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PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL

GOVERNMENT DEPARTMENTS AND PUBLIC BODIES 2002-2003

PART A
Executive Summary

No. 2 of 2003 - November 2003

Presented to both Houses of Parliament in accordance with the requirements of Section 57 of the Financial Management and Audit Act 1990

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Tasmanian Audit Office
GPO Box 851
Hobart
TASMANIA 7001

Phone: (03) 6233 4030, Fax (03) 6233 2957
Email:- admin@audit.tas.gov.au
Home Page: http://www.audit.tas.gov.au

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18 November 2003

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Sirs

In accordance with the requirements of Section 57 of the *Financial Management and Audit Act 1990*, I have pleasure in presenting my report on the audit of Government departments and public bodies for the year ended 30 June 2003.

Yours sincerely

A J McHugh
AUDITOR-GENERAL

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EXECUTIVE SUMMARY

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1 INTRODUCTION

This Report deals with Ministerial Departments, State-Owned Corporations, State Authorities, Government Business Enterprises, Local Government Authorities, Port Corporations, and other public bodies together with special comments on various other issues.

FORMAT OF THE REPORT

Unless specifically indicated, the comment in this Report is current as at 13 November 2003.

The Report has been based on the administrative arrangements set out under the provisions of the *Administrative Arrangements Act 1990* as at 30 June 2003 and the report has been prepared in accordance with the following classifications:

Part A	Executive Summary
	    Introduction
	    Preliminary Comment
	    Significant issues arising
	    Other issues

Part B – Volume 1	Executive and Legislature Ministerial Departments Superannuation Funds Other Authorities Miscellaneous Public Bodies

Part B – Volume 2	Government Businesses
	    Government Business Enterprises
	    State Owned Corporations
	    Port Corporations

Part B – Volume 3	Local Government Authorities

This classification does not attempt to recognise any lines of responsibility that some Statutory Authorities have through Ministerial Departments to the appropriate Minister, however the Portfolio or Responsible Minister is stated in each case.

STATUS OF AUDITS

The majority of audits for the year ended 30 June 2003 have been completed with some exceptions as detailed in the preamble under each Part of the Report.

AUDITS DISPENSED WITH

In accordance with Section 41 of the *Financial Management and Audit Act 1990* (FMAA), the following audits have been dispensed with after consideration of alternative accountability arrangements for the public bodies concerned. Two of the aspects considered were the materiality of the financial transactions involved and the most cost-effective means of conducting the audits.

Grants to Public Bodies

An organisation in receipt of a grant from the Consolidated Fund automatically becomes a public body as defined under the FMAA, and is required to meet certain accountability requirements in accordance with the Treasurer's Instructions. A recipient of a grant of $5 000 or more is required to provide the appropriate Head of Agency with:

- A signed copy of the public body's financial statements, showing the receipt and manner of disbursement of each grant, together with an audit report signed by a suitably qualified person; or
- A Statutory Declaration made in accordance with the *Evidence Act 1910*, and signed by two office holders or members considered to be bona fide representatives of the public body, to the effect that the grant was received and disbursed for the purpose for which it was given; or
- A certificate signed by a suitably qualified person to the effect that the grant was received and disbursed for the purpose for which it was given.

In the course of the various Agency audits, Audit Office staff ensures that Heads of Agencies comply with the requirements of the Treasurer's Instructions.

Registration Boards

The audits of the following Boards have been dispensed with on the basis that a suitably qualified person undertakes an audit.

Board of Architects
Chiropractors Registration Board
Dental Board
Dental Mechanics Board
Medical Council of Tasmania
Nursing Board
Optometrists Registration Board
Pharmacy Board of Tasmania
Physiotherapists Registration Board
Plumbers and Gasfitters Registration Board
Podiatrists Registration Board
Psychologists Registration Board
Radiographers Registration Board
Surveyors Registration Board
Valuers Registration Board

Other Public Bodies

The audits of the following public bodies have also been dispensed with on the basis that a suitably qualified person undertakes an audit:

National Trust of Australia (Tasmania)
National Trust Preservation Fund (Hobart)
Drainage Trusts.

Local Government Committees

Committees appointed under the *Local Government Act 1993* are required to provide copies of their annual financial statements to the respective Council to enable the General Manager, or some other appropriate person, to perform an audit of those accounts.

