Tasmanian
Audit Office

Report of the Auditor-General
No. 9 of 2011-12

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

Volume 6

Other State entities 30 June 2011 and 31 December 2011

JUNE 2012

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ROLE OF THE AUDITOR-GENERAL

The Auditor-General's roles and responsibilities, and therefore those 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 covering 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.

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.

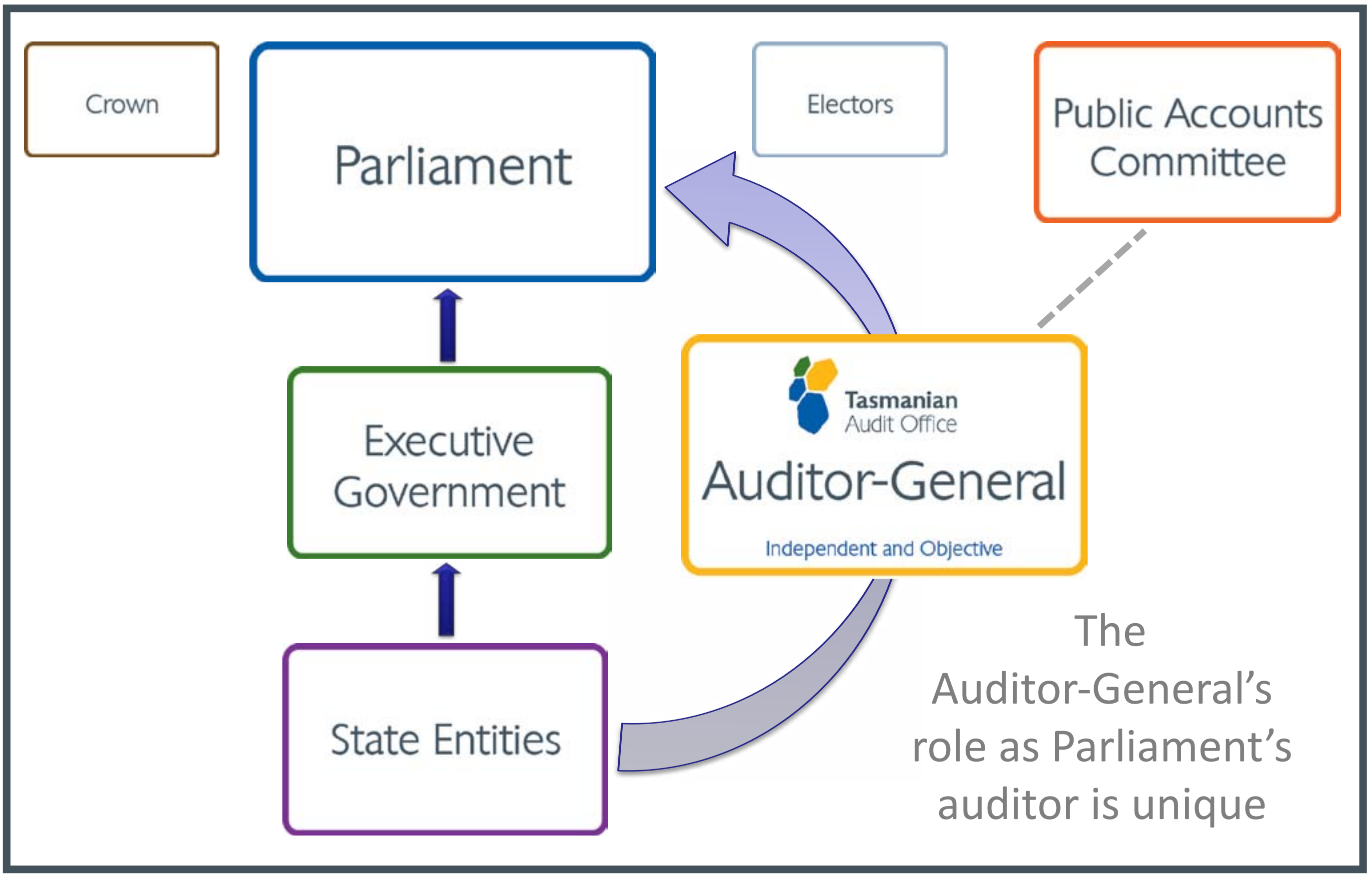
Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

We can also carry out investigations but only relating to public money or to public property. We can "follow the dollar" where services or functions are not provided by State entities but funded with public money.

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.

Auditor-General's Relationship with the Parliament and State Entities



TASMANIA

2012
PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL
No. 9 of 2011-12

Volume 6

Other State entities 30 June 2011 and 31 December 2011

June 2012

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

Auditor-General's reports are available from the Tasmanian Audit Office, Hobart. This report and other recent reports published by the Office can be accessed via the Office's home page. For further information please contact:

Tasmanian Audit Office

GPO Box 851
Hobart
TASMANIA 7001

Phone: (03) 6226 0100, Fax (03) 6226 0199

Email: admin@audit.tas.gov.au

Home Page: http://www.audit.tas.gov.au

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Tasmanian Audit Office

Level 4, Executive Building, 15 Murray Street, Hobart, Tasmania, 7000
Postal Address GPO Box 851, Hobart, Tasmania, 7001
Phone: 03 6226 0100 | Fax: 03 6226 0199
Email: admin@audit.tas.gov.au
Web: www.audit.tas.gov.au

19 June 2012

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Madam President

Dear Mr Speaker

Report of the Auditor-General No. 9 of 2011-12 – Auditor-General's Report on the Financial Statements of State entities – Volume 6 – Other State entities 30 June 2011 and 31 December 2011

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the audit of Other State entities for the year ended 30 June 2011 and 31 December 2011.

