC Search we identified one moderate risk finding related to missing documentation for employee remuneration.

For TUU we identified two moderate risk findings, one related to the calculation of employee long service leave and the second related to financial statement accounting disclosure compliance with Australian Charities and Not For Profits Commission (ACNC) requirements.

Key matters considered during the audit

University Foundation

The key audit risks identified related to donations and bequests income, investments and investment income.

AMC Search

The key audit risks identified related to revenue, particularly course training revenue, cash and investments and movements in equity and reserve balances.

TUU

The key audit risks identified related to Baseline and SSAF funding received under the Deed of Agreement with the University, cash and investments.

FINANCIAL ANALYSIS

Figure 2 summarises the financial results and position of University controlled entities for 2016.

Figure 2: Financial Results

	Underlying surplus (deficit) $'000s	Net surplus (deficit) $'000s	Comprehensive surplus (deficit) $'000s	Net Assets 2016 $'000s	Net Assets 2015 $'000s
University Foundation	6 340	6 340	6 340	53 746	47 406
AMC Search	1 660	1 660	1 641	5 237	5 534
TUU	514	514	514	9 010	8 496

OTHER STATE ENTITIES 31 DECEMBER 2016

INTRODUCTION

This part of the Report provides information on the following State entities who reported on a calendar year basis:

- ANZAC Day Trust
- Theatre Royal Management Board
- The Solicitors' Trust.

CONCLUSIONS

The Solicitors' Trust submitted financial statements eight days after the statutory deadline. The other entities included in this Chapter submitted their financial statements within the statutory deadline. Unqualified audit reports were issued in all cases.

In performing the audits we did not identify any significant deficiencies in internal control and no high risk audit findings were identified during the course of these audits.

AUDIT RESULTS

ANZAC Day Trust

Anzac Day Trust recorded a Net deficit of $0.002m (2015, $0.001m surplus). The Trust only completed a statement of receipts and payments and therefore did not produce a balance sheet.

Theatre Royal Management Board

$2.15M	$2.27M	$0.05M	$0.12M
Total income	*Total expenses*	*Underlying deficit*	*Net deficit*

The Theatre Royal Management Board Underlying deficit, $0.05m, in 2016 was comparable to the Underlying deficit of $0.03m in 2015.

The Theatre Royal Management Board has entered into a development agreement with the University of Tasmania and the Tasmanian Government for the construction of the performing arts centre adjacent to the Theatre Royal which will be called the Hedberg Centre. During the year, the Theatre Royal Management Board expensed costs of $0.07m in relation to the Hedberg Centre. These costs were excluded from the calculation of the Underlying result.

2016		2015	
197	$1.05M	198	$1.00M
Number of Performances	Program income (excluding grants)	Number of Performances	Program income (excluding grants)

The number of performances and program income in 2016 did not vary significantly from the previous year and both operating revenues and expenses were fairly consistent between years.

Net assets were $1.37m at 31 December 2016, down from $1.49m in 2015. Operating cash and cash held in term deposits totalled $2.03m, of which $0.91m was cash from advanced ticket sales, deposits received and gift vouchers sold.

The Solicitors' Trust

$2.85M	$0.14M	$0.02M	$4.13M
Total Trust income	Total expenses	Total Guarantee fund income	Total distributions to grantees

As at 31 December 2016, the Trust reported a Net deficit of $1.40m (2015, surplus $3.28m), a decrease of $4.68m from prior year, predominately due to settlement income of $3.30m received in 2015 relating to compensation paid to investors of a failed mortgage fund.

The Trust's Income of $2.85m was primarily derived from interest on Statutory Deposits, trust accounts operated by legal practitioners and trust investment funds.

The Trust paid $4.13m in distributions to grantees pursuant to section 361(6) of the *Legal Profession Act 1997* for 2016, an increase of $1.41m from prior year.

Net assets at the end of 2016 amounted to $10.95m, largely comprised of cash assets of $13.39m, partially offset by the accrual of grant distributions of $2.62m.

The Trust held $48.43m in Statutory deposits as at 31 December 2016. These funds are administered by the Trust under Section 352 of the *Legal Professional Act 2007*, and as such are only reflected in the notes to the financial statements.

FINANCIAL ANALYSIS

Figure 3 summarises the financial results and position of Other State Entities 31 December 2016.

Figure 3: Financial Snapshot

	Underlying surplus (deficit) 2016 $'000s	Net surplus (deficit) 2016 $'000s	Net Assets 2016 $'000s	Net Assets 2015 $'000s
ANZAC Day Trust	(2)	(2)	2	4
Theatre Royal Management Board	(46)	(116)	1 374	1 490
The Solicitors' Trust	(1 392)	(1 392)	10 948	12 340

30 JUNE AUDITS

RIVER CLYDE TRUST

INTRODUCTION

River Clyde Trust (the Trust) was established in 1898 and operates under the *Water Management Act 1999*. It owns assets which include control gates at Lake Sorell and Lake Crescent and a pump station at Lake Meadowbank. These assets allow farmers along the Clyde River to access water for irrigation.

KEY DEVELOPMENTS

Audit not completed at the time of finalising this report

The Trust submitted its financial report for 30 June 2015 on 21 January 2016, well after the 14 August 2015 deadline. The report was not accepted as it was assessed as not being complete in all material respects. Correspondence with the Trust's Chairman noted:

- the format of the statement of profit and loss did not separate comprehensive income items
- a statement of cash flows was not prepared
- the basis of preparation indicated the Trust was not a reporting entity
- a number of omissions in the explanatory notes.

The financial report for the year ended 30 June 2016 was submitted by the Trust on 14 December 2016. The report was not accepted as we were unable to substantiate the accuracy of the 2014-15 comparative information in the 2015-16 financial report because the 2014-15 audit had not been completed.

Consequently, the Trust again failed to meet its statutory reporting deadline. As a result, the Trust breached section 17 of the Audit Act, which requires accountable authorities to submit financial statements to the Auditor-General within 45 days after the end of the financial year.

At the time of writing this Report, the audits of the financial reports for both 2014-15 and 2015-16 had been substantially completed. However, we were awaiting revised financial reports for each year. No analysis of the Trust's financial performance is included in this Chapter.

FINAL AUDITS OF ENTITIES DISSOLVED DURING YEAR

TASMANIAN EARLY YEARS FOUNDATION

The Tasmanian Early Years Foundation ceased to operate on 8 December 2016, pursuant to the *Tasmanian Early Years Foundation (Winding Up) Act 2016* (the Winding Up Act) which provided for its dissolution.

Signed statement of receipts and payments was received on 16 February 2017 and an unqualified audit opinion was issued on 17 March 2017.

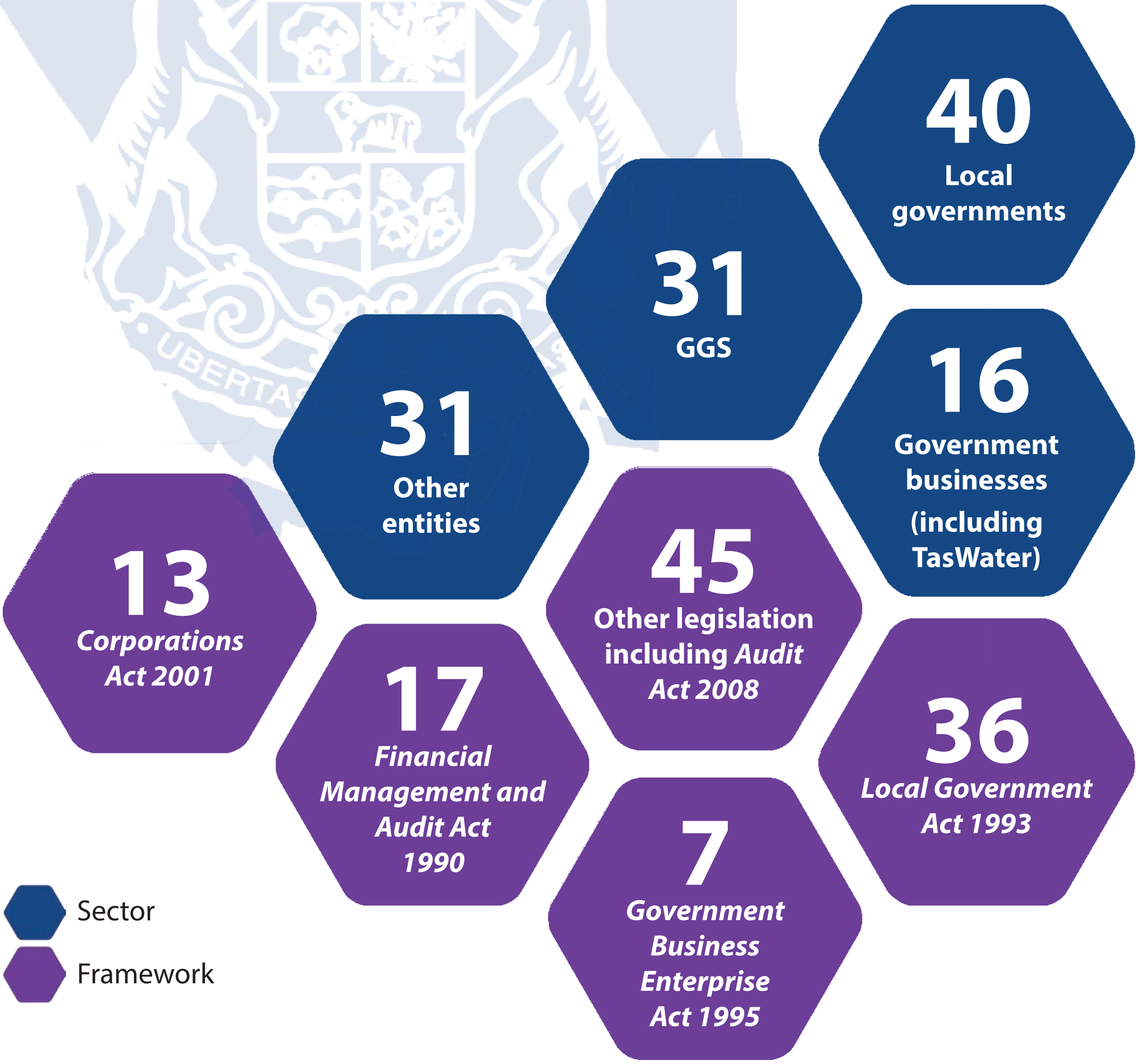
Remaining cash of $0.57m was transferred to the Department of Premier and Cabinet under section 5 of the Winding Up Act, which required net assets to be transferred to the Crown.

2016 FINANCIAL STATEMENT AUDIT CYCLE

OUR FINANCIAL AUDIT CLIENTS

The Auditor-General has the mandate to carry out audits of the financial statements of the Treasurer and of all Tasmanian State entities. The aim of an audit is to enhance the degree of confidence in the financial statements by expressing an opinion on whether they are presented fairly, or give a true and fair view, in accordance with the applicable financial reporting framework. We carried out 118 financial statement audits across 4 main sectors and under numerous reporting requirements in the 2016 audit cycle. The breakdown of financial audit clients by sectors and reporting frameworks is illustrated in the diagram below.

The information provided in this Chapter summarises the financial audits we undertake under sections 16 and 18 of the the Audit Act. Audits we undertake by arrangement under section 28 of the Audit Act are not included in this Chapter.



AUDIT PROCESS AND METHODOLOGY

Financial audits are performed in accordance with the standards issued by the Australian Auditing and Assurance Standards Board. Whilst not a legislative requirement, when conducting financial audits, we give regard to probity considerations related to the management or use of public resources.

In conducting financial audits, we use an electronic financial audit toolset known as IPSAM (Integrated Public Sector Audit Methodology). IPSAM was specifically designed for the management of audits in the public sector environment and includes:

- consideration of the probity of matters associated with the management or use of public resources
- assessing compliance with relevant acts, regulations, Government policies and other prescribed requirements
- reporting to Parliament on matters arising from audits or relating to the Auditor-General's other activities in accordance with relevant legislation.

The audit process employed by us is highly sophisticated, and adaptable to a widely-varied range of government activities.The diagram below illustrates the major factors that govern the three elements of the audit process.

At the heart of the equation is the *Acceptable Audit Risk*. This is established by first analysing two inter-linked elements know as *Inherent Risk* and *Control Risk* as they apply to the organisation concerned. We are then able to assess the level of *Audit Detection Risk*, which is crucial in determining the most appropriate procedures.

For example, if a government organisation operates in a high business risk environment and is not well managed, the acceptable Audit Detection Risk is low. If, on the other hand, an agency operates in a low risk business environment and is well run, the acceptable Audit Detection Risk is high.

SUBMISSION OF FINANCIAL STATEMENTS

All State entities are required to submit their financial statements to the Auditor-General within 45 days after the end of each financial year. In the 2016 audit cycle, the 45-day deadline fell on Monday 15 August 2016 for June balance date reporting and Tuesday 14 February 2017 for December balance date reporting.

AUDIT OF FINANCIAL STATEMENTS

The Auditor-General must then audit the financial statements and issue an audit report outlining compliance with relevant legislation and accounting standards within 45 days of their submission. Where financial statements are received prior to the 45-day deadline, our 45 days audit completion obligation commences from the submission date.

30 June 2016
Balance Date

98% Financial statements submitted on time	**25%** Audits completed in less than 8 weeks from balance date

15 August 2016
Submission Deadline

43 days Average time to submit financial statements after reporting date	**29 days** Average time to issue audit opinion from submission date

29 September 2016
Audit Completion Deadline

109 Financial statements submitted for audit	**99%** Audits completed on time

31 October 2016
Deadline for tabling of
Treasurer's Annual Financial Report (TAFR)

26 October 2016
Unqualified audit opinions issued
on the audited components of TAFR

31 December 2016
Parliamentary Reporting Deadline

Volumes 1 - 3

Detailing results of 30 June financial statements audits tabled in Parliament before 31 December 2016

31 December 2016 Balance Date	
86% Financial statements submitted on time	**71%** Audits completed in less than 8 weeks from balance date
14 February 2017 Submission Deadline	
42 days Average time to submit financial statements after reporting date	**100%** Audits completed on time
31 March 2017 Audit Completion Deadline	
7 Financial statements submitted for audit	**7** Audits opinions issued

Volume 4

Detailing results of 31 December financial statement audits tabled in Parliament on 23 May 2017

Compliance with the 45-days statutory deadline for submission of financial statements improved in the 2016 audit cycle. Three State entities failed to comply with the requirement, Central Coast Council, the River Clyde Trust and the Solicitors' Trust, compared to eight entities the year before. Our compliance with the requirement to complete audits of financial statements within 45 days of their receipt also improved. One audit was completed outside the time required, compared to nine audits in the 2015 audit cycle.

Financial statement audits of all State entities for the years ended 30 June 2016 and 31 December 2016 have been completed, except for the audit of the River Clyde Trust. We are still in the process of auditing Rive Clyde Trust's financial statements for the past two reporting periods. The delay was caused by deficiencies in the submitted financial statements and our inability to substantiate the accuracy of the 2014-15 comparative information in the 2015-16 financial statements.

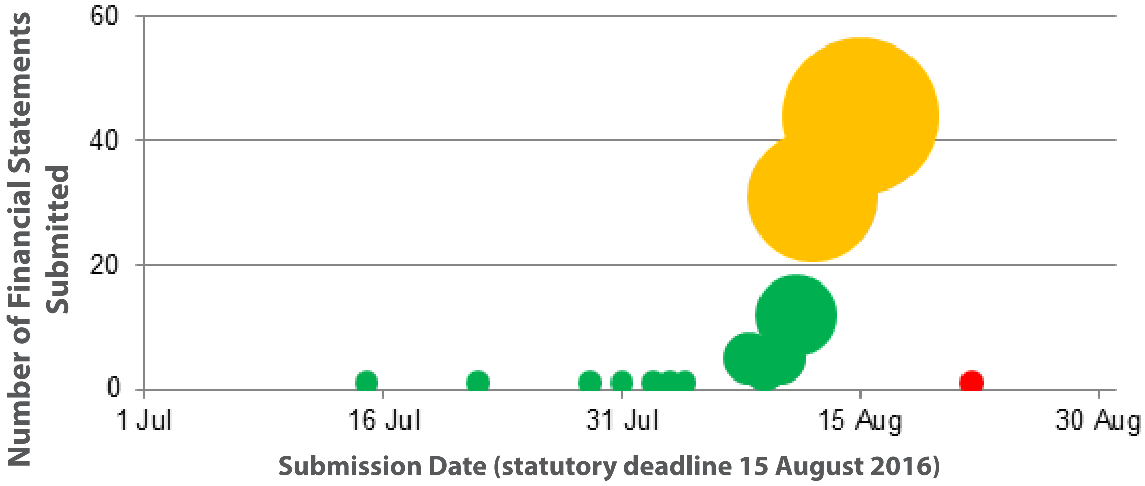
Ensuring Accurate and Timely Financial Reporting

Preparation of accurate, reliable and timely financial information underpins the effective functioning of any organisation, especially in the public sector. Financial statements, accompanied by an independent auditor's report ensure transparency and enable State entities to discharge their financial accountability obligations to the Government, the Parliament and Community.

In the 2016 audit cycle, it took State entities on average 43 days to complete their financial statements and submit them to the Auditor-General. This was two days less compared to the previous year. This improvement was partly due to only three entities failing to submit their financial statements within the 45-day statutory deadline, compared to eight in the 2015 audit cycle, which impacted the average.