Statements of Committees are normally consolidated in the financial statements of the respective Councils.

FINANCIAL ANALYSIS

The following table illustrates the methods of calculating performance indicators used in the financial analysis sections on this report, together with a number of benchmarks used to measure performance.

Performance Indicator	Benchmark	Method of Calculation
Financial Performance		
Result from operations ($'000s)		Operating Revenue less Operating Expenses
EBIT ($'000s)		Result from Ordinary Activities before Tax plus Gross Interest Expense
Operating margin	>1.0	Operating Revenue divided by Operating Expenses
Return on assets		EBIT divided by Average Total Assets
Return on equity		Result from Ordinary Activities after Taxation divided by Average Total Equity
Financial Management		
Debt to equity		Debt divided by Total Equity
Debt to total assets		Debt divided by Total Assets
Interest cover	>3	EBIT divided by Gross Interest Expense
Current ratio	>1	Current Assets divided by Current Liabilities
Cost of debt	7.5%	Gross Interest Expense divided by Average Borrowings (include finance leases)
Debt collection	30 days	Receivables divided by billable Revenue multiplied by 365
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365
Returns to Government		
Dividends paid or payable ($'000s)		Dividends paid or payable that relate to the year subject to analysis.
Dividend payout ratio	50%	Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity
Income tax paid or payable ($'000s)		Income Tax paid or payable that relates to the year subject to analysis.
Effective tax rate	30%	Income Tax paid or payable divided by Result form Ordinary Activities before Tax
Total return to the State ($'000s)		Dividends plus Income Tax and Loan Guarantee fees
Total return to equity ratio		Total Return divided by Average Equity
Other information		
Staff numbers FTEs		Effective full time equivalents
Average staff costs ($'000s)		Total employee expenses divided by Staff Numbers

An explanation of the performance indicators is provided below:

- Result for operations – summarises revenue transactions and expense transactions incurred in the same period of time and calculates the difference;
- Earnings before income tax (EBIT) – measures how well an entity can earn a profit, 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;
- Operating margin – this ratio serves as an overall measure of operating effectiveness;
- 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;
- 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 – is a way to examine the exposure or risk in relation to debt, it calculates how many times earnings cover the unavoidable interest costs;
- 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;
- Cost of debt – reflects the average interest rate applicable to debt;
- Debt collection – indicates how effectively the entity uses debt collection practices to ensure timely receival of monies owed;
- Creditors turnover – indicates how extensively the entity utilises credit extended by suppliers;
- Dividends paid or payable – payment by the entity to its shareholders (whether paid or declared as a payable);
- Dividend payout ratio – the amount of dividends relative to the entity's net income;
- Income tax paid or payable – tax payments (paid or payable) by the entity to the State;
- Effective tax rate – is the actual rate of tax paid on profits;

- Total return to the State – is the funds paid to the Government consisting of income tax, dividends and guarantee fees;
- Total return to equity ratio – measures the Government's return on its investment in the equity;
- Staff numbers FTEs – As at the end of the reporting the number of staff employed expressed as full-time equivalents (FTEs); and
- Average staff costs – measures the average cost of employing staff in the entity for the year.

2 SIGNIFICANT ITEMS ARISING FROM AUDITS

This Report contains statements of financial performance, financial position and cash flows together with analysis of financial information of ministerial departments, government business (including state owned companies), local government authorities and statutory authorities. Comparative information is also provided for groups of similar entities such as port corporations and councils.

The accompanying text sets out significant points, if any, arising from an analysis of the financial statements and in relation to the environment in which each operates.

The Report does not include many items arising from the audits that have been formally raised with the auditees. The rationale for inclusion or otherwise rests on my perception of the public interest in each point and the need to confine comments to those matters that have more than a managerial dimension.

PRELIMINARY COMMENT

Tabling of Special Reports in Parliament

In my report last year I raised my concerns with the arrangements for publishing reports at times when Parliament is not sitting and I wrote to the Treasurer seeking suitable amendments to the Legislation.

I commend the Treasurer for putting forward amendments to the *Financial Management and Audit Act 1990* (FMMA) and the Parliament for endorsing those amendments. These amendments in relation to Special Reports allow the Auditor-General to release these reports to the public while Parliament is not sitting. Section 57(5)(b) of the FMAA allows the Auditor-General to publicly release a Special Report. When tabling or releasing a report the Auditor-General must give the Treasurer and the relevant Minister(s) five days notice of his/her intention to do so (Section 57 (6)).