Yours sincerely

H M Blake
Auditor-General

FOREWORD

This Report is the sixth and final volume in our series planned for advising Parliament on the outcome of audits for the 2010-11 financial year and the 2011 calendar year. It deals with four local government councils reporting at 30 June 2011 and seven other State entities which report at 31 December 2011.

Inclusion of four councils enabled completion of the tables we prepare annually summarising local government comparative analysis so that these tables now include all 29 councils. The tables we provided in Part I of Volume 4 of Report of the Auditor-General No. 6 of 2011-12 included only the other 25 councils.

This volume also includes:

- A summary and analysis of common audit findings identified during the course of all audits for 2010-11 and 2011 plus details of audit findings in recent years. Our primary conclusion from this analysis is that the budgetary and other pressures State entities currently face could give rise to potentially higher risks of error and or fraud requiring greater diligence.
- A summary of the processes followed for setting accounting standards in Australia and the status of standards currently under development. This is included because it is these accounting standards with which State entities must comply when preparing annual financial statements for users and audit.
- A summary of advice received, and our conclusions there from, regarding management of the State's temporary debt repayment account. Our conclusion is that these arrangements are lawful although we made one recommendation aimed at ensuring expenditure by the Treasurer through trust accounts and the Special Deposit and Trust Fund be subject to the same checks and balances as applied when expenditure is made from the Consolidated Fund.

HM Blake
Auditor-General
19 June 2012

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INTRODUCTION

This Report is Volume 6 of our suite of reports outlining audit outcomes and financial analysis resulting from audits of the financial statements of State entities for the 2010-11 and calendar 2011 periods. It contains analysis of financial information from completed financial statement audits of four Local Government Authorities reporting for the financial year ended 30 June 2011 and seven Other State entities with a financial year ended 31 December 2011. Other State entities comprise those entities not consolidated in the General Government Sector or that do not operate as a Government Business Enterprise, State Owned Company, Superannuation Fund or Local Government Authority. This is our final report in this series.

Our Report includes details of individual entity operations and matters raised with entity management during the course of audits, but only where the matter(s) raised warrant it. The rational for inclusion rests on our perception of the public interest in each point. It also includes a summary of audit findings from our audits of all State entities, not just for the entities included here.

All entities addressed in this Report were provided the opportunity to comment on matters raised including, in the case of local government, our "Conclusions as to financial sustainability". Where comments were provided, these are included in individual Chapters.

STATUS OF AUDITS

All audits of Local Government Authorities and Other State entities for the years ended 30 June 2011 and 31 December 2011 have now been completed. Statutory financial reporting outcomes for the entities included in this Report are detailed in the Chapter headed "Timeliness and quality of financial statements".

Unless specifically indicated, comments in this Report were current as at 28 May 2012.

Appendix 2 provides details of the status of all audits covered by this Volume.

AUDIT SUMMARY

Timeliness and Quality of Financial Statements

The financial statements of seven of the eleven entities within this volume failed to meet their statutory financial reporting deadline. This is particularly disappointing bearing in mind the Audit Act provided a two year transitional period to allow entities to change processes so they could comply with the new reporting deadlines.

Basis for setting audit fees

As required by section 27 of the *Audit Act 2008* (Audit Act), the chapter entitled "Basis for Setting Audit Fees" outlines how we determine audit fees for audits of financial statements.

Audits dispensed with

The Auditor-General has the power, established under section 18 of the Audit Act, to dispense with audits. Details where this has occurred are outlined in the chapter entitled "Audits Dispensed with".

Findings for all 30 June and 31 December 2011 Audits

In completing the financial audit cycle for 2010-11 we raised 448 issues formally with management. We have noted that many entities are being asked to do more with less which may be impacting their ability to respond to concerns raised and heightens risks of error and/or fraud.

Reoccurring issues were noted with Expenditure and accounts payable (19%), Employee expenses (17%) and Non-current physical assets (15%), being the most prevalent. Departments and other General Government Sector entities were the highest represented accounting for 39% of all issues raised. Audit findings at these entities were also noted as disproportionally high compared to other entity types in the areas of Employee expenses, Information Systems and Cash and financing.

For Councils, with 36%, audit findings relating to Non-current physical assets issues were the most prevalent.

Accounting standards

This Chapter provides background on the processes standards setters go through in the development of financial accounting standards in Australia and internationally. As an Office we are committed to the development of high quality Australian accounting standards in the public interest. We regularly contribute, via the Australasian Council of Auditors-General, to proposed Australian and international exposure drafts and other papers seeking comment. This Chapter notes recent public sector relevant matters on which comment has been provided and highlights current and future topics under review including:

- related party disclosures
- service performance reporting
- revenue recognition
- leases.

Locally we highlight our recommendations and current progress on enhancing disclosure provisions for Government businesses in relation to related party disclosures and segment reporting.

Recommendations

We recommend that all State entities be required to comply with AASB 124 as though they were disclosing entities.

We recommend that State-owned companies be required to comply with AASB 8 as though they were disclosing entities.