Despite the improvement in the timeliness of reporting, the trend of entities submitting their financial statements one business day before or on the day the statutory deadline expired continued as illustrated in Figure 4.

Figure 4: Submission of 30 June 2016 Financial Statements



Size of circle represents number of financial statements submitted
- submissions within deadline
- submissions close to deadline
- submissions outside deadline

Figure 4 illustrates that majority of financial statement were submitted to us in the days leading up to the statutory deadline or on the 15 August 2016. We identified opportunities for entities to improve their financial statements preparation processes and reduce the time it takes to prepare and audit financial statements.

Improvement opportunities included:

- Apply good practice project management including the development of a detailed work plan (timetable).
- Maintain open and constructive relationships with key stakeholders, including audit committee (or audit panel) and external auditors. This includes a visible commitment and support of the Accountable Authority and senior entity management.
- Work with other parts of organisation or external service providers to ensure supporting working papers are sufficiently detailed and prepared on time.
- Apply the concept of materiality to the preparation of the financial statements, including in deciding the level of disclosure required.
- Identify and resolve technical accounting issues at an early stage and in consultation with stakeholders. This includes assessing and documenting the impact of new and revised accounting standards effective now or in future years.
- Finalise asset valuations well before year end to allow the auditor sufficient time to evaluate the approach, assess inputs and key assumptions used and audit valuation movements.
- Prepare and compile detailed working papers, which include:
    - properly supported and reviewed reconciliations of key accounts
    - analysis of uncleared suspense accounts
    - variance analysis and meaningful explanations of movements
    - details of how past audit issues were resolved.
- Adequate review of financial statements by management and audit committee prior to submission to the Auditor-General.

The Australian National Audit Office published a Better Practice Guide for the preparation of financial statements by public sector entities. The Guide includes, for example a checklist to be used by those responsible for financial reporting, an example work plan detailing the activities to be completed from initial planning through to finalisation and working papers templates. It is a useful tool not only for management but also for members of audit committees or audit panels in overseeing the financial reporting process.

A better practice financial statement preparation process is distinguished by the following attributes:

- Has the visible commitment and support of the Accountable Authority and senior entity management.
- Applies robust risk management practices.
- Maintains a strong and effective internal control framework.
- Adopts good financial reporting practices throughout the year.
- Maintains effective open and constructive relationships with key stakeholders.
- Invests in a skilled and knowledgeable Finance Team, headed by a Chief Financial Officer who is part of the executive team.
- Applies good practice project management including the development of a detailed work plan and a focus on meeting agreed deadlines.
- Applies the concept of materiality to the preparation of the financial statements, including in deciding the level of disclosure required.
- Technical accounting issues are identified and there is consultation with stakeholders at an early stage.
- Meets the entity's whole-of-government responsibilities.

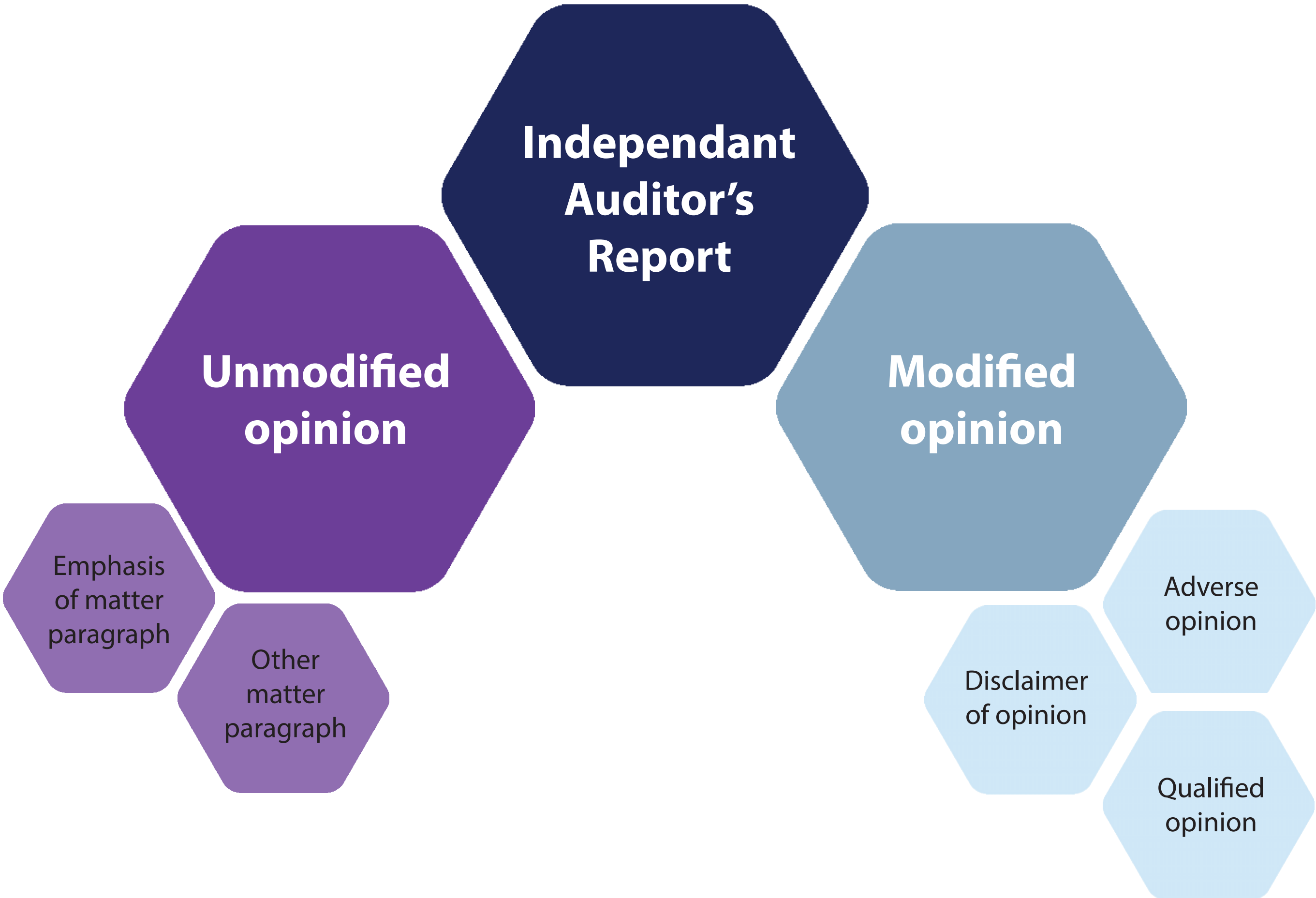
Source: Australian National Audit Office – Public Sector Financial Statements High-Quality Report through Good Governance and Processes, March 2015

FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

The Auditor-General is required to issue an opinion on each financial statement audit under the Audit Act. Australian Auditing Standards prescribe the auditor's reporting responsibilities, including the responsibility to form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

An opinion may be either:

- unmodified, when the auditor concludes that the financial statements were prepared, in all material respects, in accordance with the applicable financial reporting framework
- modified, if the auditor concludes that the financial statements as a whole were not free from material misstatement or was unable to obtain sufficient appropriate audit evidence.



The auditor may communicate additional matters in the auditor's report while still expressing an unqualified opinion on the financial statements. The purpose of this is to draw the attention of the users to relevant information, which itself is not significant enough to result in a qualified opinion.

Audit Opinions on Financial Statements

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Unmodified audit opinions issued on financial statements

We issued unmodified audit opinions on all financial statement audits completed during the 2016 audit cycle, except for the National Trust Australia (Tasmania). This gives Parliament and Tasmanian community assurance that the statements present fairly, in all material respects, the financial performance and position of respective State entities and were prepared in accordance with the relevant financial reporting frameworks.

1

Qualified opinion

We issue a qualified opinion when a specific part of the financial statements contains a material misstatement or we cannot obtain adequate evidence to support a material area, but rest of the financial statements are found to present a true and fair view, in accordance with accounting standards.

National Trust of Australia (Tasmania)	The Trust possesses certain heritage collections, but not all of these assets were recognised. Due to the nature of the assets, we were unable to quantify the financial effect.

2

Emphasis of matter paragraphs

Two of the unmodified audit opinions contained an emphasis of matter paragraph. We include an emphasis of matter paragraph with audit opinions to highlight matters, although appropriately presented or disclosed in the financial statements, we believe are important to bring to the users' attention so as to assist with their understanding of the financial statements. Including an emphasis of matter does not modify our audit opinion.

Forestry Tasmania	Emphasis of matter paragraph drew attention to a note which discussed the ability of Forestry to continue as a going concern.
Tasmanian Water and Sewerage Corporation Pty Ltd	Emphasis of matter paragraph drew attention to a note which stated that the adopted valuation technique used to measure the fair value of infrastructure assets had not been applied consistently since the initial valuation on 1 July 2013, being the date TasWater commenced trading.

1
Other matter paragraph

One of the unmodified audit opinions contained an other matter paragraph. We include an other matter paragraph to highlight non-disclosures we believe are important to inform the users of the financial statements. Including an other matter paragraph does not modify our audit opinion.

West Coast Council	The other matter paragraph drew attention to West Coast Council failing to disclose overnight recreational vehicle parking and camping services as a significant business activity as required by the *Local Government Act 1993*. The disclosure was not made on the basis that Council disagreed with the findings of the Regulator and disputed that it provided any services at all.

IMPROVING PRESENTATION OF FINANCIAL STATEMENTS

AASB made amendments to AASB 101 *Presentation of Financial Statements* in February 2015 to address a perceived disclosure overload in financial statements. Refer to the Developments in Financial and Reporting and Auditing Chapter for more details. The amendments clarified that entities should not disclose information that was qualitatively and quantitatively immaterial. Both Treasury's departmental and our local government model accounts were reorganised last year to reflect the amendments.

A number of State entities, mainly ministerial departments, some Government businesses and local government councils already started the process of decluttering their financial statements by moving accounting policies to the relevant notes, grouping similar information together and changing the order of the notes in level of importance to the user. The majority of entities were yet attempt to re-write technical wording into plain English, use charts, graphs, ratios and trends to make financial information more understandable and accessible or remove, or simplify, immaterial or irrelevant financial statement disclosures that have built up over time.

The following examples illustrate how the concept of improved financial statements presentation was applied in practice by some State entities for 2015-16:

Notes to the Financial Statements

The notes to the financial statements include information that is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Company. Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature
- it is important for understanding the results of the Company
- it helps explain the impact of significant changes in the Company
- it relates to an aspect of the Company's operations that is important to its future performance.

The notes have been grouped into sections to help readers understand how the Company strategy is reflected in the financial performance and position of the Company.

These sections comprise:

- A: Financial performance
- B: Asset platform and operating liabilities
- C: People
- D: Funding structure, financial assets and risk management
- E: Additional information.

A note at the beginning of the financial statements explains which information is considered material and the grouping of notes.

Source: TT-Line Company Pty Ltd Annual Report 2015-16

Financial Performance section was introduced

A – Financial performance

This section provides further information in respect to the financial performance of the Company for the year ended 30 June 2016. The focus is on revenue, expenses and cashflow disclosures. Certain operational expenses such as impairments are disclosed in the notes with the associated operating asset or liability in Section B: 'Asset platform and operating liabilities'. Employee-related expenses are disclosed in Section C: 'People'.

Revenue notes were grouped together into Revenue and other income category

A1 Revenue and other income

Revenue is measured at the fair value of the consideration received or receivable. The following is a breakdown of the Company's revenue from continuing operations for the period:

	2016	2015
Operating revenue	**$'000**	**$'000**
Revenue from the provision of services	203,923	193,529
Revenue from the sale of goods	13,401	11,939
Operating revenue	**217,324**	**205,468**
Investment revenue[1]	**2,573**	**2,930**
Other revenue[2]	**1,013**	**125**
Other gains[3]	**14**	**27**
Total operating revenue	**220,924**	**208,550**

1. Interest income.
2. Insurance recoveries.
3. Gain on disposal of property, plant and equipment. No other gains or losses were incurred in respect of loans and receivables or held-to-maturity investments, other than impairment recognised or reversed in respect of trade receivables as disclosed in note B1: 'Receivables and other assets'.

Recognition and measurement

Revenue from the provision of services

Revenue from passengers and freight services is brought to account on a voyage-by-voyage basis at the date of a vessel's departure. Cash received for future voyages is treated as revenue received in advance and disclosed as a liability in the statement of financial position until the date of a vessel's departure.

Revenue from the sale of goods

Revenue from on-board trading activities is recognised on a voyage-by-voyage basis, and is recognised at the date of a vessel's departure.

Investment revenue

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be reliably measured. Interest income is accrued over time, referring to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition

Other revenue

Revenue from insurance recoveries is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be reliably measured.

Footnotes were used to explain composition of line items

Accounting policies were grouped and moved to the relevant

For this entity, with nearly $60m in liabilities and $250m in net assets, the level of contingent liabilities is not material.

E2 Auditors' remuneration

The auditor of the Company is the Tasmanian Audit Office. Fees charged for the audit of the current year's financial report were $69,200 (2015: $68,890).

E3 Contingent assets and liabilities

There were no material contingent assets or liabilities at 30 June 2016 (2015: nil).

Source: TT-Line Company Pty Ltd Annual Report 2015-16

Cash Management section introduced and notes and information relevant to cash management were grouped together

Cash Management

Note 21 Cash and cash equivalents

	Consolidated Actual 2016 $'000	Consolidated Actual 2015 $'000	Council Actual 2016 $'000	Council Actual 2015 $'000
Cash on hand	24	26	24	26
Cash at bank	1,585	3,065	680	2,208
Short term deposits	8,135	10,430	8,129	10,430
Total cash and cash equivalents	**9,744**	**13,521**	**8,833**	**12,664**

Council's cash and cash equivalents are subject to a number of internal and external restrictions that limit amounts available for discretionary or future use. These include:

Long service leave	1,808	1,796	1,808	1,715
Grants	1,295	2,004	1,295	2,004
Total restricted assets	**3,103**	**3,800**	**3,103**	**3,719**
Total unrestricted cash and cash equivalents	**6,641**	**9,721**	**5,730**	**8,945**

2016 grants shown as restricted assets relate to $0.038 million of unspent funds for upgrade of the West Park cycling fence and $1.257 million of unspent funds for the stormwater infrastructure project at 30 June 2016. Council also holds a $0.350 million credit card facility with the Commonwealth Bank.

2015 grants shown as restricted assets relate to $0.090 million of unspent funds for upgrade of the Acton Recreation Ground and $1.914 million of unspent funds for the stormwater infrastructure project at 30 June 2015. Council also holds a $0.350 million credit card facility with the Commonwealth Bank.

Accounting Policy
For the purposes of the Statement of Cashflows, cash and cash equivalents include cash on hand, deposits at call and other highly liquid investments with original maturities of twelve months or less, net of outstanding bank overdrafts.

Accounting policy was moved from the Accounting Policies note at the beginning of the financial statements to the relevant note

Note 22 Interest bearing loans and borrowings

	Consolidated Actual 2016 $'000	Consolidated Actual 2015 $'000	Council Actual 2016 $'000	Council Actual 2015 $'000
Borrowings - current	287	279	287	279
Borrowings - non-current	3,623	4,177	1,870	2,157
Total interest bearing loans and borrowings	**3,910**	**4,456**	**2,157**	**2,436**
The maturity profile for Council's borrowings is:				
Later than one year and not later than five years	1,273	893	1,273	893
Later than five years	2,350	3,284	597	1,264
Total	**3,623**	**4,177**	**1,870**	**2,157**

Accounting Policy
The borrowing capacity of Council is limited by the *Local Government Act 1993*. Interest bearing liabilities are initially recognised at fair value, net of transaction costs incurred. Subsequent to initial recognition these liabilities are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the liability using the effective interest method.

Management indicators note was moved to the section of the financial statements which has information relevant to what the ratio attempts to measure

Note 24 Management indicators relating to cash management

	Benchmark	2016 $'000	2015 $'000	2014 $'000	2013 $'000
(a) Net financial liabilities					
Liquid assets less		12,249	15,932	11,821	13,908
Total liabilities		11,776	11,343	12,076	11,010
Net financial liabilities	**0**	**473**	**4,589**	**(255)**	**2,898**

This measure shows whether Council's total liabilities can be met by its liquid assets. An excess of total liabilities over liquid assets means that, if all liabilities fell due at once, additional revenue would need to fund the shortfall.

Source: Burnie City Council Annual Report 2015-16

Prior to decluttering, the entity used 5 pages to reproduce information provided by the actuary in relation to its defined benefits superannuation liability. This liability represented less than 1% of total liabilities and was considered immaterial.

Superannuation

The Retirement Benefits Fund (RBF) defined benefits scheme covers eligible employees who commenced prior to 15 May 1999. The defined benefits scheme was closed to new members from that date.

The benefit is calculated as a function of the members' salaries, level of contributions and length of service.

Each year, at the reporting date, the State Actuary conducts a valuation of the past service and accrued liabilities within the defined benefits scheme. Any shortfall between the defined benefit obligation and the fair value of RBF assets relevant to those members determines the value of any unfunded superannuation liability, and is shown as a liability in the statement of financial position. Actuarial gains and losses are recognised in the statement of comprehensive income through other comprehensive income.