Timeliness of Annual Reports

In my last report I stated that in December 2001 I recommended to the Public Accounts Committee that that this date should be moved back to the end of October, a situation that applies in the private sector under the *Corporations Act 2001*.

I commend the Government for amending the *Financial Management and Audit Act 1990* to provide for timelier annual reporting by departments, Government Business Enterprises and Statutory Authorities. This will provide an opportunity for Parliamentary scrutiny to occur before the Parliament rises at the end of the year. However, it will require considerable effort by the reporting entities and the Tasmanian Audit Office to achieve the desired outcome. The new deadline for entities to provide financial statements for audit within 45 days of the end of each financial year and to submit an Annual Report to Parliament by 15 November is not onerous by comparison with other jurisdictions but the changes will test those entities that do not assign the task a reasonable priority.

While I have emphasized the financial statement and audit aspects of the annual reporting process it is actually the information in the whole report that is the issue. The next target for improvement once the reporting time frame has been bedded down must be to examine how to make performance reporting more meaningful. The Tasmania Together process has demonstrated how to report some key aspects of the State's performance in relation to some selected broad-based targets. More reporting entities should adopt targeted outputs and outcomes and report against them with explanatory text.

SIGNIFICANT ITEMS

Department of Health and Human Services – Valuation of the Housing Portfolio

- Part B, Volume 1

The audit of the financial statements for the 2002-03 year is currently still in progress.

One issue that audit will raise as an emphasis of matter paragraph with the audit opinions for both the Departmental financial statements and the Housing Services financial statements relates to the inherent uncertainty regarding the valuation of rental dwellings.

Rental dwellings are disclosed in the financial statements at a written down value of $703.997m. The valuation is based on an independent valuation undertaken as at 30 June 2003. The Department holds 13 160 rental dwellings.

The current valuation at 30 June 2003 is based on the most recent government valuation for each property indexed by factors provided by the Valuer-General.

In recent years the Department has disposed of a number of surplus rental dwellings, which have resulted in the recording of significant losses on disposal of those assets against the independent valuations provided by the Valuer-General. As part of the disposal process incentives are given in line with the current policy of making affordable housing available to eligible applicants.

In the last three financial years the department has disposed of 1 250 dwellings at a loss on disposal of $14.290m before other costs of sales, making the average loss on disposal $11 803 per dwelling, compared to the average carrying value for rental dwellings of $53 495. The total costs of the incentives and other costs of sales in the three years was an additional $7.701m. It is recognised that the losses incurred are substantially influenced by current policy on incentives to be offered to purchasers under the "Streets Ahead" sales initiative, and current targeting of sales from the Housing Tasmania portfolio to people on low incomes. These disposal values indicate that the dwellings, at their current written down value may be overstated.

Department of Justice and Industrial Relations – Administered Receivable

- Part B, Volume 1

In the 2002-03 year, gross receivables administered through the Fines Collection System (FCS) amounted to $33.598m, with a provision for doubtful debts of $19.999m and a provision for expected remissions of $2.387m. The level of doubtful debts has been significant for many years. During the current year the Department commenced a major revamp of the business processes involved in fines collection which, at the time of writing this Report, is still in progress. At present it is too early to assess the effect on the collection process.

Department of Primary Industries, Water and Environment – Savage River Rehabilitation Project

- Part B, Volume 1

The Savage River Mine in Northwest Tasmania has been producing magnetite concentrate since 1967. Operations over the first 30 years of mine life have caused environmental harm to the Savage River catchment area. The principal cause of degradation is acid drainage emanating from tonnes of waste rock deposited in dumps around the site.

In December 1996 Goldamere Pty Ltd, trading as Australian Bulk Minerals (ABM), entered into an agreement with the Crown to purchase the Savage River Mine and Port Latta Pelletising Plant. This agreement provided for ABM to pay $13.000m to the State in instalments in order to fund the remediation of pollution arising from historical mining operations. The debt was secured by a letter of credit.

Changes in agreements since 1996 have considerably weakened the security arrangements for the Government, should the company fail in its commitments.