Treasury's responses to these recommendations are included in the chapter dealing with Accounting Standards.

Basic reporting framework for preparers of special purpose financial reports

In certain circumstances a small number of State entities can prepare special purpose financial reports (SPFRs). We have noted divergent practices in SPFR preparation and in this Chapter provide guidance to preparers. As a starting point in the preparation of proper accounts and records we consider a basic accounting framework for SPFR should apply the following Australian accounting standards:

- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 1031 *Materiality*
- AASB 1048 *Interpretation of Standards.*

Recommendation

We recommend that State entities preparing special purpose financial reports review and update their financial reporting framework to adopt, as a minimum, AASB 101, 107, 108, 1031 and 1048 along with other standards appropriate to their particular circumstances.

Special capital investment funds

During 2010-11 $114.933m was expended from special capital investment and infrastructure. Significant payments included:

- Water Infrastructure, $27.676m,
- Major Hospital Facilities, $21.109m,
- Housing Funding, $14.410m,
- Health Infrastructure, $11.987m,
- Princes Wharf Renewal, $8.512m,
- Brighton Transport Infrastructure, $7.818m,
- Health Information Infrastructure, $3.549m,
- AFL Arrangement – Hawthorn Football Club, $3.488m,
- Tasmanian Museum and Art Gallery, $2.150m,
- GASP! (Glenorchy Arts Sculpture Project), $1.582m,
- Aurora Stadium, $1.500m,
- Domain Tennis Centre, $1.200m.

The unspent balance of all infrastructure funds at 30 June 2011 was $202.309m.

Temporary debt repayment account

This Chapter reviews the background behind the day to day cash management of the Public Account, specifically in relation to the use of funds available in the Special Deposits and Trust Fund (SDTF or the Fund) to meet emerging cash requirements of the Consolidated Fund and make temporary debt repayments.

Whenever the overall balance of the Consolidated Fund is overdrawn it relies on cash reserves directly attributable to the aggregate balances of individual accounts in the SDTF. Expenditure from the Fund is not subject to appropriations by the Parliament and, therefore, with only minor exceptions, the transactions are not subject to the same checks and balances as monies applied from the Consolidated Fund.

The *Public Account Act 1986* (the Act) affords authority to the Treasurer to expend monies from the Fund for the purposes of the Fund. We sought advice from the Solicitor-General concerning relevant aspects of the Act. This advice confirmed earlier advices received in 2003 and 1991.

We concluded that manner in which temporary debt repayment account was being managed at 30 June 2011 and in years since 2003 was lawful. However, we also concluded that the following recommendation made by the Auditor-General in 1991 remains relevant today.

Recommendation

We recommend that expenditure by the Treasurer through trust accounts and the Special Deposit and Trust Fund be subject to the same checks and balances as applied when expenditure is made from the Consolidated Fund.

Treasury's response to this recommendation is included in full in the Chapter dealing with this matter.

Our work on the temporary debt repayment account highlighted the need for additional audit procedures for the year ending 30 June 2012. However, changes announced in the 2012-13 Budget will require that these additional procedures be revisited.

Matters arising from current audits
(including where relevant actions arising from matters previously reported)

Local Government Authorities

Break O'Day Council

Council generated a Net Operating Deficit before capital grants of $2.004m in 2010-11 (2009-10, $1.659m deficit). It is our view that, to ensure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis. Council operated below break-even and achieved a result considerably worse than its budgeted deficit of $1.349m before accounting for infrastructure related transactions. This situation needs to be addressed by Council.

Preparation of financial statements in 2010-11 was inhibited by turnover in finance staff. To overcome this Council sourced external assistance. However, our audit identified adjustments to the financial statements as presented which were required to ensure appropriate presentation. In addition a number of procedural and reconciliation items were noted as requiring management attention. Council acknowledged issues raised and as a consequence have retained external accounting assistance for 2011-12 on a monthly basis to provide necessary financial knowledge and continuity.

Kentish Council

Council generated a Net Operating Deficit, after net financing revenue, of $0.194m in 2010-11 (2009-10, Surplus $0.044m). The deficit result was due primarily to net flood damage costs of $0.342m without which a surplus would have eventuated.

In January 2011 floods caused approximately $2.500m in damage to Council's infrastructure assets. At 30 June 2011, Council had received funding from the Tasmanian Relief and Recovery Arrangements Program – January 2011 Floods (the Program) of $1.253m towards costs incurred in reinstating damaged assets totaling $1.595m. The reinstatement process is still progressing and Council anticipates additional funding will be received from the Program.

King Island Council

Council generated a Net Operating Deficit after net financing revenue of $0.080m in 2010-11 (2009-10, deficit $0.306m). This improved result was due primarily to increased income from Rates, Grants and Interest.

During 2010-11, we noted Council's property, plant and equipment (PPE) registers were not updated resulting in our recommendation that Council regularly update its PPE registers, undertakes complete fixed asset reconciliations, ensures registers agree to the general ledger and maintains sufficient supporting documents to support the financial statements and for audit purposes.

Despite recommendations regarding the need to update asset valuations in 2009-10, with the exception of the Aerodrome, Council had not completed a full up-to-date revaluation by 30 June 2011. As assets are reported at valuation, Council is required under Australian Accounting Standard *AASB 116 Property, Plant and Equipment (AASB 116)* to ensure revaluations are made with sufficient regularity to ensure that the carrying amount of these assets do not differ materially from fair value at reporting date. Management has advised that a full review of road assets will be completed in the 2011-12 financial year.