For all employees who are not members of the RBF defined benefits scheme, the MAIB contributes at least the minimum level of superannuation required by the Commonwealth *Superannuation Guarantee (Administration) Act 1992*. Contributions are made to nominated accumulation schemes and are expensed when they fall due.

	2016 $'000	2015 $'000
Due within 12 months		
Annual leave	236	212
Long service leave	35	29
Retirement Benefits Fund	38	49
	309	290
Due in more than 12 months		
Long service leave	375	355
Retirement Benefits Fund	6,535	4,563
	6,910	4,918
Total employee benefits	7,219	5,208

Source: MIAB Annual Report 2015-16

Considering that the entity had no borrowings, there was no need for the line item and corresponding note to be included in the financial statements

Liabilities			
Current liabilities			
Trade and other payables	24	4,198	4,338
Trust funds and deposits	25	1,809	1,305
Provisions	26	2,111	2,338
Interest-bearing loans and borrowings	27	-	-
Total current liabilities		**8,118**	**7,981**

Note 27 Interest-bearing loans and borrowings

Current		
Borrowings	-	-
	-	-

The examples were taken from published financial statements and are illustrative only. Each entity should use its own judgement in deciding whether, and to what extent, to adopt these practices in their own financial statements, considering the needs of the users and any regulatory requirements.

AUDIT FINDINGS

2016		2015	
209	**60**	**273**	**63**
Audit matters	Entities	Audit matters	Entities

Audit Findings by Sectors:

	High Risk	Moderate Risk	Low Risk
General Government Sector	5	22	15
Government businesses	3	22	22
Local government	13	47	38
Other	1	11	10
Total	22	102	85

Follow up on the Issues Reported in Prior Year

31%

Issues reported in previous year remained unresolved in 2016

All weaknesses identified during audits were communicated to management at an appropriate level of responsibility. Significant matters were detailed in written reports, which included our recommendations for improvements and management responses. We also considered all matters reported to management in the prior year when planning an audit as part of our risk assessment procedures. We performed audit testing to confirm that issues had been resolved. The reports were then communicated to those charged with governance, for example the Secretary, Chairperson of the Board or Mayor, with a copy sent to the Responsible Minister. We also reported significant matters to Parliament in Auditor-General's Reports on the Financial Statements of State entities. We categorise each matter as high, moderate or low risk, depending on its potential impact, as shown on page 42.

22
High risk findings

High risk findings related largely to matters around valuation of assets. Similar to previous years, asset valuation issues were mostly prevalent in Local government although the number of finding has been decreasing as Councils had generally addressed recommendations made in our report on infrastructure financial accounting.

In 2016 we raised matters relating to valuation of infrastructure assets in the Department of State Growth and TasWater.

Valuation of assets continued to be a key audit area in the audits of the financial statements of all Local government councils and those entities with assets valued at fair value. This is because of the high dollar values involved and inherent subjectivity that is involved estimating values and useful lives of assets.

102
Moderate risk findings

Moderate risk findings covered an array of areas from corporate governance to information systems and every business cycle.

Corporate governance type issues related generally to legislative compliance, such significant business activities disclosure or audit panel arrangements. Inadequate user access controls dominated findings in the information systems area. In the employee expenses area, apart from excessive leave, reducing of which continues to be a challenge for many State entities, the findings centred on lack of documentation. We also found issues with authorisation of payments, cancellation of fines and lack of reconciliations or their review.

Findings related to assets in this risk category had a lesser significant impact on financial results than those classified as high risk.

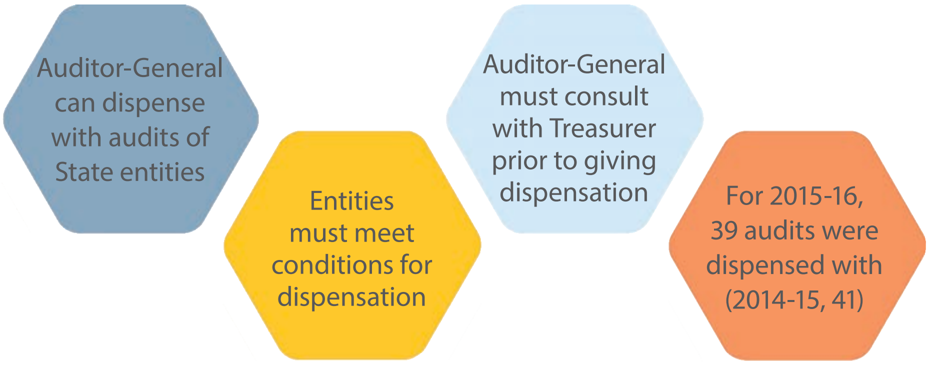
85
Low risk findings

Low risk findings were isolated, non-systemic or procedural in nature in some cases represented opportunities to improve existing processes or further strengthen existing controls.

<table>
<tr><th>Risk category</th><th>Audit impact</th><th>Management action required</th></tr>
<tr><td>High</td><td>Matters categorised as high risk pose a significant business or financial risk to the entity and have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency.
High risk findings represent:
a control weakness which could have or is having a significant adverse effect on the ability to achieve process objectives and comply with relevant legislation
a material misstatement in the financial report is likely to occur or has already occurred.</td><td>Requires immediate management intervention with a detailed action plan to be implemented within one month.
Requires management to correct the material misstatement in the financial report to avoid a modified audit opinion.</td></tr>
<tr><td>Moderate</td><td>Moderate risk findings are matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed as high priority within the current financial year, matters that may escalate to high risk if not addressed promptly or low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.
Moderate risk findings represent:
a systemic control weakness which could have or is having a moderate adverse effect on the ability to achieve process objectives and comply with relevant legislation
a misstatement in the financial report that is not material and has occurred.</td><td>Requires prompt management intervention with a detailed action plan implemented within three to six months.</td></tr>
<tr><td>Low</td><td>Matters categorised as low risk are isolated, non-systemic or procedural in nature and reflect relatively minor administrative shortcomings and could be addressed in the context of the entity's overall control environment.
Low risk findings represent
an isolated or non-systemic control weakness with minimal but reportable impact on the ability to achieve process objectives and comply with relevant legislation
a misstatement in the financial report that is likely to occur but is not expected to be material
an opportunity to improve an existing process or internal control.</td><td>Requires management intervention with a detailed action plan implemented within six to 12 months.</td></tr>
</table>

AUDITS DISPENSED WITH

SNAPSHOT



INTRODUCTION

The Auditor-General has the discretion under the Audit Act to dispense with certain audits if considered appropriate in the circumstances. The dispensation is subject to meeting one of the following conditions determined by the Auditor-General:

1. The entity must demonstrate to us that its financial reporting and auditing arrangements are appropriate. To satisfy this condition, the entity is required to submit their audited financial statements to the Auditor-General each year. The financial statements are reviewed and, where necessary, feedback on information presented in the financial statements is provided to the entity.
2. The entity is controlled by a State entity and the financial transactions and balances of the controlled entity are subject to audit procedures as part of the group audit of the controlling entity.

It is important to note that dispensation of the audit does not limit any of the Auditor-General's functions or powers given under the Audit Act.

The Audit Act also requires the Auditor-General to consult with the Treasurer before exercising the power to dispense with audits. Following consultation with the Treasurer, the audits of the annual financial statements of the following specific audits or categories of audits were dispensed with:

Controlled Subsidiaries – Year Ended 30 June 2016 (controlling entity shown in brackets)

- AETV Pty Ltd (Hydro Tasmania)
- Auroracom Pty Ltd (Tasmanian Networks Pty Ltd)
- Bell Bay Pty Ltd (Hydro Tasmania)
- Bell Bay Three Pty Ltd (Hydro Tasmania)
- Ezikey Group Pty Ltd (Tasmanian Networks Pty Ltd)
- Flinders Island Ports Corporation Pty Ltd (Tasmanian Ports Corporation Pty Ltd)
- Geeveston Town Hall Company Ltd (Huon Valley Council)
- Heemskirk Holdings Pty Ltd (Hydro Tasmania)
- Heritage Building Solutions Pty Ltd (Southern Midlands Council)
- Heritage Education & Skills Centre Pty Ltd (Southern Midlands Council)
- HT Wind Developments Pty Ltd (Hydro Tasmania)
- HT Wind Operations Pty Ltd (Hydro Tasmania)
- HT Wind New Zealand Pty Ltd (Hydro Tasmania)

- Hydro Tasmania Consulting (Holding) Pty Ltd (Hydro Tasmania)
- Kingborough Waste Services Pty Ltd (Kingborough Council)
- King Island Ports Corporation Pty Ltd (Tasmanian Ports Corporation Pty Ltd)
- Lofty Ranges Power Pty Ltd (Hydro Tasmania)
- Metro Coaches (Tas) Pty Ltd (Metro Tasmania Pty Ltd)
- Momentum Energy Pty Ltd (Hydro Tasmania)
- Newood Holdings Pty Ltd (Forestry Tasmania)
- Newood Energy Pty Ltd (Newood Holdings Pty Ltd)
- Newood Huon Pty Ltd (Newood Holdings Pty Ltd)
- Newood Smithton Pty Ltd (Newood Holdings Pty Ltd)
- RBF Property Pty Ltd (Retirement Benefits Fund Board)
- RBF Direct Pty Ltd (Retirement Benefits Fund Board)
- RE Storage Project Holdings Pty Ltd (Hydro Tasmania)
- Schools Registration Board (Department of Education)
- Woolnorth Bluff Point Holdings Pty Ltd (Hydro Tasmania)
- Woolnorth Studland Bay Holdings Pty Ltd (Hydro Tasmania).

Controlled subsidiaries – Year Ended 31 December 2016 (controlling entity shown in brackets)

- Sense-Co Tasmania Ltd (University of Tasmania)
- UTAS Holdings Pty Ltd (University of Tasmania).

Foreign Controlled Subsidiaries – Year Ended 30 June 2016 (controlling entity shown in brackets)

For these entities the Auditor-General is not the auditor and, therefore, there is no dispensation. However, the financial results are subject to audit procedures as part of the group audit:

- Hydro Tasmania Consulting India Private Limited (Hydro Tasmania)
- Hydro Tasmania South Africa (Pty) Ltd (Hydro Tasmania)
- Hydro Tasmania Neusberg (Pty) Ltd (Hydro Tasmania).

Drainage Trusts – Year Ended 30 June 2016

- Elizabeth Macquarie Irrigation Trust
- Forthside Irrigation Water Trust
- Lake Nowhere-Else Dam/Whitehawk Creek Irrigation Trust
- Lawrenny Irrigation Trust
- Mowbray Swamp Drainage Trust
- Richmond Irrigation Trust.

Other Boards and Authorities - Year Ended 30 June 2016

- Tasmanian Pharmacy Authority.

Other Boards - Year Ended 31 December 2016

- Board of Architects.

ENTITIES WHERE DISPENSATION IS NOW BEING RECONSIDERED

As indicated in the introductory section of this Chapter, audits are dispensed with on the condition that the entity must demonstrate to us that its financial reporting and auditing arrangements are appropriate. To satisfy this condition, the dispensed with audit entities are required to submit their audited financial statements to us each year. To date we have not received audited financial statements from the entities listed below, as a result of which dispensation is being reconsidered:

- Britton's Swamp Drainage Trust (30 June 2015 and 2016)
- Britton's Swamp Water Board (30 June 2015 and 2016)
- Togari Drainage Trust (30 June 2014, 2015 and 2016).

Under section 182 of the *Water Management Act 1999* (the Water Act), each responsible water entity is required to provide the Minister for Primary Industries and Water with a written report, including financial statements, on its administration during the preceding year. Having not met this requirement either, these entities are now at risk of being dissolved by the Minister under Section 223 of the Water Act.

BASIS FOR SETTING AUDIT FEES

BACKGROUND

Section 27 of the Audit Act provides that:

> *"(1) The Auditor-General is to determine whether a fee is to be charged for an audit carried out by the Auditor-General under this Division and, if so –*
>
> > *(a) the amount of that fee; and*
> >
> > *(b) the accountable authority liable to pay that fee."*

In relation to the tabling of Auditor-General's reports on audits of the financial statements of State entities the Audit Act also requires the following at section 29(3):

> *"(3) A report under subsection (1) is to describe the basis on which audit fees are calculated."*

To comply with section 29(3), the basis for setting audit fees for conducting audits of the financial statements of State Entities is detailed in this Chapter. Audit fees are not charged for performance audits, compliance audits or investigations.

BASIS ON WHICH AUDIT FEES ARE CALCULATED

The Chapter explains the fee setting process for individual State entities, including:

- the specific factors taken into account in proposing the fee (particularly the risk assessment)
- the assumptions upon which the fee is based in terms of, for example, the standard of the entity's control environment, coverage of internal audit, quality of working papers and so on
- what is included in the fee and what is not included
- what specific actions the client could take to reduce the level of its audit fee in the future
- processes for agreeing additional fees if circumstances change or the assumptions upon which the fee is based are not met.

DETERMINATION

We have determined that an audit fee will be charged for the audits of the financial statements of all State entities other than the University of Tasmanian Foundation Inc. and the Anzac Day Trust.

AUDIT FEE SCALES

A matrix (audit fee scale) has been developed to provide a guide for determining the expected time to be taken on an audit. The scales are based on the following key variables:

- size of the entity based on its expected gross turnover. This was used to determine the base amount of time required to conduct the audit. Turnover was based on the client's actual income and expenditure for the preceding financial year, adjusted for any known factors (Fixed element).
- risk and complexity profiles for each entity determined by our staff. These profiles include the corporate structure, complexity of systems, operations and financial statement reporting requirements. The time bands applied range from 40 per cent below to 40 per cent above the base time (Variable element).

The fee scales take account of:

- changes to Australian Auditing or Accounting Standards
- in some cases, particularly audits returning from contract, a change in scope of work being performed in line with our audit approach whereby selected probity matters will be considered during the course of all audits.

Fee scales are as follow:

Turnover*	Base Hours	Variable Component
<$100 000	15	+/-40%
$101 000 to $1.5m	30	+/-40%
$1.5m to $10m	100	+/-40%
$10m to $55m	155	+/-40%
$55m to $121m	270	+/-40%
$121m to $200m	460	+/-40%
$200m to $410m	610	+/-40%
$410m to $1bn	830	+/-40%
>$1bn	1 350	+/-40%

** may be adjusted in line with CPI movements*

Bandings are based on current cost experience in conducting audits.

After applying the above model, the hours to undertake the audit are allocated according to the staff mix necessary to conduct the audit. The respective staff charge rates are then applied to the allocated hours so as to determine a dollar amount (the audit fee). Where applicable, travel and other direct costs (out of pocket expenses) are added to the audit fee on a full cost recovery basis.

FEE SETTING

It is emphasised that the fee scales only provide a framework within which we set the actual fees charged to individual State entities.

The level of fee, and any change, experienced by individual State entities will therefore vary according to local circumstances and the risks each entity faces.

In certain circumstances, for example, where a State entity faces a particular challenge to manage high risks or there are particular local circumstances, a fee may fall outside the noted bands. In these cases, the audit fee will be determined in discussion between our staff and entity management, to reflect our assessment of risk and the extent and complexity of the audit work required.

SKILL-RELATED FEE SCALES

In certain circumstances, we may need to use staff or contractors with specialist skills in order to review specific local issues. Where this is the case, it can result in higher costs being incurred. In these circumstances, the fee to be charged will be determined in discussion between our staff and entity management and will reflect the size, complexity or any other particular difficulties in respect of the audit work required. Where possible, we attempt to absorb such costs within the base audit fee.

PRINCIPLE FOR DETERMINING CHARGE RATES

Charge rates are based on the principle of the Office being able to recover its costs of operation. Charge rates comprise two parts, direct salary cost and overhead recovery. Direct travel time and costs attributable to each audit are billed separately and do not form part of our charge rates.

PRINCIPLE FOR AUDIT FEE DETERMINATION

Fees are set for each State entity commensurate with the size, complexity and risks of the engagement. These factors affect the mix of staff we assign to each audit and therefore the overall fee. Staff are assigned hourly charge rates for use in determining the allocation of work on the audit and in computing the fee.

There is an expectation that audits of similar complexity and risks will have a similar mix of staff.

BASIS OF FEES

Fees are calculated on the basis that:

- current accounting systems will be operating throughout the year with a satisfactory appraisal of internal control
- no errors or issues requiring significant additional audit work will be encountered during the course of the audit
- the standard period-end general ledger reconciliations will be available at the commencement of our year-end audit
- assistance for our staff will be provided with respect to reasonable requests for additional information throughout the audit
- agreed timetables will be met, within reason
- financial statements, complete in all material respects, are submitted to audit in accordance statutory time limits
- additional work (including work arising from the adoption of new accounting standards or issues associated with key risks and other matters arising) will be billed separately if it cannot be absorbed into the existing fee
- the nature of the entity's business and scale of operations will be similar to that of the previous financial year
- fees incorporate financial statement disclosure and other specific audit related advice.

COMMUNICATION OF AUDIT FEES

In all cases, fees are communicated to each accountable authority prior to audit commencement or during the planning phase. For 2016-17 financial year audits, the adjustment to fees was 2% for all entities. This increase was based on salary increases in the *2016-2018 Public Sector Union Wages Agreement* and as such reflects that employee costs are the main driver of our costs.

ADDITIONAL AUDIT WORK

In carrying out additional audit work, including government grant acquittals and other similar returns, we will recover, in respect of such work, an amount that covers the full cost of the relevant work undertaken.