The Department recently advised that-:

The outstanding balance shown as a receivable as at 30 June 2003 was $14.439m, comprising $12.000m for remediation works and $2.439m in accrued interest. Of that amount, $4.380m has been shown as a current liability, as it is expected that this value of work will be completed by ABM by June 2004. There is no provision for doubtful debts attached to the receivable in the financial statements. The Department has advised that *"A Strategic Plan of rehabilitation works has been developed that will see the debt owed by ABM recovered over the life of the Plan."*

ABT Railway Ministerial Corporation

- Part B, Volume 1

The Corporation has property, plant and equipment valued at $27.921m. In April 2002, the Government leased these assets for 20 years to a provider to manage and operate the railway. This lease was assigned to a new provider, Federal Holdings Tas Pty Ltd on 1 August 2002. This agreement provides for a rental payment on two buildings and a lease payment to the Government when a certain level of annual gross revenue is attained. Due to the short time frame since the commencement of the lease and opening of the railway, no assessment of revenues has yet been made. The lease has been treated as an operating lease because the Corporation retains the risks and benefits of the leased assets.

Tasmanian Risk Management Fund – Medical Malpractice Claims

- Part B, Volume 1

Claims expense increased in 2002-03 due to the assumption of liability for all pre 1 July 2001 medical malpractice claims and an increase in outstanding claims as determined by the actuary. It is understood that additional funding will be provided to the Tasmanian Risk Management Fund over the next five years to fully fund the pre 1 July 2001 medical malpractice liabilities.

Other underwriting expenses increased in 2002-03 because of a contribution for the first time to the Nominal Insurer as a result of the HIH collapse and amendments to the *Workers Rehabilitation and Compensation Act 1988*.

Forestry Tasmania – Valuation of Forests

- Part B, Volume 2

The reduced operating revenue figure for 2002-03 of $148.616m is due to a reduction in the net market value of the Forest Asset of $17.702m. The change resulted from Forestry revising some internal policies associated with specific inputs into the asset valuation process, including cost adjustments, changes in harvest volumes and an increase in the discount rate used for hardwood plantation crops. Forestry Tasmania is obliged to incorporate this valuation adjustment into its accounts by virtue of the Australian Accounting Standard AA35 “Self-Generating and Regenerating Assets”. Offsetting this was an increase of $24.001m in forest sales revenue during the year.

Port Arthur Historic Management Site – GBE Status

- Part B, Volume 2

It is unlikely that the site will ever generate sufficient income from tourism to support the required level of conservation works to maintain the site. The Authority will, therefore require continued government support to guarantee the long-term future of the site.

GBE status may not be consistent with the primary objectives of the Authority to ensure the preservation and maintenance of the historic site, to co-ordinate archaeological activities and to promote an understanding of the historical and archaeological importance of the historic site.

Rivers and Waters Supply Commission - Revenue

- Part B, Volume 2

The Commission treats its annual appropriation from the Government as a Capital Contribution to Equity rather than revenue, on the basis that such funding is made for the purpose of meeting capital costs of borrowing undertaken to fund the construction of the Commission’s irrigation schemes and its designation by the Department of Treasury and Finance.

Borrowing costs have been steadily decreasing, mainly due to the Commission's continued debt reduction program.

The Commission has made losses in each year and these are likely to continue under current policies.

Tasmanian International Velodrome - Maintenance

- Part B, Volume 2

The Authority has continued to incur operating losses over the period of the review. The Authority continues to be concerned with the on going maintenance issues of the Silverdome. At present only day-to-day and minor urgent works can be carried out under present funding arrangements.

Hobart Ports Corporation – Toll Transport

- Part B, Volume 2

In June 1998 Hobart Ports Corporation (HPC) purchased a 49% interest in Hobart International Airport Pty Ltd (HIA) for $0.269m and provided an interest free loan to that company totalling $5.574m. During 1999-00, HPC increased its shareholding in HIA to 68% at a cost of $0.423m and, during 2000-01, still further increased its holding to 98%.

Despite holding 98% of the issued Ordinary Shares in HIA, the operations of HIA are not consolidated into the accounts of HPC owing to the existence of a joint venture agreement that requires the approval of the holder of 5000 B Class Shares, Toll Transport, to approve certain matters including those relating to declaration of dividends, financial and operating policies. The existence of such a joint venture agreement prevents HPC from consolidating HIA and permits HPC to equity account for its interest in the operating results of HIA. HPC's share of HIA's operating results in the current year was a profit of $1.236m (2002, $0.651m).