Tasman Council

Council generated a Net Operating Surplus of $0.718m in 2010-11 (2009-10, $0.866m). It reported a Net Surplus of $1.012m ($0.920m), which included Capital grants of $0.145m, ($0.264m) and Contributions – non monetary assets, $0.130m, ($0).

Financial Statements as initially submitted were not considered of sufficient quality to warrant acceptance as complete in all material respects and referred back to Council for action. Following staff changes Council subsequently sourced external assistance from Brighton Council. Significant rework was required to ensure appropriate presentation of the revised financial statements. Council has made arrangements to retain this assistance for 2011-12 as part of initial actions to meet its reporting requirements in the future.

In the previous two financial audits, 2008-09 and 2009-10, we recommended Council up-date asset valuations. However, Council had not completed a full up-to-date revaluation of road assets by 30 June 2011. Under *AASB 116*, Council is required to ensure revaluations of infrastructure assets are made with sufficient regularity to ensure that the carrying amount of each asset does not differ materially from its fair value at reporting date. Management have advised that a full review of road assets will be completed in the 2011-12 financial year.

Also, following both our 2008-09 and 2009-10 financial audits, we recommended improvement in aspects of monthly bank reconciliations. Follow-up in 2010-11 indicated issues surrounding timely completion and review had not been addressed. The timely completion and review of regular bank reconciliation is a critical financial control and aids in the prevention and detection of fraud. Management are currently addressing issues raised.

Other state entities

Property Agents Trust

The Trust recorded a Net Surplus of $0.819m compared to a Surplus of $0.298m in 2010, an improvement of $0.521m. Distributions made by the Trust in 2011 were to the:

- Property Agents Board for education and training, $0.619m, (2010, $0.473m)
- Real Estate Scholarship Board to assist in funding the employment and training of scholarship trainees, $0.506m, ($0.415m)
- Department of Justice for administration costs, $0.453m, ($0.507m).

During the 2011 financial year the Trust resolved to change its financial year end from 31 December to 30 June. This was done so as to align its financial reporting period with that of the Property Agents Board. Financial statements were prepared for the six months to 30 June 2011 analysis of which was included in our *Report of the Auditor-General No.7 of 2011-12*. However, under current legislation the Trust is still required to prepare financial statements as at 31 December. The Summary of Financial Results in this Volume includes the two full years ended 31 December 2010 and 31 December 2011. The Trust has requested an amendment to the current legislation to allow preparation of its financial statements at 30 June.

The Solicitors' Trust

The Trust achieved a Net Surplus from Operations before distributions of $3.929m which was $1.384m higher than 2010, $2.545m. Distributions of $2.251m were made including $0.811m to the Legal Profession Board, (2010, $0.757m), $0.802m to the Legal Aid Commission, ($0.250m), and $0.250m to the Sentencing Advisory Committee.

The Trust prepares special purpose financial statements on the basis of the unique financial activities it undertakes. Details of the basis for the preparation of the Trust's financial statements are outlined in the notes to its statements. However these notes only make reference to three Australian accounting standards. We have accepted these statements concluding from our audits that they present fairly, in all material respects, the Trust's financial performance and position, but have recommended application of an additional three standards to meet what we consider minimum requirements.

In the Chapter in this Report headed Basic reporting framework for preparers of special purpose financial reports, we recommend the minimum Australian accounting standards with which State entities preparing special purpose financial reports should comply.

Theatre Royal Management Board

The Board continued to be economically dependent on Government grants and subsidies for it to be a going concern. In 2011, the Board recorded a Net Deficit of $0.128m (2010, surplus $0.010m) which resulted from fewer performances and a decline in patronage. The Board's cash at bank declined mainly due to the timing of grant receipts.

University of Tasmania

The University generated a Comprehensive result of $13.506m (2010, $98.961m), which included capital grants from the Commonwealth of $27.202m, ($55.832m), Investment gains $5.335m ($14.335m) off-set by the take up of academic leave of $2.542m, ($4.923m) and impairment of $10.082m relating to the Clinical School Building surrendered to the Crown. However, prior to accounting for non-operating adjustments, the University recorded a deficit of $5.593m, (2010 deficit, $0.518m). The higher operating deficit was primarily impacted by increasing salary costs and the University not reaching its projected student load target resulting in a return of $6.331m in prior year funding to the Commonwealth.

Subsidiaries of the University, the University of Tasmania Foundation Incorporated and AMC Search Ltd, both operated profitably in the period.

Other key findings and developments noted in 2011 were:

- an additional $15.646m was spent on the further development of Menzies Research Institute/Health Sciences Collocation project
- the Domain House purchase, for $4.500m, which was connected with the receipt of $3.500m arising from a restoration funding agreement with the Department of Economic Development, Tourism and the Arts
- the granting to the University of Princess Wharf land, valued at $3.500m, for no consideration by the Department of Primary Industries, Parks, Water and Environment for further development of the Institute for Marine and Antarctic Studies
- a Deed of Agreement between the University and Tasmanian University Union Incorporated (TUU) to assist in TUU operations
- an improvement in operating cash flows of $16.615m
- the proportionate contribution by the Commonwealth to the University's revenue is decreasing thus increasing its reliance on own source revenues.