The actual fees to be charged will be determined in discussion between our staff and entity management to reflect the size, complexity or any other particular difficulties in respect of these types of audits. Fees will have regard to the time taken, the audit staff assigned and their respective charge rates.

ADDITIONAL AUDIT FEES

If the circumstances outlined under the section headed "Basis of Fees" change in a year, we would seek additional fees from the entity. Any future impact of agreed additional fees would be assessed in terms of the on-going audit fee.

ADJUSTMENT TO FEES

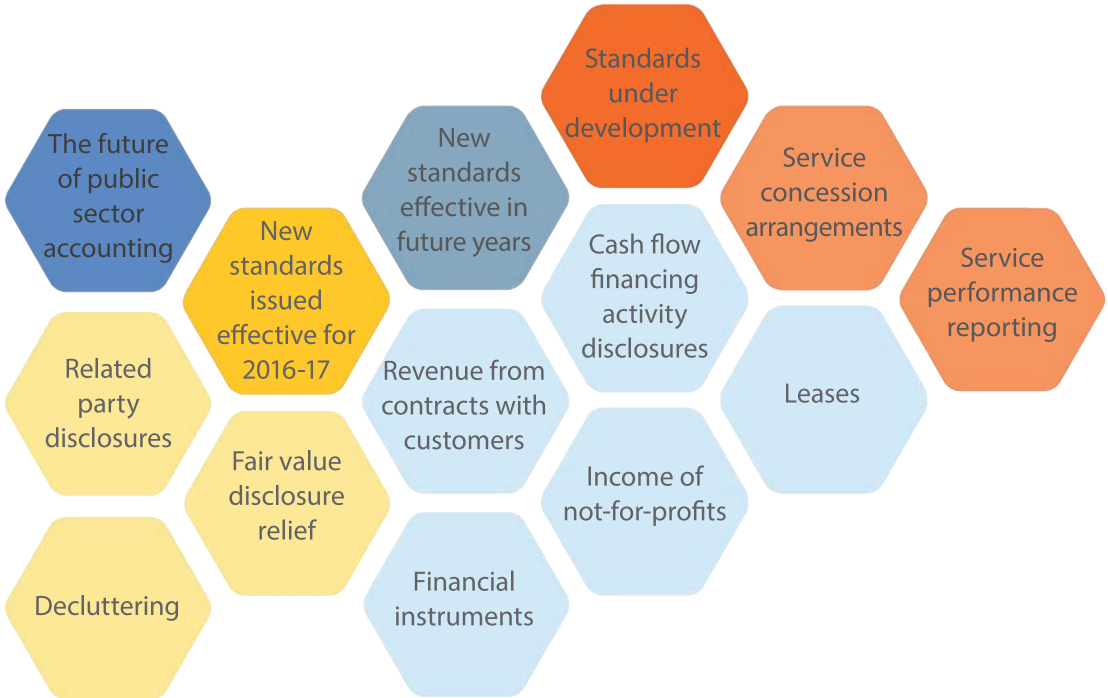
Fees may be adjusted in the following circumstances:

- changes to the size and nature of the entity and its operations
- changes to the risks associated with a particular engagement
- changes to accounting and auditing standards requiring greater effort on our part
- ad-hoc matters that impact upon significant balances within the financial statements, such as a significant asset revaluation
- unavoidable increases in costs of maintaining our Office.

There may also be circumstances where, based on our assessment of size, complexity and risks of the engagement, our fees may be reduced.

DEVELOPMENTS IN FINANCIAL REPORTING AND AUDITING

DEVELOPMENTS IN FINANCIAL REPORTING



THE FUTURE OF PUBLIC SECTOR ACCOUNTING

In February 2017, AASB Chair Kris Peach and International Public Sector Accounting Standards Boards (IPSASB) Chair Ian Carruthers spoke at breakfast events in Sydney and Brisbane on the future of public sector accounting.

Discussions noted that currently, AAS are primarily based on International Financial Reporting Standards (IFRS), however these are oriented towards for-profit entities. With IFRSs written from a for-profit entity perspective, some of the transactions and accounting policies that are prevalent in the public sector are either not addressed by IFRS or not addressed well. As a consequence the AASB maintain a principle of transaction neutrality and incorporate IPSASB pronouncements where appropriate. Amendments are usually made where there is a type of transaction that is unique to the public sector or the prevalence/importance of the transaction to the public sector is disproportionately greater. The development of recent standards addressing income for not-for-profit (NFP) entities is an example of this.

It was noted as important for the AASB to not replicate the international efforts of IPSASB in public sector reporting, and Australia's involvement with the IPSASB is important in this regard. Comparability across public sectors could be one of the benefits in any possible future move to IPSASB standards for public sector reporting in Australia. It was however reiterated by the AASB that there is currently no intention to change the IFRS based approach. Presently the AASB continues to consider the adoption of IPSASB based standards/guides with projects currently underway for service concession arrangements with grantors and the reporting of service performance information.

A review of the current IPSASB work program of key projects for 2016-18 provided an insight into other topics which may be considered for Australian public sector reporting into the future. The work program includes the following public sector specific topics:

- Social Benefits
- Revenue and Non-Exchange Expenditure
- Heritage
- Financial Instruments
- Public Sector Measurement (starting March 2017)
- Infrastructure Assets (starting June 2017).

With the public sector part of a global economy facing similar challenges to others internationally, standard setters such as the International Accounting Standards Board (IASB) will continue to influence future developments in Australian public sector reporting as the general trend of convergence continues.

REPORTING IN 2016-17

For the 2016-17 financial reporting period there will be very few new changes to reporting requirements in the public sector. The most challenging change for many entities will be the implementation of related party disclosures.

While a number of new and revised accounting standards offer the opportunity to early adopt, for many State entities this will also depend upon the framework under which they operate. Entities reporting under the *Financial Management Audit Act 1990*, for example, are required to follow the prescribed model departmental financial statements prepared by the Department of Treasury and Finance. These statements usually maintain consistency in reporting, with the adoption of any changes following the respective application date.

Reporting developments of significance for 2016-17 are discussed below.

Related Party Disclosures for Not-for-Profit Public Sector Entities

The revised AASB 124 *Related Party Disclosures* standard applies from 1 July 2016 and is applicable for not-for-profit (NFP) public sector entities for the 2016-17 financial year. Comparatives are not required for the first period applied. December year-end reporters will apply the accounting standard from 1 January 2017.

The objective of AASB 124 is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties. It is not for the purpose of assessing governance or probity issues.

The standard has two main disclosure requirements:

- the disclosure of Key Management Personnel (KMP) remuneration
- the disclosure of related party transactions.

Key management personnel remuneration

KMP are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

For public sector NFP entities, KMP will capture those charged with governance including boards and local government councillors or alderman as well as Ministers. It will also cover senior or executive management. The actual determination of KMP will need to done on a case by case basis evaluating the governance and management structures of each State entity against the above definition. The standard contains numerous examples to assist preparers of financial statements.

The standard requires the disclosure of key management personnel compensation in total and for each of the following categories:

- short-term employee benefits
- post-employment benefits
- other long-term benefits
- termination benefits
- share-based payment.

Compensation paid includes all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered. In the main this would include a KMP's salary, or wage, allowances, leave entitlements and any other benefit received. Such information is required to be disclosed in total for KMP and is often presented in a tabular format.

In the Tasmanian public sector, for Agencies reporting under the *Financial Management and Audit Act 1990*, Treasurer's Instruction 206 *Presentation of Financial Statements* prescribes remuneration disclosures of senior executives within the Agency. In the local government sector there is limited disclosure of councillors' emoluments within annual reports under the *Local Government Act 1993*. All these entities now require additional disclosures to comply with AASB 124.

Related party transactions

This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments. The standard defines a related party as:

"A person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

a. A person or a close member of that person's family is related to a reporting entity if that person:
    - (i) has control or joint control of the reporting entity;
    - (ii) has significant influence over the reporting entity; or
    - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b. An entity is related to a reporting entity if any of the following conditions applies:
    - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
    - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
    - (iii) Both entities are joint ventures of the same third party.
    - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
    - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
    - (vi) The entity is controlled or jointly controlled by a person identified in (a).
    - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
    - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity."

The standard defines a related party transaction as:

"…a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged."

The revised definition of a related party also extends to an "entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity". As a result an entity is a related party where the same government entity has control, joint control or significant influence over both the reporting entity and the other entity, (for example, government business, statutory authorities or government departments).

Accordingly, Ministers who are members of the KMP for their government, such as Cabinet, are also related parties of each controlled entity of that government. As a consequence, each controlled entity may, where the transaction is considered material or significant, have to disclose the transactions with a minister who may have no direct responsibility for the entity.

AASB Disclosure Initiative - "Decluttering"

AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 Disclosure Initiative* amends AASB 101 *Presentation of Financial Statements*, to address a perceived disclosure overload in financial statements. The amendments apply from 1 July 2016 and are applicable for the 2016-17 financial year.

The amendments clarify that entities need not disclose information that is qualitatively and quantitatively immaterial. The notes to the financial statements can and should be tailored to provide users with a clear picture of an entity's financial position and performance. The amendments address the view that there is too much irrelevant information and not enough relevant information in financial statements. It clarifies how entities using their professional judgement can "declutter" their financial statements without reducing the comparability and usefulness of the information presented in financial statements.

The amendments clarify that:

- information should not be aggregated or disaggregated in a way that obscures what is useful
- the line items in the primary financial statements can be disaggregated and aggregated when such presentation is relevant to an understanding of an entity's financial position and performance
- the concept of materiality applies to both the financial statements and the accompanying note disclosures
- even when a standard specifies minimum disclosure requirements, if the disclosure is immaterial, it does not need to be disclosed
- notes are to be presented systematically (or grouped) to enhance the comparability and usefulness of the information presented in financial statements. They need not follow the order of the four primary financial statements. Notes can be grouped by their operating activity, measurement basis or importance to users. The amendments provide examples of ways preparers can improve disclosures
- the nature of an entity's operations and user expectations should be considered when determining which accounting policies to disclose.

Examples of decluttered financial statement disclosures made by State entities in their 2015-16 financial statements are provided in the 2016 Financial Statement Audit Cycle Chapter of this Report.

The AASB is planning to undertake a research project to identify and develop a set of principles for disclosure, with the aim to develop a disclosure standard that could improve and bring together the principles for determining the basic structure and content of the financial statements, in particular the notes. A discussion paper is targeted for issue in 2017.

Fair Value Disclosures relief for Not-for-Profit Public Sector Entities

AASB 2015-7 A*mendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities,* provides relief from certain AASB 13 *Fair Value Measurement* disclosures. It applies to NFP public sector entities with assets within the scope of AASB 116 *Property, Plant and Equipment*, which are held primarily for their current service potential rather than to generate future net cash inflows. The amendments apply to annual reporting periods beginning on or after 1 July 2016 are applicable for the 2016-17 financial year.

It will assist entities that have had to "create" information to comply with disclosure requirements. NFP public sector entities with recurring and non-recurring level 3 fair value measurements may take immediate advantage from the relief and not disclose:

- quantitative information about the significant unobservable inputs used
- the amount of gains or losses for the period included in the profit or loss attributable to the change in unrealised gains or losses relating to the assets held at the end of the reporting period, and the line items(s) in profit or loss which those unrealised gains or losses are recognised
- information about the sensitivity of the fair value measurements to changes in unobservable inputs.

Entities can choose to present some or all of the above disclosures if they so wish.

The relief does not apply to all level 3 fair value measurement disclosures. Consequently, NFP public sector entities must continue to disclose:

- a description of the valuation technique(s) and the inputs used
- changes in valuation technique(s) and reasons for the change
- a reconciliation of the movements
- a description of the valuation process used.

LOOKING FURTHER FORWARD

Progressively over future reporting periods, there are a number of new accounting standards that will become effective for the first time. State entities are encouraged to monitor and consider implementation of reporting requirements over the next few reporting periods to ensure smooth transition. The following commentary provides a high level overview of a selection of pertinent standards/projects.

Financing Activity Disclosures in the Statement of Cash Flows

AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107* aims to improve disclosure of information relating to financing liabilities, and is in response to requests from investors to help them better understand changes in an entity's debt structure. It will apply to annual reporting periods beginning on or after 1 July 2017 and is available for early adoption.

The amendment requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, both changes arising from cash flow and non-cash flow changes. Disclosure is also required for changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financing assets were, or in future cash flows will be, included in cash flows from financing activities.

One way to fulfil the disclosure requirements, included as an example in the amendment, is to provide a reconciliation between opening and closing balances in the statement of financial position for assets and liabilities that relate to financing activities. Such an approach needs to include sufficient information to enable users to link items included in both the Statement of Financial Position and Statement of Cash Flows. Another approach would be to provide the disclosure requirements as part of a reconciliation of net debt.

Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* applies where there is an enforceable contract, imposing a sufficiently specific performance obligation on an entity to transfer goods or services. AASB 15 requires entities to only recognise revenue upon the fulfilment of the performance obligation. Therefore, entities need to allocate the transaction price to each performance obligation in a contract and recognise the revenue only when the related obligation is satisfied.

The effective date of AASB 15 for for-profit entities is 1 January 2018 (the 2018-19 reporting period). AASB 2016–7 *Deferral of AASB 15 for Not-for-Profit Entities* deferred the effective date for NFP entities to 1 January 2019 (the 2019-20 reporting period), with respective comparative periods being the 2017-18 and 2018-19 reporting periods.

Earlier application of AASB 15 is permitted for NFP entities for annual reporting periods beginning before 1 January 2019, provided AASB 1058 *Income of Not-for-Profit Entities* is also applied to the same period.

The core principle of the standard is that an entity will only recognise revenue upon the transfer of promised goods or services to customers, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities will need to apply a five-step model to determine when to recognise revenue, and at what amount.

The standard requires retrospective application, but the transitional requirements allow two alternative retrospective methods:

- a fully retrospective approach which requires the restating of prior periods, with some relief for completed contracts
- the practical expediency approach, which allows for the recognition of the cumulative effect in the current year as an adjustment to the opening balance of retained earnings for all existing contracts, as of the effective date, and to contracts entered into subsequently.

Both approaches will require significant preparation and disclosure and entities will need to evaluate and decide as to which method best suits their individual situation.

AASB 15 will apply to contracts of NFP entities that have reciprocal transactions. AASB 1004 *Contributions* will continue to apply to non-reciprocal transactions until AASB 1058 applies.

Income of Not-for-Profit Entities

In December 2016, the AASB issued a new standard AASB 1058 *Income of Not-for-Profit Entities*. Working in combination with AASB 15, these standards clarify and simplify the income recognition requirements for NFP entities. These standards supersede all the income recognition requirements for private sector NFP entities, and most of the income recognition requirements for public sector NFP entities, previously in AASB 1004 *Contributions*. Application aligns with AASB 15 for annual reporting periods beginning before 1 January 2019.

AASB 1058 applies to:

- transactions where consideration to acquire an asset is significantly less than fair value, principally to enable a NFP entity to further its objectives
- receipt of volunteer services.

On initial recognition of an asset an entity must recognise any related contributions by owners, increases in liabilities, decreases in assets and revenue (related amounts) in accordance with other Australian Accounting Standards.

Entities must immediately recognise the difference between the fair value of the asset and any related amounts as income in the profit and loss. However, if the transaction enables the entity to acquire or construct a recognisable non-financial asset controlled by the entity (i.e. an in substance acquisition of a non-financial asset), the entity is required to recognises a liability representing the remaining obligation to acquire or construct and then recognises income as it satisfies its obligations under the transfer (similarly to income recognition for performance obligations under AASB 15).

A transfer of a financial asset to acquire or construct a recognisable non-financial asset controlled by the entity is one that:

- requires the entity to use that financial asset to acquire or construct a recognisable non-financial asset to identified specifications;
- does not require the entity to transfer the non-financial asset to the transferor or other parties; and
- occurs under an enforceable agreement.

Local governments, government departments, general government sectors and whole of governments must recognise volunteer services if:

- they would have been purchased if not provided voluntarily; and
- the fair value of those services can be measured reliably.

For–profit entities will continue to account for grants and contributions under AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.

Full or retrospective application will be required on initial adoption of AASB 1058. The transitional provisions include practical expedients for completed contracts and assets acquired for consideration significantly less than fair value principally to enable the entity to further its objectives. Practical examples accompany AASB 1058 demonstrating how a NFP entity applies the requirements in practice. Entities must also consider and draft disclosures required by AASB 108 for the effects of AASB 15 and AASB 1058.

Financial Instruments

AASB 9 *Financial Instruments* will supersede previous versions of the standard (AASB 9 (2014)) and AASB 139 *Financial Instruments:Recognition and Measurement*. It will apply to annual reporting periods beginning on or after 1 January 2018 and is available for early adoption. Application is retrospective so comparatives will require restatement in the prior period to the extent possible.

AASB 9 simplifies the model for classifying and recognising financial assets from four categories into three categories – financial assets as subsequently measured at either amortised cost, and financial assets measured at fair value through profit or loss or through other comprehensive income. AASB 9 adopts an 'expected loss model' for impairment assessment, where the expected losses are recognised throughout the life of a loan or other financial asset measured at amortised cost, and not only after a loss event has been identified. The revised standard no longer requires a credit event (e.g. a receivable is past due) to have occurred before credit losses are recognised. As a result, impairment losses will be recognised earlier and at more regular intervals than under the existing 'incurred loss model' of AASB 139. The standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment.