3 OTHER ISSUES

3.1 COLLECTION AND DESTRUCTION OF FIREARMS

Under Section 149 of the *Firearms Act 1996* I am required to conduct an independent audit of all firearms disposed of under this Act, and table in both Houses of Parliament a report on any audit performed.

The audit for 2002-03 has been completed with satisfactory results.

Details of Firearm Disposals

Type of Disposal	2002-03 Quantities
Destroyed	1161
Transferred to Reference Library	33
Returned to Owner	0
Transferred to Museums and other Displays	0

Statistics on firearms received and destroyed appear in the Department of Police and Public Safety's Annual Report to Parliament.

3.2 COMMUNITY SUPPORT LEVY

Legislation and Background

The Community Support Levy was introduced through the *Gaming Control Act 1993* (GCA). Under subsection 151(1) of the GCA a gaming operator must pay to the Treasurer a levy each month being a sum equivalent to the community support percentage of the gross profit derived from gaming machine games. A 'community support percentage' is defined in subsection 151(2) as being 2% in regard of gross profit derived from an approved venue in respect of which a licence is in force under section 10 of the *Liquor and Accommodation Act 1990* or 4% in any other case.

Under subsection 151(4) of the GCA the Treasurer must distribute the levy as follows:

- 25% for the benefit of sport and recreation clubs;
- 25% for the benefit of charitable organisations;
- 50% for the provision of –
    - Research into gambling;
    - Services for the prevention of compulsive gambling;
    - Treatment or rehabilitation of compulsive gamblers;
    - Community education concerning gambling; and
    - Other health services.

The relevant parties to the administration of the levy are as follows:

Tasmanian Gaming Commission

The Tasmanian Gaming Commission (TGC) is the body responsible for the regulation of gaming in Tasmania. The membership of the TGC comprises Mr Don Challen (Chairman), who is also Secretary of the Department of Treasury and Finance, Prof Kate Warner and Mr Clyde Eastaugh. The TGC ensures the recommendations received from the Minister for Health and Human Services and from the Minister for Racing, Sport and Recreation meet the intent of the GCA, then seeks approval from the Treasurer for expenditure against the levy.

Gaming Support Bureau

The Bureau, including its programs and administration, is funded from the levy. It is located within the Department of Health and Human Services (DHHS) and reports to the Director, Children and

Families Division. The Bureau regularly briefs the TGC on its activities.

Department of Health and Human Services

The Department of Health and Human Services (DHHS), through the Gambling Support Bureau, has responsibility for the management of the 50% of the levy allocated to gambling support services, research, community education and the Tasmanian Health and Wellbeing Fund, in regard to the distribution and management of ‘other health services’ portion of levy funds, as well as the 25% of the levy allocated to charitable organisations. The Department seeks approval of the Minister for Health and Human Services before recommending grants to the TGC.

Treasurer

The Treasurer makes the final decision following recommendations from the TGC and is responsible for the dispersal of funds from the levy. The Treasurer also has the portfolio responsibility for Gaming and Licensing and the GCA.

Sport and Recreation Tasmania

Similar to DHHS, Sport and Recreation Tasmania (SRT) has responsibility for the management of the 25% of the levy for the benefit of sport and recreation clubs and makes recommendations to the TGC for its expenditure. SRT, while part of the Department of Economic Development reports to the Minister for Racing, Sport and Recreation and has the role of calling for grant applications and then assessing them, with the assistance of a panel.

Process of Distribution

Once the levy is collected for the financial year, the TGC ascertains the proportions of the levy received that can be made available for distribution in accordance with subsection 151(2) of the GCA.

DHHS and SRT then administer the promotion and administration of funding applications for their respective programs. Advisory panels are set up on behalf of each relevant Minister to shortlist successful applications and make recommendations to the TGC after each Minister approves the panels’ proposals.

The TGC goes through each panel’s recommendations for funding and then advises the Treasurer accordingly.

The Treasurer makes his decision on grant funding.

SRT and DHHS organise grant deeds for all successful applications and ensure compliance with the deeds.

It can be seen that it is not a rapid process due to the involvement of so many organisations and three Ministers.

Aside from the issue of complexity of the process, it was also noted that while the Act is silent on the funding of grant administration, these costs have proven significant when compared to the level of grant expenditure.