Summarised Financial Results

Details of the Net Surplus (Deficit) and Net Assets of the Local Government Authorities and Other State entities dealt with in this Report are set out in Table 1.

Table 1 - Summary of Financial Results of the entities included in this Report

	Net Surplus (Deficit)		Net Assets	
30 June 2011 entities:	**2010-11**	**2009-10**	**2010-11**	**2009-10**
	$'000	$'000	$'000	$'000
Break O'Day Council	(873)	796	137 047	114 242
Kentish Council	504	1 442	86 978	74 113
King Island Council	30	416	68 994	60 360
Tasman Council	1 012	920	17 494	15 792
	Net Surplus (Deficit)		**Net Assets**	
31 December 2011 entities:	**2011**	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Anzac Day Trust	(1)	(18)	1	2
Board of Architects of Tasmania	11	6	63	53
Property Agents Trust	819	298	13 348	12 529
The Solicitors' Trust	1 826	1 165	9 651	7 825
Tasmanian Qualifications Authority	57	61	623	566
Theatre Royal Management Board	(128)	10	2 163	2 291
University of Tasmania	23 588	59 013	791 342	777 836

TIMELINESS AND QUALITY OF FINANCIAL STATEMENTS

SIGNED STATEMENTS NOT RECEIVED ON OR BEFORE STATUTORY DEADLINES

Listed below are entities whose signed financial statements were not received prior to the statutory deadline of within 45 days of the end of the financial year, or 15 August and 15 February for 30 June and 31 December year ends, respectively. Dates shown in brackets represent the date signed financial statements were received.

- 30 June 2011
    - Break O'Day Council (8 November 2011)
    - King Island Council (3 October 2011)
    - Tasman Council (18 August 2011).
- 31 December 2011
    - ANZAC Day Trust (21 February 2012)
    - Board of Architects of Tasmania (26 March 2012)
    - The Solicitors' Trust (23 February 2012)
    - Tasmanian Qualifications Authority (27 February 2012).

These entities were reminded of their obligation to report within their prescribed deadline in future.

BASIS FOR SETTING AUDIT FEES

BACKGROUND

Section 27 of the *Audit Act 2008* (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.

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. In addition, no fee was charged for the 30 June 2011 audit of Common Ground Tasmania Ltd, an audit conducted by arrangement pursuant to section 28 of the *Audit Act 2008.*

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.

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. To this base fee we add direct travel time and costs attributable to each audit. At present incidentals are covered by the overhead rate. The separate charging of incidentals, as a percentage applied to the base fee, is being considered from 2011-12 as a means to further improving transparency. Fees currently advised to State entities are all inclusive but exclude GST.

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
- 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 schedules and analysis throughout the audit
- agreed timetables will be met within reason, particularly with regards to the preparation of the financial statements
- the financial statements presented for audit are complete and do not require ongoing changes/adjustments
- additional work (including 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.

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 ongoing 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
- 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. Fees may also take into account our assessment of the relevance to our audits of work conducted by internal auditors.

In all cases, fees are communicated to each accountable authority prior to audit commencement or during the planning phase.

TRANSPARENCY OF INDIVIDUAL AUDIT FEES

We have chosen to make the fee setting process for individual State entities more transparent. As a consequence, our staff are now required to explain:

- 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
- the processes for agreeing additional fees if circumstances change or the assumptions upon which the fee is based are not met.

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:

- The 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).
- The 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 certain 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 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.

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.

AUDITS DISPENSED WITH

The Auditor-General has the discretion, under the *Audit Act 2008* (Audit Act) to dispense with certain audits if considered appropriate in the circumstances. The dispensation is subject to conditions determined by the Auditor-General. We have imposed the following conditions:

- 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. The financial statements are reviewed and, where necessary, feedback on information presented in the financial statements is provided to the entity or
- that the entity is a subsidiary of a State entity whose financial transactions and balances are audited as part of the preparation of the consolidated financial statements of the controlling entity or
- grants made to a category of entities are properly managed under Treasurer's Instruction 709 "*Grant Management Framework*" (discussed further under the heading 'Categories of audits and Non-Government Organisations' later in this Chapter).

The Audit Act also requires the Auditor-General to consult with the Treasurer before exercising the power to dispense with audits. It is important to note that the dispensation with the audit does not limit any of the Auditor-General's functions or powers given under the Audit Act.

Following consultation with the Treasurer, the audits of the annual financial statements of the following specific audits or categories of audits were dispensed with:

SPECIFIC AUDITS

Registration Boards – Period Ended 31 January 2011

- Pharmacy Board of Tasmania. (Ceased operations 1 February 2011)

Registration Boards – Ceased 1 February 2011

- Tasmania Pharmacy Authority.