Australian Implementation Guidance for Not-for-Profit Entities

AASB 2016–8 *Australian Implementation Guidance for Not-for-Profit Entities*, inserts Australian requirements and authoritative implementation guidance for NFP into AASB 9 and AASB 15 to assist NFP entities apply these standards to certain transactions and other events. It will apply to annual periods beginning on or after 1 January 2019, with early application permitted.

The AASB 9 amendments address the initial measurement and recognition of non-contractual receivables (such as taxes, rates and fines) arising from statutory requirements.

The AASB 15 amendments address the following aspects of accounting for contracts with customers:

- identifying a contract with a customer
- identifying performance obligations
- allocating the transaction price to performance obligations.

Leases

The AASB issued the new leasing standard AASB 16 *Leases* in February 2016 to supersede the existing standard AASB 117 *Leases*. It will apply for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, provided AASB 15 is also applied.
AASB 16 keeps the same accounting principles for lessors as in AASB 117. However, it eliminates the differentiation between operating and finance leases from the lessee's perspective by introducing a single lessee accounting model.

Under this model, the lessee recognises most operating leases on balance sheet, with short term leases less than 12 months and low value leases as the only exemptions. Lessees will have to account for most leases in a manner similar to how finance leases are currently treated under AASB 117, recognising a right of use asset and a lease liability at the lease commencement date, and depreciating the asset and amortising the liability over the lease period.

The recognition of all lease assets and liabilities on balance sheet will increase the net debt of lessees. The net impact on their operating surplus is expected to be marginal. The presentation in the cash flow statement will also be affected, with the amounts of cash paid for the principal repayment of the lease liability classified under financing activities, and the amounts paid for the interest component being classified under operating activities.

The grossing-up in the balance sheet may also cause a deterioration in debt ratios and return on assets compared with current reporting. Certain other performance and regulatory ratios may also be impacted. Entities may need to review how key performance ratios and indicators are impacted and communicate these with those charged with governance and other stakeholders. Impacts on future procurement practices, budgets and long term plans may also need revision.

The new standard will drive a need for entities to critically assess how they manage existing leases and how they intend to transact in future lease negotiations. The effects of the financing expense component in early years may see a reduction in lease terms being adopted, along with a greater focus on non-lease components. There is an option to make an accounting policy election by lessees to recognise the lease and non-lease components as a single lease component on the balance sheet, but this would have the effect of increasing the total lease obligation. This could be an appealing option when non-leasing components are not significant.

Service Concession Arrangements: Grantors

Public sector entities (grantors) often enter into contractual service arrangements to engage private sector businesses to design, finance and build infrastructure for the delivery of public services and to provide operational/management services. These are commonly referred to as "service concession arrangements" (SCAs), where the grantor is granting the right to operate. This includes public private partnership (PPP) arrangements where a private sector operator is providing a public asset or service to a State entity. To address a gap in accounting for these arrangements the AASB released ED 261 *Service Concession Arrangements* for comment in May 2015.

The aim of the standard is to ensure consistent, more transparent and comparable reporting of such arrangements by grantors. The proposed standard will require a grantor to recognise the assets and liabilities of service concession arrangements where the grantor controls the service potential and underlying asset. Grantor will be required to initially measure the service concession arrangements at fair value with the liability measured at the same amount. The adoption of this approach will result in the earlier recognition of assets and liabilities on a grantor's balance sheet.

Under the proposed new standard:

- there will be an earlier recognition of social infrastructure PPP's on the balance sheet, at the earlier of commencement of construction or contractual arrangement. This will bring forward the timing of the corresponding liability's recognition, and change the phasing profile of the net debt impact
- economic infrastructure PPPs will be brought onto balance sheet. The service concession asset will be recognised at its fair value with a corresponding deferred liability recognised as unearned revenue. This has no impact on net debt as it is not affecting financial asset or liabilities upon its initial recognition. The treatment may generate a positive impact on net result from transactions during the earlier years of the arrangement, because the phasing of depreciation over the useful life of the asset may be lower than the revenue recognised in each period over the shorter service concession period.

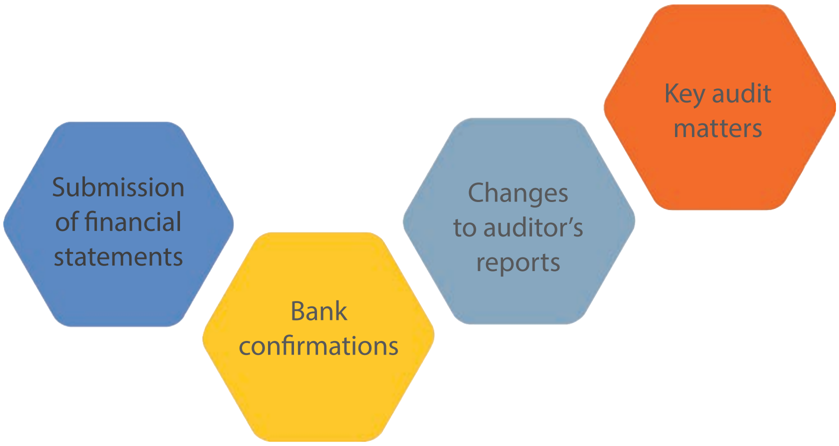
While ED 261 contained an anticipated application date from the 2017-18 reporting period, this is likely to be extended given the delays in finalisation. In February 2017, the AASB issued a revised version of the exposure draft as a fatal flaw version for comment. The AASB are currently reviewing feedback with a view to preparing a revised draft, without further public exposure.

Whilst such arrangements are not prevalent in Tasmania, entities contemplating service concessional arrangements will need to consider their reporting requirements and financial impacts.

Service Performance Reporting

The AASB issued ED 270 *Reporting Service Performance Information for comment* which closed 29 April 2016. The AASB are currently reviewing responses. For further information on this topic refer to the Future Developments in Reporting Performance Information section of the Reporting Non-Financial Performance Chapter in this Report.

DEVELOPMENTS IN AUDITING



CHANGE IN FINANCIAL STATEMENT SUBMISSION REQUIREMENTS

In consideration of the ever increasing pressure on entities in completing financial statements within the 45 days required under the Audit Act, and to alleviate the need for financial statements to be re-signed by the accountable authority (as defined in Sections 14 and 15 of the Audit Act) following amendments to them after their initial submission, we are trialling a change in submission requirements this year.

Presently under Section 17 of the Audit Act, statements are required to be:

- submitted within 45 days of the end of the financial year
- complete in all material respects
- signed and dated by the accountable authority, for example Head of Agency, Board or General Manager.

Option for management certification at time of submission

This year we are providing the option for entities to submit financial statements accompanied by a management certification, signed by a suitably senior finance officer responsible for financial reporting (such as the Chief Financial Officer or equivalent). Mandatory wording required for the management certification is available under Client Downloads on our website.

The financial statements are still required to be complete in all material respects and must submitted within 45 days of the end of the financial year.

Following the completion of our audit and before the audit opinion is issued, the financial statements will still need be signed and dated by the accountable authority.

Mandatory Financial Statements Preparation and Submission Checklist

We have also introduced a requirement for the Financial Statements Preparation and Submission Checklist to be submitted with the financial statements. This Checklist is available under Client Downloads on our website.

AUDIT CONFIRMATIONS FROM FINANCIAL INSTITUTIONS

Some Australian financial institutions use an online audit confirmation service Confirmation.com to provide customers and their auditors with audit confirmations. Some banks, including Westpac Banking Corporation, St George Bank and HSBC no longer accept audit requests for paper based confirmations. Other banks, such as National Australia Bank prefer or are moving to the online confirmation service.

Following a trial during 2015-16, our Office will expand the use Confirmation.com to request confirmations from registered financial institutions for 30 June 2017 engagements.

If a financial institution is not registered with Confirmation.com, we will continue to prepare paper based bank confirmation requests.

CHANGES TO AUDITOR'S REPORT

We have reviewed and amended the layout and content of auditor's reports for the 2016-17 reporting period and future periods. The changes reflect an update to the relevant Australian auditing standards.

All entities will receive an auditor's report with the following key changes:

- the opinion paragraph will now be presented at the start of the auditor's report
- there will be increased detail of auditor's responsibilities
- there will be explicit commentary on management's responsibilities in relation to going concern.

Communicating Key Audit Matters

Our Office is taking a staged approach to the implementation of the new auditing standard, ASA 701 *Communicating Key Audit Matters* in the Independent Auditor's Report. In 2016-17, all Government Business Enterprises and State owned companies' auditor's reports will include a section on key audit matters (KAMs). KAMs are matters which we determine were of most significance to the audit, and are selected by taking into account areas of higher risk, significant auditor judgements, and the effect on the audit of significant events or transactions. We consider the reporting of KAMs will improve the transparency of the audit process. We will discuss this further with the relevant entities during the planning stage of their individual audit engagements.

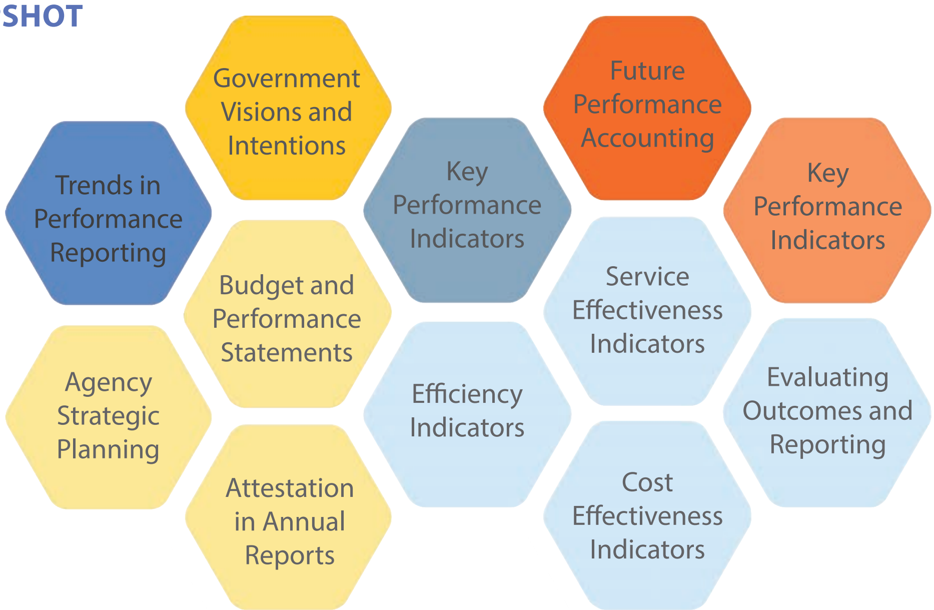
The KAM section of the auditor's report will include:

- a brief description of the key audit matters, with reference to the financial statements
- why we considered them to be key to the audit
- what procedures were performed to address the matter.

It is envisaged we will include KAMs in auditor's reports of all government departments in 2017-18 and in 2018-19 issue auditor's reports with KAMs to all State entities subject to audit.

REPORTING NON-FINANCIAL PERFORMANCE

SNAPSHOT



INTRODUCTION

It is commonly accepted that public sector entities must report on their performance as part of their accountability obligations to demonstrate their effective stewardship and responsibility for the use of resources. Being transparent, and accurately measuring and effectively communicating performance to the Parliament and the community is critical in holding public sector entities to account for their performance. Since the objectives of not-for-profit entities extend beyond information traditionally provided in general purpose financial statements, and common financial metrics used to evaluate financial performance are not always meaningful or relevant, there is a need to develop other measures that report how well public sector entities provide services. Without this, it is difficult to evaluate how their objectives have been achieved and how efficiently and effectively resources were used in doing so.

Over a number of years we have monitored and reported on the usefulness of publicly reported performance information in annual reports and budget papers of State entities. Last year, in *Report of the Auditor-General No. 10 of 2015-16, Volume 4, State entities 30 June and 31 December 2015, findings relating to 2014-15 audits and other matters* (our 2015-16 review), we included a detailed chapter on the review of reporting key performance indicators (KPIs) in ten State entities. Whilst the report made a number of recommendations and a number of examples of better practice were also observed, we did highlight various shortcomings in measures used, and in their inconsistency in reporting in budget papers and annual reports. Of significance was a lack of useful effectiveness and efficiency measures, which are key to making informed decisions about the allocation of resources and budgetary control, both at the entity and whole of government level.

Shortcomings that were identified in more than one agency as part of our 2015-16 review included:

- measures identified in budget papers not reported in annual reports
- too many measures reported, including those we regard as workload and not performance
- targets included in budget papers but not always in annual reports
- explanation for how targets were established not always provided
- explanations for variances not always provided
- inconsistencies in selection and reporting performance measures in budget papers and annual reports
- cross-references to the annual Report on Government Services rather than in budget papers or annual reports
- performance measures not being reported for Administered funded services or investments in capital programs.

Our findings indicated that the value in the use of KPI's in performance reporting is not always seen and there is a danger of simply developing and reporting of KPIs to satisfy regulatory, legislative or other external pressures. It would appear that for many agencies, they are missing the opportunity to gain insights into their own performance because there is insufficient attention in the development and importance they otherwise deserve.

While the targeting of appropriate measures in the not-for-profit sector to capture outcomes from the delivery of goods and/or services for community or social benefit can be extremely challenging, it is essential for decision making.

As the reporting framework in Tasmania has not altered since our previous detailed review, and little has changed for agencies, save some further refinements by a few more proactive agencies, we resolved to look to other jurisdictions to gain insight into other contemporary approaches to performance monitoring and to identify emerging trends.

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

In a 2013-14 report by the Australian National Audit Office (ANAO)[1], it noted the following:

1. The Organisation for Economic Co-operation and Development (OECD) has observed that:

> While measuring government performance has long been recognised as playing an important role in increasing the effectiveness and efficiency of the public administration, following the economic crisis and fiscal tightening in many member countries, good indicators are needed more than ever to help governments make informed decisions regarding tough choices and help restore confidence in government institutions.

2. ....

3. ....

4. In essence, performance measurement can:

- help clarify government objectives and responsibilities;
- promote analysis of the relationships between agencies;
- make performance more transparent, and enhance accountability;
- provide governments with indicators of their policy and program performance over time;
- inform the wider community about government performance; and
- encourage ongoing performance improvements in service delivery and effectiveness, by highlighting improvements and innovation.

This extract was provided in *Report of the Auditor-General No. 9 of 2013-14 Volume 5: Auditor-General's Report on the Financial Statements of State entities, 30 June and 31 December 2013, matters relating to 2012-13 audits and key performance indicators*. It is repeated due its relevance to the topic dealt with in this Chapter, its relevance to enhancing accountability and scrutiny and as evidence that there is support for reporting non-financial performance beyond Tasmania and Australia.

OUR UNDERSTANDING OF WHAT AGENCIES ARE REQUIRED TO DO

Under the Tasmanian Framework, agencies are required to:

1. develop output groups and, for each, budget expenditures on a line item basis
2. for each output group, include in audited annual financial statements, expenditure against budget and the prior year, again, on a line item basis
3. separately for each output group, develop measures of performance, including targets, with measures to include both:
   a) effectiveness in delivering outputs
   b) efficiency in providing outputs.

[1] *ANAO Report No.21 2013-14, to Pilot Projects to Audit Key Performance Indicators, page 13, available from http://www.anao.gov.au/Publications*

In our 2015-16 review we found that agencies comply with items 1 and 2, with shortcomings in 3(a) and 3(b) as identified above. Currently there is limited review of performance information that is included in budget papers, however after that there is no real external monitoring or review of outcome information presented by agencies. In Tasmania performance information is not subject to audit review.

OTHER JURISDICTIONS

In the following section we review other Australian jurisdictions with active performance reporting frameworks. A key focus in these jurisdictions is on outputs rather than inputs, with decision making and Parliament scrutiny aimed at assessing performance based on the delivery of outputs rather than, or in addition to, inputs such as employee statistics or cost of goods or services. The five jurisdictions we feature are:

- The Commonwealth
- Western Australia
- Australian Capital Territory
- Queensland
- Victoria.

A brief synopsis on the performance framework in each provides an insight into linkages and processes. Those States omitted are generally not as advanced in their performance management frameworks, or are undergoing change. New South Wales, for example, is currently implementing a Financial Management Transformation Program to replace its current "service group" structure with program based budgeting and reporting. The reform commenced in 2013 following a New South Wales Commission of Audit report which highlighted significant shortcomings in the existing policy framework. The change involves implementation of a modern IT system with the expectation to give the New South Wales Government strategic, relevant and timely information to plan and deliver polices priorities and the budget. It is expected to capture and monitor financial and non-financial performance data, and provide business intelligence and analytics. For New South Wales it represents a significant change as the State has not fundamentally changed its approach to financial management for more than 30 years. A budget of $92.3m was provided for its implementation. The program is expected to have legislation, policy framework and financial reporting system rolled out for the 2017-18 financial year.