For example, in 2000-01, the CSL expenditure included $128 344 for the administration of the problem gambling and charitable component; in 2001-02 administration expenditure totalled $168 826; and for 2002-03 it was $131 397. In contrast, administration costs relating to the sport and recreation grants have been absorbed by the responsible Department.

Results of Distribution

In October 2001 the Legislative Council appointed a Select Committee of inquiry to inquire and report upon, *inter alia*, the role and application of the Community Support Levy. The Committee's report was tabled in December 2002.

The report contained the following table[1] showing the proportions of expenditure on the three main categories from 1996-97 to 2000-01 (data for 2001-02 is from the TGC's annual report, and 2002-03 is from the Department of Treasury and Finance):

[1] Legislative Council Select Committee. Impacts of Gaming Machines. Dec 2002, p 55

Year	Receipts ($)	Expenditure ($)				
		Admini-stration	Problem Gambling	Sport & Recreation	Charitable Organisations	Balance c/forward
1996-97	203,334	n/a	142,953	0	0	60,380
1997-98	939,613	n/a	318,880	219,164	78,405	383,544
1998-99	1,484,502	n/a	373,614	249,957	127,833	1,116,642
1999-2000	2,323,674	n/a	683,704	713,912	504,672	1,538,028
2000-01	3,062,604	128,344	571,873	685,960	705,515	2,508,939
2001-02	3,784,115	168,826	1,056,515	910,415	466,720	3,690,577
2002-03	4,355,689	131,397	1,370,701	519,151	888,967	5,136,050
Total	**16,153,531**	**428,567**	**4,518,240**	**3,298,559**	**2,772,112**	**5,136,050**
Percentage of total receipts		**2.65%**	**27.97%**	**20.42%**	**17.16%**	

The Report stated that in regard to the growing undistributed balance of the fund 'the Committee is concerned that the unexpended amount has grown, whilst community groups are expressing frustration at the changing process to access funds.' Further, the Committee concluded that the obligation of the TGC to distribute the levy per section 151 is not being fully complied with, either annually or on a cumulative basis[2].

As seen in the above table, of the $16.153m received from the levy since its origin, only 68% of the total receipts to-date have been distributed.

I am likewise concerned about the excessive delay in distributing the balance, and as seen in the table below, the levy has yet to be distributed in accordance with the proportions required by section 151:

	96-97	97-98	98-99	99-00	00-01	01-02	02-03	Distribution % Requirement Per GCA
Problem Gambing	70%	34%	25%	29%	19%	28%	31%	**50%**
Sport & Recreation	0%	23%	17%	31%	22%	24%	12%	**25%**
Charitable Orgs	0%	8%	9%	22%	23%	12%	20%	**25%**

In response to the above data, the Department of Treasury and Finance (Treasury) states that the reason for the unspent Sport and Recreation balance is that the Treasurer agreed that funds could be set aside for major infrastructure work, with $300 000 being set aside for small grants. As at 1 July 2003, there were commitments of $400 000 for major works.

2 Legislative Council Select Committee. *Impacts of Gaming Machines.* Dec 2002, p 73.

Further, in regard to the Problem Gambling proportion, DHHS and Treasury advise that the model is demand-based, with providers being funded at a base level with a variable component based on demand. Although both Departments consider that demand is being adequately covered, a surplus has accumulated.

DHHS states in direct response to the concerns raised in the Legislative Council Select Committee report the Department has developed a financial plan to use the accumulated funds and the core part is expenditure of $3.4m over three years on a range of social programs under the “other health services” category of the 50% and has been approved by both the TGC and the Social Policy Sub-Committee of Cabinet.

DHHS also contends that there are difficulties in trying to fit a diverse social response program into exact percentage expenditure on a financial year basis, and that the reporting of the CSL annually does not reflect commitments made to ongoing services or the need to accumulate funds for programs that do not fit neatly into a calendar or financial year. For example, Problem Gambling services are funded over a three-year period, rather than through an annual grant program approach used for the remaining 25% that DHHS administers.

It is understood that the Problem Gambling services area will undergo a review in 2004.

CONCLUSION

The Committee concluded that a Community Board should be established, replacing the TGC’s role, to oversee the distribution of the levy, funded from gaming taxation receipts.[3]

While I do not have any views on the matter of who should administer the fund, it is would appear that the current arrangements are not working very satisfactorily.