Controlled Subsidiaries – Year Ended 30 June 2011 (controlling entity shown in brackets)

- Agility Interactive Pty Ltd (TOTE Tasmania Pty Ltd)
- Auroracom Pty Ltd (Aurora Energy Pty Ltd)
- Aurora Energy Tamar Valley Pty Ltd (Aurora Energy Pty Ltd)
- Devonport Maritime & Heritage Authority (Devonport City Council)
- Ezikey Group Pty Ltd (Aurora Energy Pty Ltd)
- Flinders Island Ports Corporation Pty Ltd (Tasmanian Ports Corporation Pty Ltd)
- Heemskirk Holdings Pty Ltd (Hydro Tasmania)
- Heemskirk Wind Farm Pty Ltd (Hydro Tasmania)
- Heritage Building Solutions Pty Ltd (Southern Midlands Council)
- Heritage Education & Skills Centre Pty Ltd (Southern Midlands Council)
- HT Wind New Zealand Pty Ltd (formerly HT Wind Operations New Zealand Holdings Pty Ltd) (Hydro Tasmania)
- Metro Coaches (Tas) Pty Ltd (Metro Tasmania Pty Ltd)
- Musselroe Holdings 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)
- Tas Radio Pty Ltd (TOTE Tasmania Pty Ltd)
- Woolnorth Bluff Point Holdings Pty Ltd (Hydro Tasmania)
- Woolnorth Studland Bay Holdings Pty Ltd (Hydro Tasmania).

Drainage Trusts – Year Ended 30 June 2011

- Brittons Swamp Drainage Trust
- Egg Lagoon Drainage Trust
- Forthside Irrigation Water Trust
- Lake Nowhere-Else Dam/Whitehawk Creek Irrigation Trust
- Lawrenny Irrigation Trust
- Lower Georges River Works Trust
- Mowbray Swamp Drainage Trust
- Richmond Irrigation Trust.
- Togari Drainage Trust.

Registration Boards – Year Ended 30 June 2011

- Medical Radiation Science Professionals Registration Board.

Effective from 1 July 2011, the Medical Radiation Science Professionals Registration Board came under the umbrella of the Australian Health Practitioner Regulation Agency (AHPRA). As a result this Board will no longer be subject to the Audit Act.

Other Boards - Year Ended 31 July 2011

- Tasmanian Timber Promotion Board.

Drainage Trusts – Year Ended 31 July 2011

- Elizabeth Macquarie Irrigation Trust.

Controlled Subsidiaries – Year Ended 31 December 2011 (controlling entity shown in brackets)

- UTASAT Pty Ltd (University of Tasmania).

Registration Boards – Year Ended 31 December 2011

- Plumbers and Gasfitters Registration Board.

CATEGORIES OF AUDITS AND NON-GOVERNMENT ORGANISATIONS

The definition of State entities may encompass public bodies and Non-Government Organisations that traditionally are in receipt of Government grants. Agencies managing these grants are subject to the provisions of Treasurer's Instruction 709 – *"Grant Management Framework"*.

Compliance with the requirements of Treasurer's Instruction 709 should ensure appropriate reporting and auditing requirements are satisfied. It is our intention to keep the status quo, that is, those agencies dispensing the funds will be responsible for implementing and monitoring the requirements of the above Treasurer's Instruction.

As a result, separate audits of these entities were not conducted by our Office and we have not specifically dispensed with each of these audits.

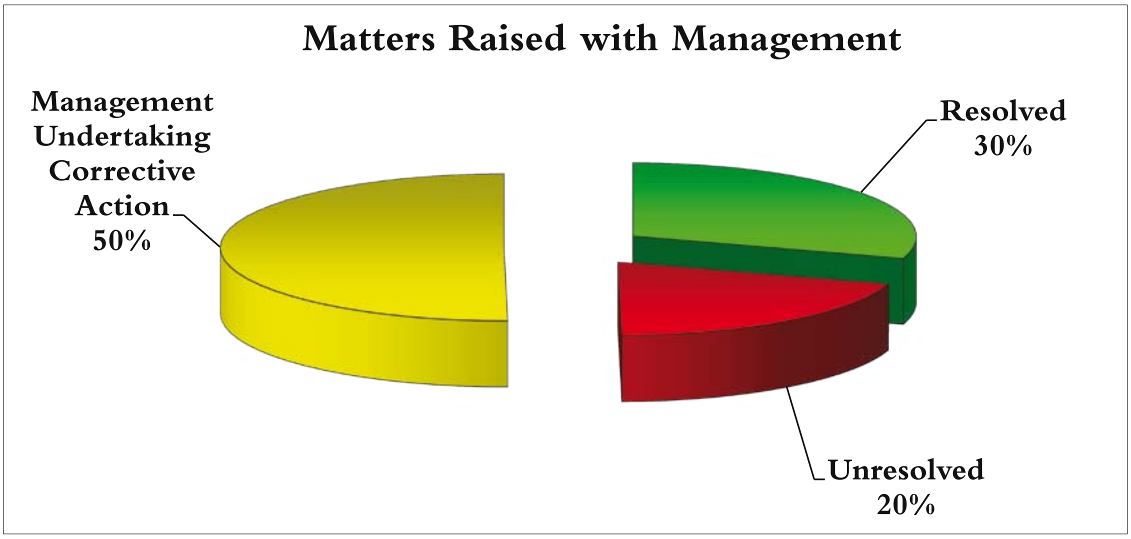
FINDINGS FOR ALL 30 JUNE 2011 AND 31 DECEMBER 2011 AUDITS

The comments in this section apply to our audits of all State entities, not just the entities covered by this Report, for the financial years ended 30 June 2011 and 31 December 2011 with comparative information provided for earlier years. In this Chapter we refer to these periods as the 2010-11 financial audit cycle.