The Commonwealth

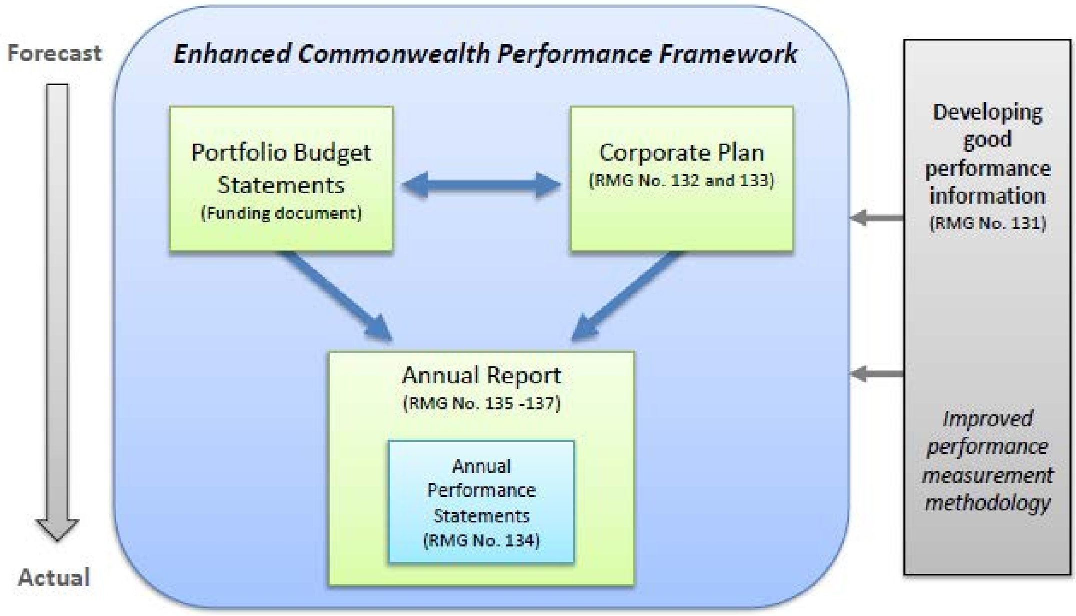
The enhanced Commonwealth performance framework is relatively new and has been going through a staged introduction. Established under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), it came into effect on 1 July 2015. The PGPA Act builds on the previous framework, but aims to strengthen the quality and relevance of performance reporting. In particular it aims to improve the line of sight between what was intended and what is delivered.

The initial focus was on the development and alignment of corporate plans and portfolio budget statements. From the 2015–16 reporting period, annual reports were required to include annual performance statements, in addition to audited financial statements and other information.

The core elements of the enhanced Commonwealth performance framework are the:

- Corporate Plan - developed at the beginning of the reporting cycle and sets out an entity's strategies for achieving its purposes and how success will be measured.
- Portfolio Budget Statements - sets out the funding for the entity and how the impact of that expenditure will be measured.
- Annual Performance Statements - which are included as part of an entity's annual report. They are produced at the end of the reporting cycle and provide an assessment of the extent to which an entity has succeeded in achieving its purposes. Figure 5 shows the main components of the framework and the annual cycle.

Figure 5: The enhanced Commonwealth performance framework



Source: Resource Management Guide No.130, Commonwealth Department of Finance

Corporate plans are required to span at least four reporting periods. The requirements allow each entity to present planning information at the level of detail it believes will best inform the reader of results intended to be achieved over the term of the plan. While the corporate plan and portfolio budget statements are prepared at different times, there is a requirement that they clearly map (or attribute) their performance information, to ensure a consistent performance story is able to be presented in annual performance statements. The mapping aims to provide a clear link between the entity's corporate plan, relevant portfolio budget statements, annual performance statements and the annual report, and ensure that a reader can clearly see how (and how well) the entity is fulfilling its purpose(s).

While corporate plans encompass the purpose and long-term view, the portfolio budget statements contain the strategic short-term forecast of what is intended to be achieved with money appropriated by Parliament. Under the performance framework there is a requirement for entities to develop a comprehensive and balanced set of performance measures and include at least one performance criterion for each program. These are required to include targets and expected dates of achievement. The Commonwealth Department of Finance provides detailed guidance to assist entities in the development of quality performance information. Corporate plans are required to approach planned performance so that it can be acquitted at the end of the reporting period.

The annual performance statements presents the performance of the significant activities at the end of each reporting period, by reporting against the targets, goals and measures that the entity established at the beginning of a reporting year. These are required to be included in each entity's annual report.

The report on performance is intended to demonstrate how the entity has performed during the year in relation to the entity's purpose(s) and program(s) and, where possible, indicate the entity's effectiveness in achieving its planned or intended results. In addition, an entity's annual performance statements must include an analysis of the factors that contributed to its performance in achieving its purposes that provides context to its performance over the reporting period.

In monitoring the publishing of corporate plans under the new framework, the Department of Finance has observed that entities are moving beyond simply complying with the minimum requirements and publishing better quality corporate plans that serve as their strategic planning documents. They note that many entities have taken the first step, or signalled that future plans would show progress towards improved performance reporting.

Since the introduction of the new framework in 2015, entities have focused on the development and refinement of corporate plans and portfolio budget statements. From 2016-17 entities were required to present performance statements in annual reports. Under the PGPA Act, the responsible Minister for a Commonwealth entity or the Finance Minister may request the Auditor-General to examine and report on the entity's annual performance statements.

Although no Minister has made such a request for 2016-17, the Commonwealth Auditor-General is currently conducting an audit on the implementation of annual performance statement requirements as a performance audit under his own act; *Auditor-General Act 1997.* The audit encompasses three entities and includes a review of guidance and support provided by the Department of Finance, systems and processes used in preparing performance information, suitability of a selection of performance measures and reporting against those measures.

This review follows on from a previous performance audit on corporate plans. Like the previous review, it will provide insight into good practices and key learnings from entities' experiences to assist all entities in the preparation of future performance statements. It will also serve to assist in informing the Parliament, government and community about the extent to which the framework is achieving its objectives.

Western Australia (WA)

WA has a well-established mature Outcome Based Management (OBM) framework that facilitates the monitoring of progress towards achieving outcomes through delivery of services. Entities were first required to identify and report outcomes and key outputs in 1997-98. The following year this expanded to include the requirement to report actual results against targets in their annual reports. In the 2001–02 Budget, the State moved to an accrual appropriations regime basis to ensure consistency with OBM. Comprehensive output measures and key indicators of efficiency and effectiveness have since progressively developed to measure agency performance in delivering outputs and achievement of desired outcomes.

Government desired outcomes can be either at a strategic or agency level. Strategic outcomes are high level, long term, and often qualitative in nature. Agency level outcomes are pitched at a level more relevant to agencies and are required to link to government goals. They are intended to either bring about behavioural change or satisfy a community or client need. Agencies then determine which services would contribute to the achievement of the desired outcomes, and KPIs to assess how well they are doing.

Treasurer's Instructions (TI) mandate the reporting of KPIs in annual reports. KPIs are required to be consistent with budget numbers. Minimum reporting requirements are an:

- Effectiveness Indicator -which provides information on the extent of, or progress in a reporting period towards, achievement of an approved strategic outcome(s)/objective(s) through the delivery of a service or services; and
- either an:
    - Efficiency Indicator - which relates a service to the level of resource input required to deliver it, or
    - Cost Effectiveness Indicator - which relates achievement of an approved strategic outcome(s)/objective(s) to the cost of the service(s) that achieved it.

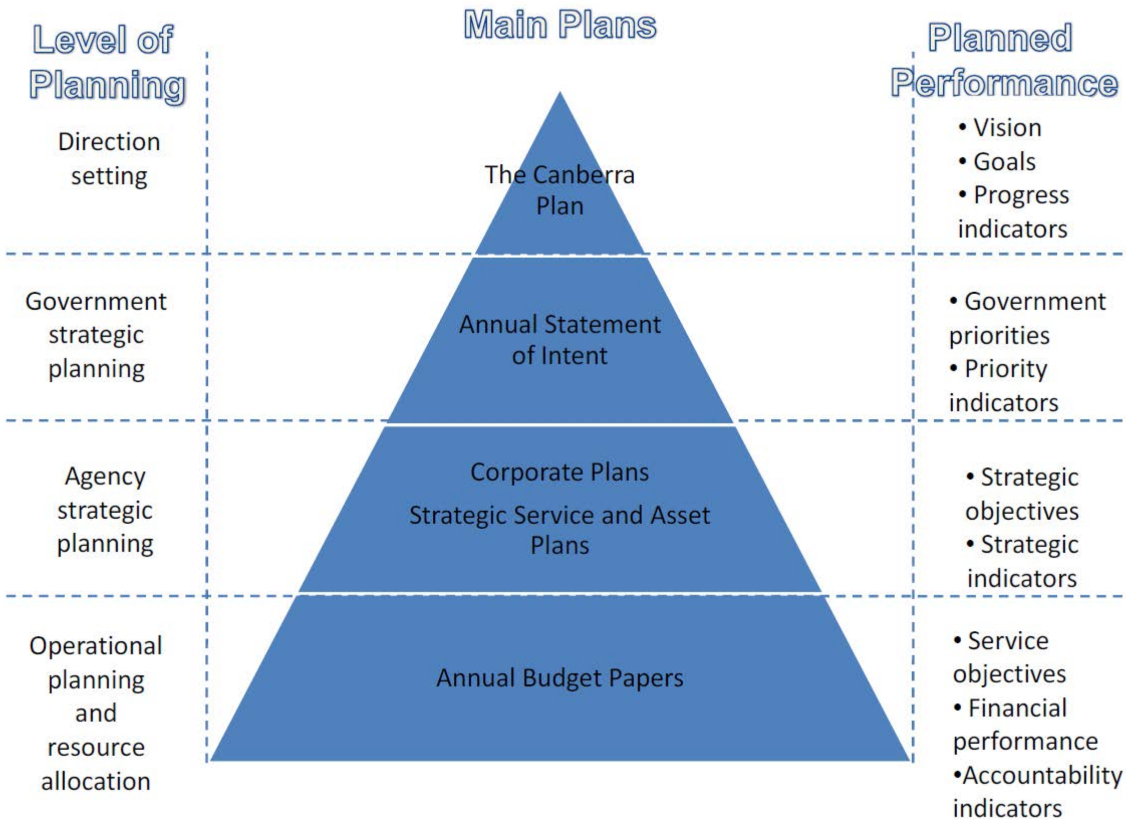
When presenting agency performance in annual reports agencies are required to include any subsidiary and/or related bodies, in a comparison of actual results against budget targets for the KPIs and agreed financial targets. Where government desired outcomes, services and KPIs have materially changed from the previous financial year, the reasons for the change are required to be disclosed. While the TI sets the minimum requirements, it does not preclude disclosure of other performance information, including longer term trends and supporting footnotes considered relevant and useful to explain an agency's performance and financial results.

KPIs in annual reports are acquitted by the Auditor-General as being relevant and appropriate to assist users to assess the entity's performance and fairly represent the performance for the year.

Australian Capital Territory (ACT)

The ACT has a quite mature Performance Management Framework. Over recent years the ACT government has strengthened it by consultation, comparison with other jurisdictions and independent review, demonstrating a commitment to continue improving and strengthening performance and accountability across government.

The framework is based around linking and managing the delivery of outputs to meet the Government's long term visions under *"The Canberra Plan"*, and subsidiary plans, as well as strategic plans relating to specific service-delivery priorities.



Source: ACT Government, Chief Minister's Department, August 2010.

Agency strategic planning is a medium-term planning process. Key outcomes identified are translated into verifiable/measurable outcomes that map to the agency level. Operational planning focuses on the near term and is more specific and detailed in the programs and use of resources. The outcome of this planning is consolidated into the annual budget papers.

As part of the budget process each year, when agencies prepare their statement that sets out the outputs the agency proposes to provide during the year, they are also required to provide the accountability indicators to be met by the agency in providing the outputs.

Accountability indicators measure the agency's effectiveness and efficiency in delivering its outputs and may be measures of outcomes or outputs. Where appropriate, they may also include input measures that report on the quantum and/or costs of individual services. When determining accountability indicators, agencies are required to consider both qualitative and quantitative aspects and present a balanced picture of performance. Agencies are encouraged to select a small number of key indicators, the ones most useful to stakeholders.

As part of their annual report, agencies are required to prepare a Statement of Performance for the year. This compares actual performance in providing each class of output with the original, or revised budget, and state the extent to which the output performance criteria has been met. This includes an explanation of the accountability indicator and an explanation on variances greater than or equal to +/-5% between targets and results. Each directorate must also prepare a half yearly performance report to parliament providing information relating to the progress on the delivery of outputs.

Accompanying the Statement of Performance in the Annual Report, each Directorate's Director-General must also attest that the statement fairly presents the performance of the directorate and sign a Responsibility Statement. Statements of Performance are submitted to the Auditor-General who issues a Report of Factual Findings on the accountability indicators. This not only strengthens accountability for performance but also provides additional assurance to users for future decision making.

Queensland (Qld)

The Qld *Performance Management Framework* (PMF) was introduced in 2008 to improve analysis and application of performance information in policy development, implementation and social outcomes. It requires public sector entities to monitor and report non-financial performance information. The Department of the Premier and Cabinet is responsible for the design and oversight of the operation of the PMF and for the guidance material that supports it. This includes provisions related to planning, performance and the non-financial aspects of annual reporting. Underpinning this is the *Financial and Performance Management Standard 2009* and the *Financial Accountability Act 2009* both of which are managed by Queensland Treasury.

Like other States already discussed, entities go through various stages of planning, commencing with the preparation of a Strategic Plan that identifies the ways in which the entity intends to achieve its objectives. Plans cover a period of four years. As part of this process agencies need to determine performance indicators that will measure the extent to which actual results have been achieved over time. The PMF requires departments to group all their services into service areas and report on at least one efficiency and one effectiveness performance measure for each service area. Performance indicators included in an agency's strategic plan must be consistent with those subsequently reported against in an agency's subsequent annual report.

Each year, every department produces Service Delivery Statements (SDS) that provide budgeted financial and non-financial information. These accompany budget documents and form the basis for reporting performance information in annual reports.

In annual reports, entities are required to report performance information on both the objectives in their strategic plan and those in the SDS, consistent with the budget documentation. For service areas and material services provided, entities are required to include an explanation on the activities and processes provided, and details on the achievement in the reporting period. Commentary is required with actual performance results for each service standard for any significant variations, both positive and negative, between the published estimate and actual result.

In addition to the service standards, where there is additional information about how efficiently and effectively the entity has carried out its operations, including benchmarking information such as comparisons to best practice or other published comparative data, this can also be disclosed. Reporting guidelines require more detailed explanations in situations where a service standard is discontinued or data is not yet available.

While the performance information published in entity annual reports is not required to be audited, the Qld Audit Office has conducted performance audits on how well departments measure, monitor and publically report on their non-financial performance. These have resulted in a number of enhancements to the performance reporting process and the reporting by entities.

Victoria (Vic)

On 1 July 2016, Vic updated and streamlined its previous planning, budgeting and financial reporting guidance with the Budget Operations Framework, Financial Reporting Operations Framework and the Performance Management Framework (PMF). The PMF is enacted through Standing Directions for departments by the Minister for Finance in accordance with the *Financial Management Act 1994*. The PMF provides a structure for government and public sector planning, budgeting, service delivery, performance monitoring, reporting and accountability.

While the PMF allows for longer-term planning; 10+ years; a mandatory requirement is the formulation of a rolling medium-term plan over a 4 year period to integrate with the budget process. Within this process departments are required to establish objectives and strategies on achievable goals and reach the best possible results from the resources available. The practice of aligning the goods and services (outputs) to be delivered with the departmental objectives seeks to ensure outputs benefit recipients. This requires the development of performance measures that can demonstrate service efficiency and effectiveness, and cover all major activities. The framework does not specify particular performance indicator requirements, rather requires a meaningful mix of quality, quantity, timeliness and cost performance measures for each output. The emphasis is more on achieving a balanced set of measures with the appropriate mix of quality, quantity, timeliness and cost measures for each output. The aim being to give a balanced and complete performance picture of what the output is trying to achieve and how the delivery of the output will be measured.

Output performance includes the cost of delivering each output. The framework also provides for comparison and benchmarking over time and where possible across departments and against other jurisdictions.

Following the determination of the output mix and performance measurement and targets, a departmental performance statement is derived which is incorporated into the coming year's budget papers. Explanatory commentary is required for changes in objectives, indicators or performance measures and targets, from one year to the next, as is any discontinued outputs or performance measures.

Performance reporting by output occurs bi-annually at the end of December and June. Reports include strategic performance outcomes including reporting against performance measures, targets and outcomes, including progress against any efficiency targets as well. Achievement against departmental indicators and output measures is required to be presented in annual reports.

While the performance reporting published in annual reports is not required to be audited, the Victorian Auditor-General's Office (VAGO) conducted a performance audit in 2014 on *Public Sector Performance Measurement Reporting*. The report concluded that for the departments examined, they were not effectively applying the government's performance measurement and reporting system. Oversite and guidance were also highlighted as areas that needed to improve. In many ways the VAGO's report contained a number of similar findings as our 2015-16 review, which covered the same period. This included output measures providing insufficient information on effectiveness and efficiency, weaknesses in defining objectives and linking to outputs, and an absence of meaningful commentary to explain performance. With all departments accepting the report's recommendations and the framework continues to be refined, Vic is in a position in which to further build improvements in performance reporting into the future.