[3] Legislative Council Select Committee. *Impacts of Gaming Machines.* Dec 2002, p 60.

3.3 SALE OF FORMER DEPARTMENT OF TRANSPORT SITE

During the year I raised my concerns surrounding the processes of disposal of the former Department of Transport building site, on 1 Collins Street, Hobart.

From information I have reviewed, it appears that the approach taken by the Government was less than transparent, in terms of a lack of an open tender process and a pre-established process for the Government to follow.

In 1994 the Crown and the Hobart City Council entered into a joint venture to develop the area known as Wapping. The Wapping Implementation Project (WIP) was accordingly established with the objective of enabling the private sector to develop six strategically located land parcels for inner city housing. One of these parcels was the 1 Collins Street site.

On 29 October 2002 the Office of the Valuer-General (OVG) received instructions from the Project Manager of the (WIP) to provide valuation advice under two scenarios, namely:

- The site is sold 'as is', and all costs for demolition, cabling relocations would be borne by the purchaser. The sale agreement in this option would be based on conditions requiring demolition to proceed and the development as represented to the Project is built; and
- The site is cleaned up entirely by the Project before being sold.

The Valuer-General gave an 'as is' valuation of the site, with the developer responsible for the demolition works of $225 000, and a valuation under the second scenario of $1 075 000 as at 12 November 2002.

Following discussions with the two primary interested tendering parties, the VGO gave a second 'as is' valuation of $250 000 as at 12 December 2002.

An initial offer from Giameo Constructions & Developments (GCD) for the site was twofold:

- A purchase price of $1, with all costs and risks associated with demolition and site contamination being transferred to GCD;
- Alternatively, a purchase price of $790 000 on the basis that the Crown was responsible for full demolition and all risks associated with providing a clean, uncontaminated development site.

Subsequently, the W T Partnership provided a quote totalling $1 236 000 on the basis that the Crown was responsible for full demolition and all associated risks.

It is understood that following the receipt of the WT Partnership quote, its contents were released to GCD. Following this, and a discussion with staff of the OVG, GCD advised the OVG that it was prepared to increase its offer to $100 000 from $1. The OVG stated that the revised offer from GCD was 'considered to be within the acceptable limits of a reasonable offer given the possibility of an escalation in the demolition and associated risks'. Accordingly, a development agreement was signed between the Crown and GCD on 20 December 2002.

The initial offer of $1 by GCD and the quick revision to $100 000 betrays a negotiating strategy that could have been further exploited even if the site was not put to public tender.

Indeed, it has come to my attention that in March 1998, the WIP advised a potentially interested party that '...the building will be empty by the end of 1998, at which time a public tender process will commence for the sale of the land.'

However, on 31 May 2002 the chairman of the Wapping Implementation Working Group (WIWG) wrote to the Premier seeking support for negotiations with GCD. At its meeting on 4 September 2002 the WIWG determined to meet with a representative from GCD and requested that he prepare a development proposal.

In House of Assembly Debates on 18 March 2003 the responsible Minister stated that it is believed that the WIWG 'made this decision because no real interest had been expressed in the site during the considerable period of time that it stood in the marketplace' notwithstanding that a formal tendering process or seeking expressions of interest did not take place.

The Department of Economic Development notes that the Government accepted the advice from the WIP that the WIP should negotiate with GCD for the development of the site and that there were a number of precedents for WIP's treating privately with developers. The Department also observes that the Valuer-General provided advice that the sale price agreed was appropriate and that the demolition risk associated with the project had been transferred to the developer.

Notwithstanding the above comments, I believe that the above events show that a normal, open tender process would have informed the Government as to the value of the site to all potential interested parties, by receiving a wider range of quotes.

Accordingly, I am not satisfied that the process followed by the Government and the WIWG was in the best interests of the public, and thus represents a trend away from good practice in financial management.

3.4 TIMELINESS AND QUALITY OF FINANCIAL STATEMENTS

Under Section 28 of the *Financial Management and Audit Act 1990* (FMAA) and Section 52 of the *Government Business Enterprises Act 1995* (GBE) specific dates are set for which the relevant entities are to provide financial statements to audit to formally allow the audit process to commence. The dates specified are as follows:

- FMAA: Within 2 months after the end of the financial year
- GBE: Within 60 days after the end of the financial year

In most cases entities have a 30 June financial year making 31 August the statutory date.