As part of the overall audit process, management letters noting any high, moderate or low risk audit finding in the current year's audit and follow-up of issues identified during previous audits, are sent to the relevant accountable authority. Where appropriate, management letters are also forwarded at the conclusion of interim audits. In many instances, identified shortcomings were reviewed by management and policies, procedures or practices improved prior to finalisation of the audit. However, where they remain outstanding, responses regarding further action being undertaken was noted. Matters raised are considered in forming our audit opinions and noted for review in planning the next audit cycle.

MATTERS RAISED WITH MANAGEMENT (OR, WHERE APPROPRIATE, THOSE CHARGED WITH GOVERNANCE)

During completion of the 2010-11 financial audit cycle 448 (447 in 2009-10) audit issues were formally raised with management. The figure below details how these matters were responded to by management.

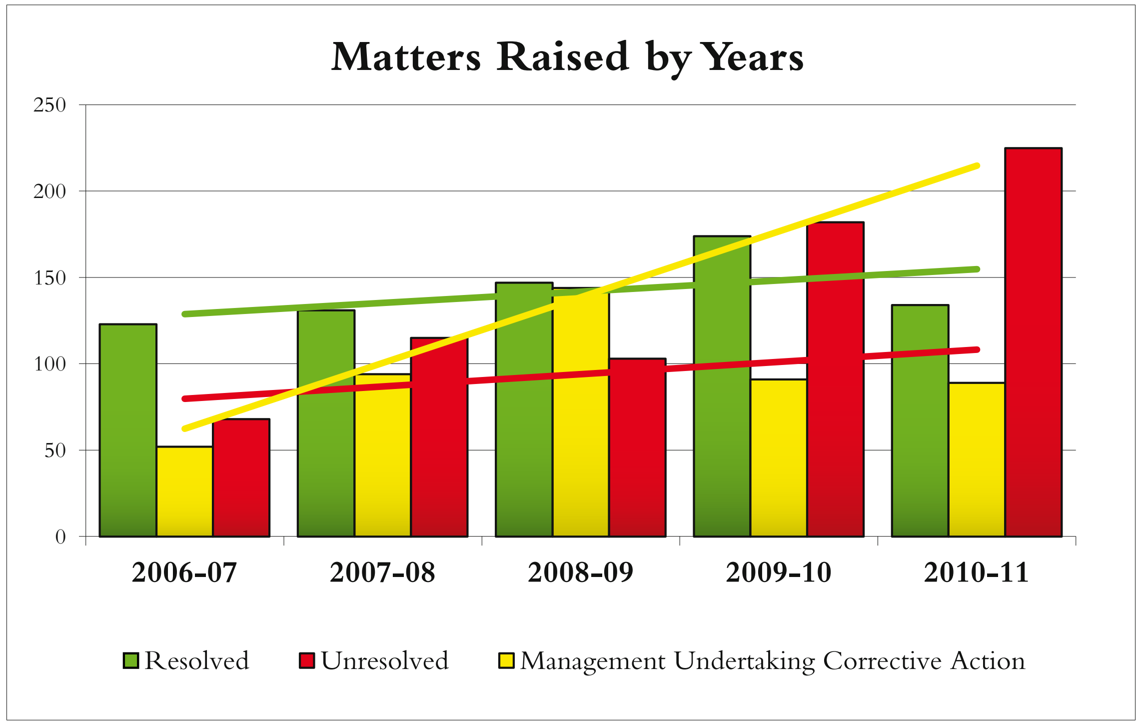


Corrective actions to rectify issues raised were in the process of being undertaken in 50% (41% in 2009-10) of cases. These issues include such items as the identification of internal control weaknesses that cannot be readily rectified. Such items may require further management review, procedural modifications or policy changes and are subject to audit follow-up in the next audit cycle. A further 30% (39%) were considered to be resolved by management, not requiring further action. These issues included such items as readily rectifiable control weaknesses, account miss-classification, presentation and general financial statement items. The residual 20% (20%) remained unresolved pending further review by management and will be carried forward and followed-up in the next audit cycle.

All matters raised with management are considered in the following years as part of risk assessments in planning appropriate audit procedures. Where issues have been corrected, this is noted and not raised again in the subsequent year although audit testing will confirm this.

MATTERS RAISED SINCE 2006-07

As part of our internal management practices we monitor matters raised from year to year and following the introduction of our current public sector audit methodology in 2006, we have tracked all issues raised since that time. The following graph is a categorised summary of matters previously raised each year and includes respective trend lines.



Overall there has been a general increase in the total number of matters reported in management letters each year. Pleasingly matters where Management is undertaking corrective action shows the largest increase while issues Resolved declined for the first time in 2010-11 confirming actions are still under way to address audit findings.