Jurisdictional comparison

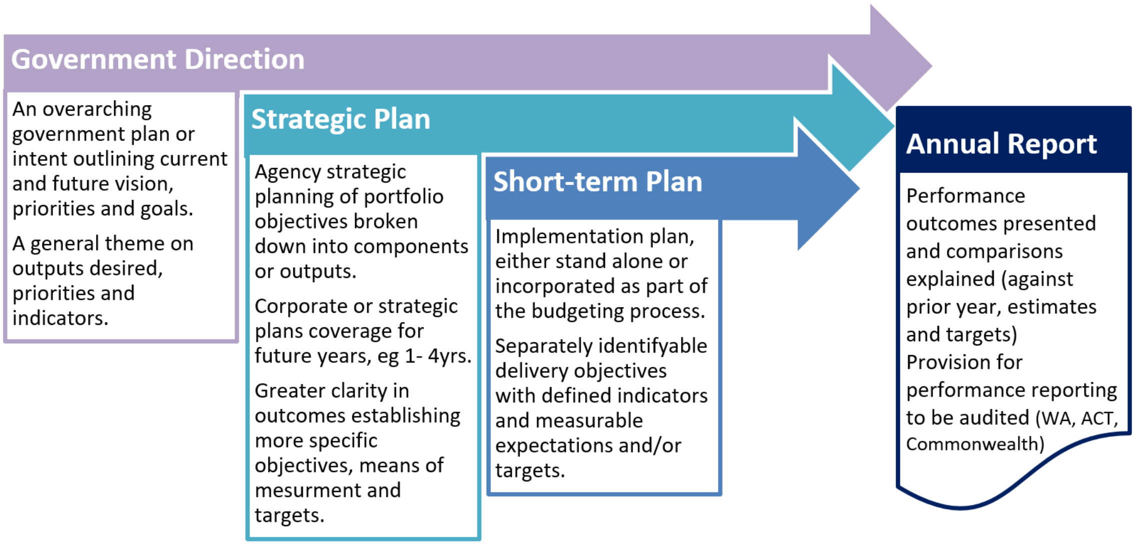
The following table provides a listing of key factors consistently noted in the jurisdictions reviewed.

	Commonwealth	WA	ACT	Qld	Vic
Government Planning					
Long-term Strategic Plans link with Government Direction	Yes	Yes	Yes	Yes	Yes
Plans Include performance measurement	Yes	Yes	Yes	Yes	Yes
Budget Statements					
Include KPIs	Yes	Yes	Yes	Yes	Yes
Include Targets	Yes	Yes	Yes	Yes	Yes
Include minimum KPI requirements (Consider effectiveness, efficiency, cost or a balanced set)	Yes	Yes	Yes	Yes	Yes
Entity Reporting					
Performance Reporting in Annual Reports	Yes	Yes	Yes	Yes	Yes
Annual Reporting consistent with planning documents (Budget or Strategic plan)	Yes	Yes	Yes	Yes	Yes
Planned KPIs reflected in Annual Reports	Yes	Yes	Yes	Yes	Yes
Planned targets reflected in Annual Reports	Yes	Yes	Yes	Yes	Yes
Analysis required (KPIs, Material variances between budget targets and actual results)	Yes	Yes	Yes	Yes	Yes
Changes to KPIs require explanation	Yes	Yes	Yes	Yes	Yes
Framework allows for Performance Information to be Audited	Yes (Minister's Choice)	Yes	Yes	No	No

Summary of Observations

1. Overarching framework

Reflecting on the various models in different jurisdictions discussed in this Chapter, it is clear that the general structure of each jurisdiction has a similar overarching framework. The characteristics of the framework are illustrated in the diagram below:



The uniform approach generally observed involved a relationship driven by the government's desired goals and outcomes in a top down process to individual agency areas of service delivery. Individual agency planning generally adopts a strategic specific purpose and operational approach, while ensuring their objectives align with the government direction. Government or ministerial portfolio statements can play a part here in setting clear expectations on results and appropriate performance measurement. Agencies then generally determine their purpose, vision, objectives and strategies to deliver their objectives. Only when these are fully understood can they in turn be refined into some form of performance indicators to be used to align service delivery. Over time these provide a mechanism to measure results and outcomes. In short-term planning this is incorporated into the general budget submission process for agencies each year. These predominately contain budgeted financial and non-financial information about an agency for the current and coming financial year. For the more mature frameworks, this included integration with specific performance statements not only utilised as a primary source of information for hearings of parliamentary estimates committees, but also as a means of daily management and for agencies at the end of the year to report back to Parliament on achievements and outcomes. The framework in a couple of jurisdictions provides for half yearly reporting on progress towards the planned outcomes for the year, as well as more regular internal reporting.

2. Resources linked to outcomes

In the annual budgetary planning document, or development of the performance statement, depending upon the terminology, there was a common requirement to include details on selected performance indicators, targets or expected outcomes for the coming year. The aim being to develop clear objectives that align with agency strategic planning and link to government goals. The effective underlying or guiding principle in all frameworks was that resources should not be allocated to any service unless they can be demonstrated to contribute to the achievement of the government desired outcomes. Clarity in measures selected provides for transparency in how outcomes or expectations are determined, delivered and ultimately evaluated.

3. Clear indicators of performance

A feature of all frameworks was that they comprise a set of key performance indicators or measures aligned with major government services that ideally provide direct insights into the efficiency and effectiveness of each in fulfilling its objectives. Prominent categories of performance indicators designed to measure outcomes achieved by agencies in meeting objectives included:

- Efficiency indicators – measuring the services delivered and the resources used to produce the service.
- Service effectiveness indicators – measuring the relationship between the purpose (objective) of the service and the actual outcomes or results achieved.
- Cost-effectiveness indicators – measuring the relationship between the cost of producing the service or outcome or results achieved.

Some jurisdictions prescribed a requirement to include at least one efficiency and effectiveness indicator, while others were less prescriptive, placing a greater emphasis on achieving a balanced set of indicators to best represent and measure individual service outcomes. The ability to select other representative measures including benchmarking (for example: results, processes or standards) and other comparisons were also generally encouraged where appropriate. A clear point in most guidance being the need to avoid confusion with activity workload outputs that do not reflect agency performance.

4. Complete measurement continuum

In all jurisdictions reviewed, there was a requirement to carry key performance indicators determined in long-term and strategic planning through to budget planning or planned performance statements, and through to final agency reporting in annual reports. Thus completing the cycle and allowing for meaningful assessment of resources use by government. The linking of all performance measures identified in budget papers through to providing an assessment in annual reports on actual outcomes was noted as a deficiency in our 2015-16 review.

5. Clear responsibility for performance

In situations where more than one agency contributes to an outcome, it was noted that the WA framework provided for "joined up government", whereby one agency adopts a lead agency roll and has overall responsibility for co-ordinating the delivery and reporting on the outcome. This ensures that at least one agency reports on the government delivery of services. A number of jurisdictions also allowed for the transfer of performance information reporting requirements where changes to administrative arrangements, (also often referred to as the machinery of government), result in the transfer of service responsibilities within government.

6. Explaining variances and performance measure changes

Further emphasising the linkage of reporting on budgeted resources is the requirement in all jurisdictions to detail changes to budgets and performance measures. Explanations for variances and amendments provides users with an understanding of the reasoning for the change and avoids the situation where planned indicators just disappear.

7. Aligned reporting expectations

In our 2015-16 review we recommended that all GGS entities, irrespective of whether they are required to develop outputs or not, should be required to develop and report performance information. It was noted that territory authorities in the ACT that are not prescribed for outputs, are still required to prepare and report on indicators in their Statement of Performance on original budget papers and actual results.

8. Capital works and administered expenses

Noted in our 2015-16 review were concerns over the Tasmanian framework not dealing with capital works and administered expenses. These are both covered in the WA framework. While direct expenditure on capital works do not form part of services, they do reflect in the cost of services in the form of depreciation. Under the WA framework asset needs are considered as part of strategic and business operational levels. For administered expenses, such as subsidies and some grants, these do not form part of agency services as by definition, they are not controlled.

However, where such payments provide material services, performance is required to be monitored and reported.

9. Quality and accuracy of information

Having an appropriate performance management framework is only as good as the quality and accuracy of the information it presents. All jurisdictions provide for some form of reporting in annual reports. Annual reports are a critical output of all public sector frameworks and play an important part as a means of informing Parliament and the community about the performance in the sector. They play a key role in public sector transparency and accountability, and therefore the quality and accuracy of information should be a high priority.

10. Feedback on reporting of performance

It was noted when reviewing the various jurisdictions described in this Chapter, that reviews by multiple audit offices identified various matters of concern. These included failing to meet all mandatory disclosures or information containing errors in calculations, presentation or analysis. The implications were assessed as ranging from the relatively minor and not likely to mislead readers, to those considered more serious and more likely to mislead or confuse readers in their assessment of agency performance.

What was apparent from the outcomes of these reviews was not only in providing assurance to users, (or not), as to the quality and accuracy of such information, but also in providing meaningful feedback that can be, and is, incorporated into improvements to individual agency processes and the respective performance management framework itself. Those jurisdictions where the attestation of performance information is mandatory each year, ACT and WA, were generally found to be more robust with a higher degree of alignment with government plans. With regard to the Commonwealth, where the performance framework has been introduced in stages, it will be interesting to see in time if Ministerial requests for assurance become the norm.

FUTURE DEVELOPMENTS IN REPORTING PERFORMANCE INFORMATION

Internationally there has been an increased focus on demonstrating effective stewardship of public resources. A number of other countries including New Zealand, have strengthened their accountability for performance by also requiring performance information be independently audited and reported.

Although Australia does not have this requirement yet, the Australian Accounting Standards Board's (AASB or the Board) proposed standard on reporting service performance information would require not-for-profit entities (including public sector not-for-profit entities) to publish service performance information annually in a way that is useful for accountability and decision-making purposes. This includes the extent to which an entity has achieved its service performance objectives and should enable users of the report to assess the efficiency and effectiveness of the service performance.

Submission for comment on an Exposure Draft (ED 270 *Reporting Service Performance Information*) on the topic closed on 29 April 2016. The Board considered feedback and noted that constituents generally agreed with the objectives and principles of service performance reporting. However, it did raise concerns.

Following the Board meeting on 13-14 December 2016, it was resolved that:

The Board decided to continue the project, given the importance of reporting service performance information in providing information about the entity that is useful to users for evaluating accountability and for other decision-making purposes. However, the Board noted further work would be required in areas such as:

(a) consultation with users, preparers and regulators of service performance reporting;

(b) publishing any relevant academic research on user needs;

(c) benchmarking existing frameworks and government reporting requirements;

(d) field testing a number of large, not-for-profit entities already reporting service performance information; and

(e) using simpler language and providing a more overarching framework for the preparation of such reporting.

Source: AASB Action Alert, Issue No: 182, 15 December 2016.

Its adoption would provide a catalyst for better reporting and transparency of performance by public sector entities and equally represents a risk given the current state of performance reporting in many entities. All jurisdictions in Australia will need to consider how well placed they are to meet this requirement if it is mandated. Those jurisdictions mentioned earlier in this Chapter with well-defined performance management frameworks that incorporate audited performance reporting within their annual reports, may find they already meet the future disclosure requirements. Those that do not, including Tasmania, may need to be more proactive in future to be ready.

CONCLUDING COMMENTS

It is clear from the above that there is an emerging trend of increased focus on performance management in the public sector and entities publically reporting information on their performance as part of their accountability obligations to demonstrate their effective oversight and governance of taxpayer-funded resources. The publication of relevant and reliable information, which fairly represents performance, strengthens accountability and improves transparency. With increasing pressures on governments to do more with less, not knowing if services are being delivered in an effective and efficient manner, hampers and undermines effective decision making and weakens accountability.

In recent years there has been significant commitment by multiple jurisdictions to continuous improvement in the area of performance accountability. Most recognise that performance management is not static, but rather an evolving process that requires periodic refinement in response to the environment and government directions.

It is worthwhile to note that all of the matters raised in our 2015-16 review, that were also mentioned at the start to this Chapter, are effectively dealt with within the performance frameworks of other jurisdictions.

Addressing these shortcomings and bringing the Tasmanian framework up-to-date with other more progressive jurisdictions would provide distinct benefits.

It would greatly improve the line of sight between what was intended and what was actually delivered. Decision making would be improved as management, government and the general public would be better informed on decisions about the allocation of public resources.

APPENDICES

APPENDIX 1 - GUIDE TO USING THIS REPORT

This Report is prepared under section 29 of the *Audit Act 2008* (the Audit Act), which requires the Auditor-General, on or before 31 December in each year, to report to Parliament in writing on the audit of State entities and audited subsidiaries of State entities in respect of the preceding financial year. The issue of more than one report titled the *Auditor-General's Report on the Financial Statements of State Entities*, comprising four volumes, satisfies this requirement each year. The volumes are:

Volume 1 – Analysis of the Treasurer's Annual Financial Report, results of General Government Sector entities, other non-GGS including the Retirement Benefits Fund - 2015-16

Volume 2 – Government Business 2015-16

Volume 3 – Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2015-16

Volume 4 – State Entities 30 June and 31 December 2016.

Where relevant, State entities are provided with the opportunity to comment on any of the matters reported. Where they choose to do so, responses are detailed within that particular section.

FINANCIAL ANALYSIS

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Financial Performance		
Earnings Before Interest and Tax (EBIT)		Result from Ordinary Activities before Gross Interest Expense and Tax
EBITDA		Result from Ordinary Activities before Gross Interest Expense, Tax, Depreciation and Amortisation
Operating margin	>1.0	Operating Revenue divided by Operating Expenses
Underlying surplus (Deficit)		Operating Revenue less Operating Expenses
Operating surplus ratio	>0	Net Operating surplus (deficit) divided by total operating revenue
Own source revenue		Total Revenue less Total Grant Revenue, Contributed Assets and Asset Revaluation Adjustments
Return on assets		EBIT divided by Average Total Assets
Return on equity		Result from Ordinary Activities after Taxation divided by Average Total Equity
Self financing ratio		Net Operating Cash Flows divided by Operating Revenue
Financial Management		
Asset consumption ratio	Between 40% and 60%	Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Asset renewal funding ratio	90%-100%	Future (planned) asset replacement expenditure divided by future asset replacement expenditure (actual) required
Capital investment gap, asset investment ratio or investment gap	>100%	Payments for Property, plant and equipment divided by Depreciation expenses
Capital replacement gap, asset renewal ratio or renewal gap	100%	Payments for Property, plant and equipment on existing assets divided by Depreciation expenses
Cost of debt		Gross Interest Expense divided by Average Borrowings (include finance leases)
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365
Current ratio	>1	Current Assets divided by Current Liabilities
Debt collection	30 days	Receivables divided by billable Revenue multiplied by 365
Debt to equity		Debt divided by Total Equity
Debt to total assets		Debt divided by Total Assets
Indebtedness ratio		Non-Current Liabilities divided by Own Source Revenue
Interest coverage ratio		Net operating cashflows less interest and tax payments divided by Net interest payments
Interest cover – EBIT	>2	EBIT divided by Gross Interest Expense
Interest cover – EBITDA	>2	EBITDA divided by Gross Interest Expense
Interest cover – Funds from Operations	>2	Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense
Liquidity ratio	2:1	Liquid assets divided by current liabilities other than provisions
Net financial assets (liabilities)		Total liquid assets less financial liabilities
Net financial liabilities ratio	0 – (50%)	Liquid assets less total liabilities divided by total operating income
Returns to Government		
CSO funding		Amount of community service obligation funding received from Government
Dividend payout ratio		Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity
Dividends paid or payable		Dividends paid or payable that relate to the year subject to analysis

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Effective tax rate	30%	Income Tax paid or payable divided by Result from Ordinary Activities before Tax
Government guarantee fees		Amount of guarantee fees paid to owners (usually Government)
Income tax paid		Income Tax paid or payable that relates to the year subject to analysis
Total return to equity ratio		Total Return divided by Average Equity
Total return to the State or total return to owners		Dividends plus Income Tax and Loan Guarantee fees
Other Information		
Average leave per FTE		Total employee annual and long service leave entitlements divided by FTEs
Average long service leave balance	Not more than 100 days	Actual long service leave provision days due divided by average FTEs
Average recreational leave balance	20 days[3]	Actual annual leave provision days due divided by average FTEs
Average staff costs[2]		Total employee expenses (including capitalised employee costs) divided by FTEs
Employee costs[2] as a % of operating expenses		Total employee costs divided by Total Operating Expenses
Employee costs capitalised		Capitalised employee costs
Employee costs expensed		Total employee costs per Income Statement
Operating cost to rateable property		Operating expenses plus finance costs divided by rateable properties per valuation roll
Rates per capita		Population of council area divided by rates revenue
Rates per operating revenue		Total rates divided by operating revenue including interest income
Rates per rateable property		Total rates revenue divided by rateable properties per valuation rolls
Other Information		
Staff numbers FTEs		Effective full time equivalents

1 *Benchmarks vary depending on the nature of the business being analysed. For the purposes of this Report, a single generic benchmark has been applied.*

2 *Employee costs include capitalised employee costs, where applicable, plus on-costs.*

3 *May vary in some circumstances because of different award entitlement.*

FINANCIAL PERFORMANCE

- **Earnings before interest and tax (EBIT)** – measures how well an entity can earn a profit, from its operations, regardless of how it is financed (debt or equity) and before it has to meet external obligations such as income tax. This is a measure of how well it goes about its core business.
- **Earnings before income tax, depreciation and amortisation (EBITDA)** – measures how well an entity can generate funds without the effects of financing (debt or equity), depreciation and amortisation and before it has to meet external obligations such as income tax. This measure is of particular relevance in cases of entities with large amounts of non-current assets as the distortionary accounting and financing effects on the entity's earnings are removed, enabling comparisons to be made across different entities and sectors.
- **Operating margin** – this ratio serves as an overall measure of operating effectiveness.
- **Operating surplus (deficit) or result from operations** – summarises revenue transactions and expense transactions incurred in the same period of time and calculates the difference.
- **Operating surplus ratio** – a positive result indicates a surplus with the larger the surplus the stronger the assessment of sustainability. However, too strong a result could disadvantage ratepayers. A negative result indicates a deficit which cannot be sustained in the long-term.
- **Own source revenue** – represents revenue generated by an entity through its own operations. It excludes any external government funding, contributed assets and revaluation adjustments.
- **Return on assets** – measures how efficiently management used assets to earn profit. If assets are used efficiently, they earn profit for the entity. The harder the assets work at generating revenues, and thus profit, the better the potential return for the owners.
- **Return on equity** – measures the return the entity has made for the shareholders on their investment.
- **Self financing ratio** – this is a measure of an entity's ability to fund the replacement of assets from cash generated from operations.