These dates have been set to allow sufficient time for the audit to be completed and an Annual Report produced for tabling in Parliament by 30 November each year. During the year FMAA was amended to set new deadlines of 15 August for lodgement of financial statements with the Auditor-General, and for all FMAA entities' audits to be completed by 15 October, starting in 2004. The situation for Local Government is set out in Part B, Volume 3 of this Report.

In 2002-03 as set out below, a considerable number of entities did not meet the target statutory date by providing a full set of signed (or draft) financial statements.

There are no exemptions from meeting the statutory date under the FMAA, and there are no penalties for not meeting this date. Under GBE legislation (section 53) there is a provision for exemption in certain circumstances, provided an application for exemption is made to the Treasurer by the required date. There is also no penalty for not meeting the date. This year no exemptions were requested or granted.

To assist with the implementation in government departments of accrual reporting and the implementation of Australian Accounting Standard AAS 29, Financial Reporting by Government Departments, I instituted from 1995-96 an Award for the best set of financial statement working papers. For the 2000-2001 and 2001-02 financial years I have not presented this award for the following reasons:

- A number of Departments prepared supporting working papers after preparation of the financial statements. This suggests that the working papers are being prepared for audit purposes and not as a means for compiling the financial statements and allowing agencies to carry out their own quality assurance processes before submitting the financial statements for audit.

- While dissections of account balances to support the notes to the financial statements are usually prepared by Departments, they do not contain comments to explain material variances at the account balance level between the current and prior year.

- While I have recommended that Departments carry out analytical review at the financial statement level setting out explanations of variances between the prior year and budget, only a few are performing this task, which is considered to be of use to finance staff outside of audit purposes.

- Cross-referencing of work papers to financial statements can also assist accountants to ensure that there are supporting documents for all areas of the statements, and indicate to which section of the statements the work papers relate.

This year I opened up the award to all auditees, with categories for Government Departments, Local Government, State-Owned Companies/Government Business Enterprises and other statutory entities. At the time of printing my officer are reviewing the results in order to determine the category winners.

In my Report last year I noted that 'in terms of human resource management, while I acknowledge a shortage of skilled and qualified finance personnel in the State Service generally, there were several instances where the preparation of financial statements was being carried out by one person, rather than delegating some of the tasks to others in the section.' While there have been some improvements by clients in this area, there were still instances where this lack of delegation continued to impinge on the effectiveness and efficiency of the audits concerned.

Similarly, some clients have improved their efforts in bringing about a quality assurance function in the financial statement process, which assisted my officers considerably in verifying statement data, but there remained several cases where this was lacking, thus creating an increased workload, and thus delays in finalising the audit and providing clients with their opinions. The abovementioned awards for this year include an assessment of whether an additional officer from the finance area was involved in a quality assurance role to check work papers and financial statement disclosure prior to providing documentation to auditors.

In summary, the purposes of financial statement working papers are:

- A framework for the compilation of financial statements by current and future preparers;
- A central reference to the evidence required to support transactions, balances and estimates disclosed in the financial statements;
- A trail between the entity's financial records for the year and the financial statements for the year, which can be followed by persons having a quality assurance function; and
- A record of the quality control processes employed in the preparation of the financial statements.

Signed Statements Not Received On or Before 1 September 2003

Ministerial Departments

Department of Police and Public Safety
Department of Tourism, Parks, Heritage and the Arts

Government Business Enterprises

Civil Construction Corporation
Egg Marketing Board
Forestry Tasmania
Port Arthur Historic Site Management Authority
Rivers and Water Supply Commission
Southern Regional Cemetery Trust
Stanley Cool Stores Board
The Public Trustee

Other Statutory and Public Bodies

Aboriginal Land Council
Forest Practices Board
Government Prices Oversight Commission
Inland Fisheries Service
Legal Aid Commission of Tasmania
Nominal Insurer
Office of the Energy Regulator
Southern Combined Planning Authority
TAFE Tasmania
Travel Agents' Insurance Licensing Board
Tasmanian Community Fund
Tasmanian Dairy Industry Authority
Tasmanian Museum and Art Gallery
Tasmanian Risk Management Fund
WorkCover Tasmania Board

Local Government

Refer to Part B, Volume 3 for comments.

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