



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

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SUMMARY

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.

This 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 the 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. Only three 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 the 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

the 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

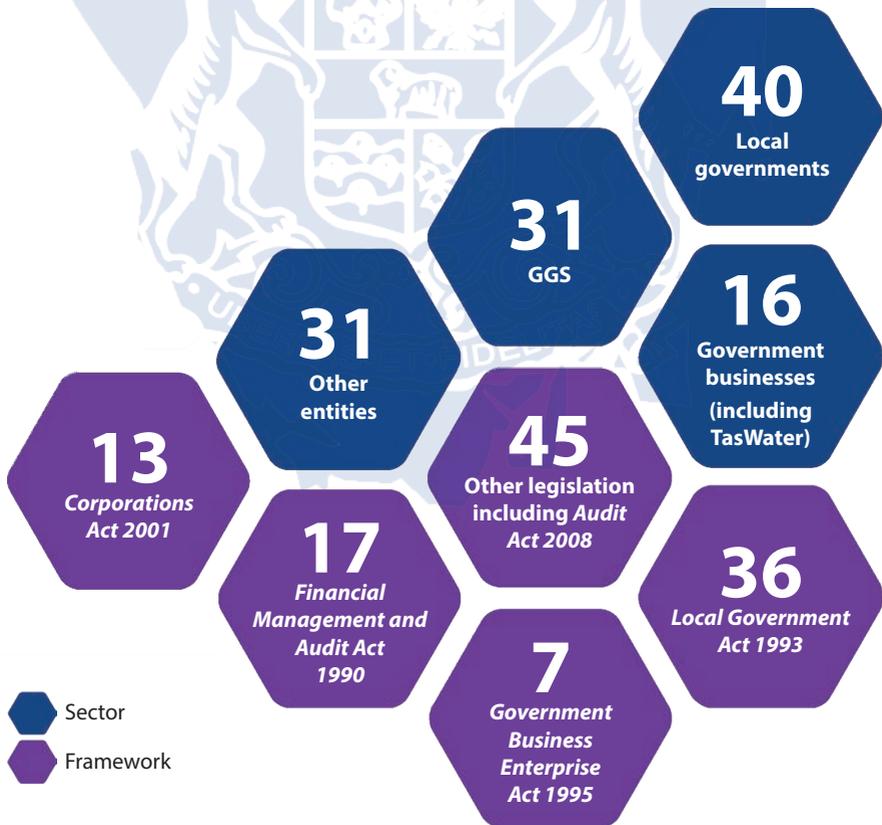
It is commonly accepted that public sector entities must report on their performance as part of their accountability obligations to demonstrate their effective stewardship and responsibility for the use of resources. Being transparent, and accurately measuring and effectively communicating performance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

In that 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).

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.



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



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