FINANCIAL MANAGEMENT

- **Asset consumption ratio** – shows the depreciated replacement cost of an entity's depreciable assets relative to their "as new" (replacement) value. It therefore shows the average proportion of new condition left in the depreciable assets.
- **Asset renewal funding ratio** – measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue, expense or debt consequences, or a reduction in service levels. This is a most useful measure relying on the existence of long-term financial and asset management plans.
- **Asset sustainability ratio** – provides a comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.
- **Capital investment gap, asset investment ratio or investment gap** – indicates whether the entity is maintaining its physical capital by re-investing in or renewing non-current assets (caution should be exercised when interpreting this ratio for entities with significant asset balances at cost as the level of depreciation may be insufficient).

- **Capital replacement gap, asset renewal ratio or renewal gap** – indicates whether the entity is maintaining its physical capital by re-investing in or renewing existing non-current assets. (Caution should be exercised when interpreting this ratio as the amount of capital expenditure on existing assets has largely been provided by the respective councils and not subject to audit).
- **Cost of debt** – reflects the average interest rate applicable to debt.
- **Creditors turnover** – indicates how extensively the entity utilises credit extended by suppliers.
- **Current ratio** – current assets should exceed current liabilities by a "considerable" margin. It is a measure of liquidity that shows an entity's ability to pay its short term debts.
- **Debt collection** – indicates how effectively the entity uses debt collection practices to ensure timely receipt of monies owed by its customers.
- **Debt to equity** – an indicator of the risk of the entity's capital structure in terms of the amount sourced from borrowings and the amount from Government.
- **Debt to total assets** – an indicator of the proportion of assets that are financed through borrowings.
- **Interest cover** – EBIT – an indicator of the ability to meet periodic interest payments from current profit (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced profitability.
- **Interest cover** – examines the exposure or risk in relation to debt, an indicator of the ability to meet periodic interest payments from funds from operations (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced funds from operations.
- **Net financial liabilities ratio** – indicates the extent to which net liabilities can be met by operating income. A falling ratio indicates that the entity's capacity to meet its financial obligations from operating income is strengthening.

RETURNS TO GOVERNMENT

- **Dividend payout ratio** – the amount of dividends relative to the entity's net income.
- **Dividend to equity ratio** – the relative size of an entity's dividend payments to shareholders' equity. A low dividend to equity ratio may indicate that profits are being retained by the entity to fund capital expenditure.
- **Dividends paid or payable** – payment by the entity to its shareholders (whether paid or declared as a payable).
- **Effective tax rate** – is the actual rate of tax paid on profits.
- **Income tax paid** – tax payments by the entity to the State in the year.
- **Total return to equity ratio** – measures the Government's return on its investment in the entity.
- **Total return to the State** – the funds paid to the Owners consisting of income tax, dividends and guarantee fees.

OTHER INFORMATION

- **Average leave balance per FTE** – indicates the extent of unused leave at balance date.
- **Average long service leave balance or days long service leave due** – records the average number of days long service leave accumulated per staff member. In general public servants cannot accrue more than 100 days long service leave.
- **Average recreational leave balance or days annual leave due** – records the average number of days annual leave accumulated per staff member. In general public service employees accrue 20 days annual leave per annum.
- **Average staff costs** – measures the average cost of employing staff in the entity for the year.
- **Employee costs as a percentage of operating expenses** - indicates the relative significance of employee costs compared to other operating expenses.
- **Employee costs capitalised** – represents employee costs that have been capitalised rather than expensed.
- **Employee costs expensed** – represents the level of employee costs expensed, ie. included in the Comprehensive Income Statement. This together with the Employee costs capitalised will provide a total employee cost figure for use in other related ratios.
- **Staff numbers FTEs** – as at the end of the reporting period the number of staff employed expressed as full-time equivalents.

The above indicators are used because they are commonly applied to the evaluation of financial performance. Care should be taken in interpreting these measures, as by definition they are only indicators, and they should not be read in isolation.

APPENDIX 2 - GLOSSARY

Accountability

The responsibility to provide information to enable users to make informed judgements about the performance, financial position, financing and investing, and compliance of the State entity.

Adverse opinion

An adverse opinion is issued when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial report.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Asset

A resource controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the entity.

Asset useful life

The period over which an asset is expected to provide the entity with economic benefits. Depending on the nature of the asset, the useful life can be expressed in terms of time or output.

Asset valuation

The fair value of an asset on a particular date.

Audit Act 2008

An Act of the State of Tasmania that:

- ensures that the State has an Auditor-General with the necessary functions, immunities and independence
- provides for the independent audit of the public sector and related entities.

Auditor's opinion (or Auditor's report)

Written expression within a specified framework indicating the auditor's overall conclusion on the financial reports based on audit evidence obtained.

Borrowing costs

Interest and other costs that an entity incurs in connection with the borrowing of funds.

Capital expenditure

Amount capitalised to the Statement of Financial Position (also referred to as the balance sheet) for expenditure on or contributions by a State entity to major assets controlled or owned by the entity, including expenditure on:

- capital renewal of existing assets that returns the service potential or the life of the asset to that which it had originally been commissioned
- capital expansion which extends an existing asset at the same standard to a new group of users.

Capital grant

Government funding provided to an agency for acquiring capital assets such as buildings, land or equipment.

Carrying amount

The amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

Cash

Cash on hand and demand deposits.

Cash equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows

Inflows and outflows of cash and cash equivalents.

Combined employee costs

For the purpose of this Report, combined employee costs included wages, salaries, leave entitlements and on-costs, superannuation contributions made on behalf of employees and superannuation liability expenses relating to defined benefits schemes for which the Government is responsible.

Comprehensive result

The overall net result of all items of income and expense recognised for the period. It is the aggregate of net surplus (deficit) or profit (loss) and other movements in equity.

Consolidated financial statements

The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

Contributed assets

Assets, usually Property, plant and equipment, contributed to a State entity at no cost or are non-reciprocal.

Contributions from the State

Transactions in which one State entity provides goods, services, assets (or extinguishes a liability) or labour to another State entity without receiving approximately equal value in return. Grants can either be of a current or capital nature.

Control

The capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in achieving the objectives of the controlling entity.

Cost

The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Current asset

An asset that an entity:

- expects to realise or intends to sell or consume in its normal operating cycle;
- holds primarily for the purpose of trading;
- expects to realise within twelve months after the reporting period; or
- is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

Current liability

A liability that an entity:

- expects to settle in its normal operating cycle;
- it holds primarily for the purpose of trading;
- is due to be settled within twelve months after the reporting period; or
- does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

An entity shall classify all other liabilities as non-current.

Deficit

Total expenditure exceeds Total Revenue. Term is generally applied to results of not-for-profit entities. Equivalent term in the case of for-profit entities is a loss.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Disclaimer of opinion

A disclaimer of opinion is used when it is not possible for the auditor to form an opinion. This may occur in rare circumstances when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be both material and pervasive.

Emphasis of matter

An auditor's report can include an emphasis of matter paragraph that draws attention to a disclosure or item in the financial report that is relevant to the users of the report but is not of such nature that it affects the auditor's opinion (i.e. the auditor's opinion remains unmodified).

Employee benefits provision

The liability recognised for employees' accrued service entitlements, including all costs related to employment consisting of wages and salaries, leave entitlements, redundancy payments and superannuation contributions.

Equity or net assets

Residual interest in the assets of an entity after deduction of its liabilities. Where liabilities exceed assets, this gives rise to negative equity or net liabilities or accumulated deficits.

Expense

Outflows or other depletions of economic benefits in the form of incurrence of liabilities or depletion of assets of the entity, other than those relating to contributions by owners, that results in a decrease in equity, or increase in a liability, during the reporting period.

Fair value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial asset

Any asset that is:

- cash
- an equity instrument of another entity
- a contractual right:
  - to receive cash or another financial asset from another entity; or
  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
  - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
  - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial liability

Any liability that is:

- a contractual obligation:
  - to deliver cash or another financial asset to another entity; or
  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
  - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
  - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial position

The relationship of the assets, liabilities and equity of an entity, as reported in the Statement of Financial Position (balance sheet).

Financial report

Structured representation of financial information, which usually includes accompanying notes, derived from accounting records and intended to communicate an entity's financial performance over a period of time and its economic resources or obligations at a point in time in accordance with a financial reporting framework.

Financial statements

A complete set of financial statements comprises:

- a Statement of Financial Position as at the end of the period
- a Statement of Profit or Loss and Other Comprehensive Income for the period
- a Statement of Changes in Equity for the period
- a Statement of Cash Flows for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information
- comparative information in respect of the preceding period
- a Statement of Financial Position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

An entity may use titles for the statements other than those used in the relevant accounting standard. For example, an entity may use the title 'Statement of Comprehensive Income' instead of 'Statement of Profit or Loss and Other Comprehensive Income'.

Financial sustainability

An entity's ability to manage financial resources so it can meet its spending commitments both at present and into the future.

Financial year

The period of 12 months for which a financial report is prepared.

For-profit entity

An entity whose principal objective is the generation of profit. A for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

Future economic benefit

The potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows.

General purpose financial report

A financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

Going concern

An entity which is expected to be able to pay its debts as and when they fall due, and continue in operation for the foreseeable future without any intention or necessity to liquidate or otherwise wind up its operations.

Governance

The control arrangements in place at an entity that are used to govern and monitor its activities in order to achieve its strategic and operational goals.

Impairment loss

The amount by which the carrying amount of an asset exceeds its recoverable amount.

Independent auditor's report

An expression of the independent auditor's opinion on an entity's financial (and performance) report.

Intangible asset

An identifiable non-monetary asset without physical substance.

Investment

The expenditure of funds intended to result in medium to long-term service and/or financial benefits arising from the development and/or use of infrastructure assets by either the public or private sectors.

Liability

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of resources from the entity.

Loss

Total expenditure exceeds total revenue. Term is generally applied to results of for-profit entities. Equivalent term in the case of not-for-profit entities is a deficit.

Material

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Materiality

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial report.

Modified audit opinion

The Auditing Standards establish three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

- the nature of the matter giving rise to the modification, that is, whether the financial report is materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- the auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial report.

Non-financial asset

Physical assets such as land, buildings and infrastructure.

Not-for-profit entity

An entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

Operating cycle

The time between the acquisition of assets for processing and their realisation in cash or cash equivalents.

Profit

Total revenue exceeds total expenditure. Term is generally applied to results of profit entities. Equivalent term in the case of not-for-profit entities is a surplus.

Property, plant and equipment

Tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period.

Public sector entity

A department; a public hospital; a local government; a statutory body; an entity controlled by one, or more than one department, public hospital, local government or statutory body; or an entity controlled by a public sector entity.

Qualified audit opinion

A qualification is issued when the auditor concludes that an unqualified opinion cannot be expressed due to one of the following reasons:

- The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial report; or
- The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be material but not pervasive.

A qualified opinion shall be expressed as being except for the effects of the matter to which the qualification relates.

Relevant

Measures or indicators used by an entity are relevant if they have a logical and consistent relationship to an entity's objectives and are linked to the outcomes to be achieved.

Revaluation

Recognising a reassessment or restatement of values for assets or liabilities at a particular point in time.

Revenue

Inflows of funds or other enhancements or savings in outflows of service potential, or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners which result in an increase in equity during the reporting period.

Special purpose financial statements

A financial report intended to only meet the information needs of specific users who are able to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

State entity

A body, whether corporate or unincorporated, that has a public function to exercise on behalf of the State or is wholly owned by the State, as defined under the *Audit Act 2008*, including:

- an agency
- a council
- a Government Business Enterprise
- a State Owned Corporation
- a State authority that is not a Government Business Enterprise
- the council, board, trust or trustees, or other governing body (however designated) of, or for, a corporation, body of persons or institution, that is or are appointed by the Governor or a Minister of the Crown
- a body or authority referred to in section 21, established under section 29 or 30, or continued under section 326, of the *Local Government Act 1993*
- the Corporation incorporated under section 5 of the *Water and Sewerage Corporation Act 2012*
- a body or authority in respect of which the Treasurer has made a determination under section 32A.

State owned corporation

A company incorporated under the Corporations Act which is controlled by:

- the Crown
- a State authority
- another company which is itself controlled by the Crown or a State authority.

Surplus

Total revenue exceeds total expenditure. Term is generally applied to results of not-for-profit entities. Equivalent term in the case of for-profit entities is a profit.

Unqualified audit opinion – financial report

A positive written expression provided when the financial report has been prepared and presents fairly the transactions and balances for the reporting period in accordance with the requirements of the relevant legislation and Australian accounting standards.

Also referred to as a clear audit opinion.

Value in use (in respect of not-for-profit entities)

Depreciated replacement cost of an asset when the future economic benefits of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits.

APPENDIX 3 - ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ACNC	Australian Charities and Not For Profits Commission
ACT	Australian Capital Territory
AMC Search	AMC Search Limited
ANAO	Australian National Audit Office
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings before income tax, depreciation and amortisation
EFTSL	Equivalent Full time student load
FAA	Financial Accountability Act 2009
FPMS	Financial and Performance Management Standard 2009
FTE	Full Time Equivalent
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPSAM	Integrated Public Sector Audit Methodology
IPSASB	International Public Sector Accounting Standards Boards
KAMs	Key Audit Matters
KMP	Key Management Personnel
KPIs	Key Performance Indicators
NFP	Not-for-profit
NRAS	National Rental Affordability Scheme
OBM	Outcome Based Management
OECD	Organisation for Economic Co-operation and Development
PGPA Act	Public Governance, Performance and Accountability Act 2013
PMF	Queensland Performance Management Framework
PMF	Performance Management Framework
PPP	Public Private Partnership
QLD	Queensland
ROGS	Report on Government Services
SCAs	Service Concession Arrangements
SDS	Service Delivery Statements
Sense-Co	Sense-Co Tasmania Pty Ltd
SSAF	Student Services and Amenities Fee
STEM	Science, Technology, Engineering and Maths
TAFR	Treasurer's Annual Financial Report
the Audit Act	Audit Act 2008
the Council	University Council
the Trust	River Clyde Trust
the University	University of Tasmania
the Water Act	Water Management Act 1999

the Winding Up Act	Tasmanian Early Years Foundation (Winding Up) Act 2016
TI	Treasurer's Instructions
TUU	Tasmania University Union Inc
University Foundation	University of Tasmania Foundation Inc
UTAS Holdings	UTAS Holdings Pty Ltd
VAGO	Victorian Auditor-General's Office
Vic	Victoria
WA	Western Australia

APPENDIX 4 - RECENT PUBLICATIONS

Tabled	Report No.	Title
2016		
September	No. 1 of 2016-17	Ambulance services
October	No. 2 of 2016-17	Workforce Planning
October	No. 3 of 2016-17	Annual Report
November	No. 4 of 2016-17	Event funding
November	No. 5 of 2016-17	Park management
November	No. 6 of 2016-17	Volume 1 – Analysis of the Treasurer's Annual Financial Report 2015-16
November	No. 7 of 2016-17	Volume 2 – Auditor-General's Report on the Financial Statements of State entities - Government Business 2015-16
November	No. 8 of 2016-17	Volume 3 – Auditor-General's Report on the Financial Statements of State entities, Volume 3 – Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2015-16.
2017		
March	No. 9 of 2016-17	Funding the forest agreements
April	No. 10 of 2016-17	Follow up of selected Auditor-General reports: September 2011 to June 2014
April	No. 11 of 2016-17	Use of fuel cards

Auditor-General's reports are available from the Tasmanian Audit Office. These and other published reports can be accessed on the Office's website: www.audit.tas.gov.au

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Our Vision

Strive | Lead | Excel | To Make A Difference

Our Purpose

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector

Availability of reports

Auditor-General's reports and other recent reports published by the Office can be accessed via the Office's homepage. For further information please contact the Office.

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AUDIT MANDATE AND STANDARDS APPLIED

Mandate

Section 17(1) of the *Audit Act 2008* states that:

> 'An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.'

Under the provisions of section 18, the Auditor-General:

'(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1).'

Under the provisions of section 19, the Auditor-General:

'(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards

(2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity's appropriate Minister and provide a copy to the relevant accountable authority.'

Standards Applied

Section 31 specifies that:

> 'The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

(a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and

(b) the Australian Auditing and Assurance Standards.'

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.

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