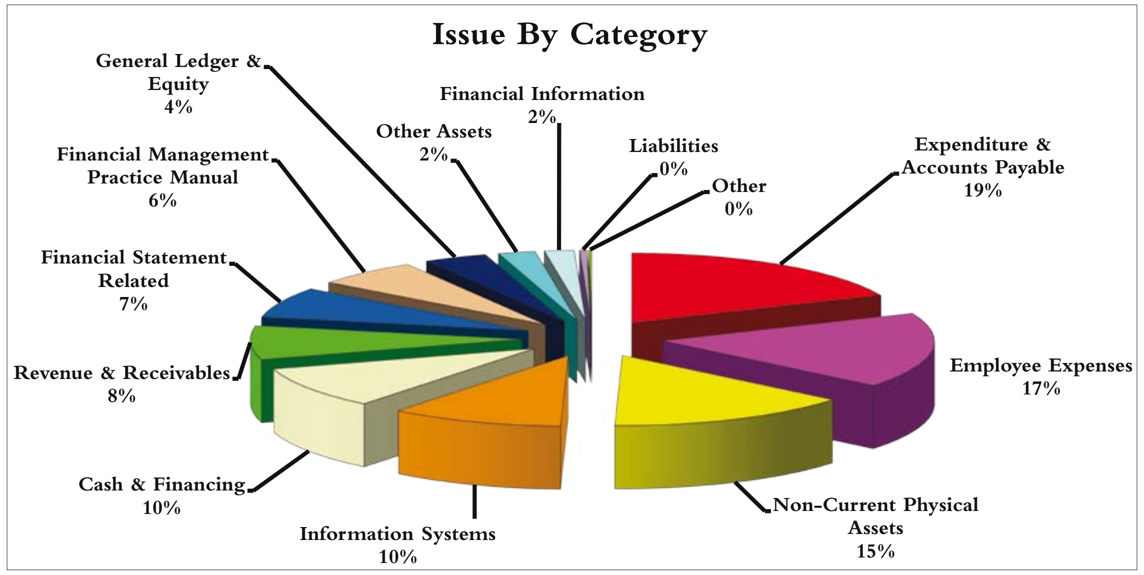
A general observation is that entities are being required to do more with less as the public sector has been downsizing. This may be impacting the ability of entities to respond to concerns raised. We have also noted "back office" functions have been impacted potentially resulting in heightened risks of error or fraud because:

- fewer staff, impacting segregation of duties and control activities
- possibility that staff will take less annual leave
- possibility of greater levels of stress as more is expected of fewer staff
- losing staff experienced in public sector financial management and administration.

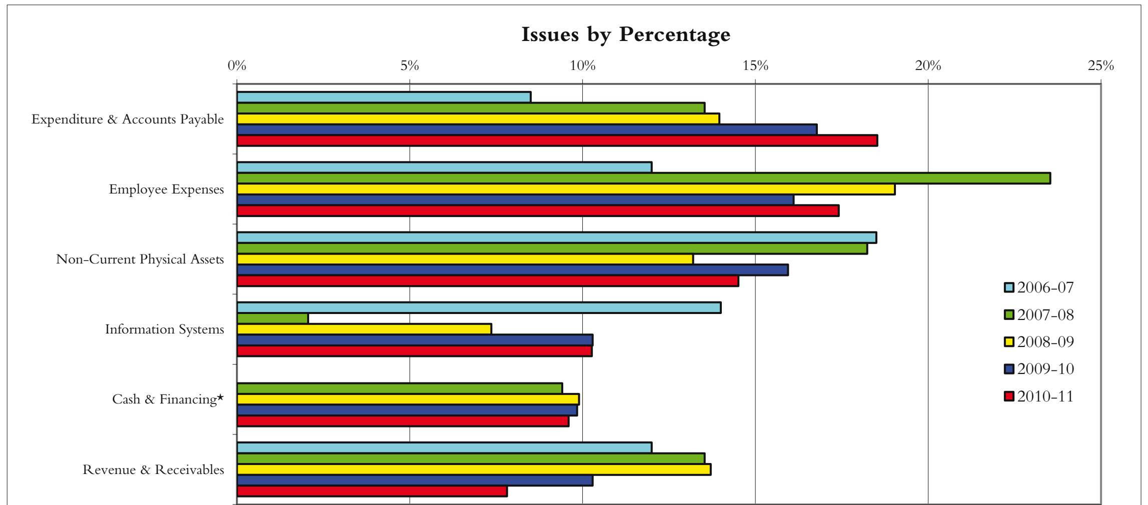
These factors are evident in the types of audit issues identified below and findings in our Special Report No 95 *Fraud Control* tabled in February 2011 may provide a useful resource to management.

MATTERS RAISED BY CATEGORY OF FINDING

To assist us in the identification of trends and management of audit risks, we categorised issues raised with management. The following figure depicts issues raised by category of finding in the 2010-11 audit cycle.



Over the last five years the six categories of issues that represented the largest proportion of audit findings are shown in the figure below.



	Revenue & Receivables	Cash & Financing*	Information Systems	Non-Current Physical Assets	Employee Expenses	Expenditure & Accounts Payable
2006-07	12%		14%	19%	12%	9%
2007-08	14%	9%	2%	18%	24%	14%
2008-09	14%	10%	7%	13%	19%	14%
2009-10	10%	10%	10%	16%	16%	17%
2010-11	8%	10%	10%	15%	17%	19%

* Cash and financing not separatley identified in 2006-07

These six categories total 78% of all audit findings raised in 2010-11 and will continue to be monitored closely in future audits. Areas in proportional order of issues raised were:

Expenditure & accounts payable (19%)

Issues identified highlighted control concerns that impact the validity and accuracy of transactions, increasing the importance of management oversight and independent review and verification. Prevalent concerns included:

- authorisation – omission or above delegated limit
- delegation – maintenance and adherence to a schedule

- segregation – separation of non-compatible duties in control, processing and other operations such as cash collection and computer master file access
- documentation – deficiencies in supporting documents.

There has been an increase in expenditure and accounts payable type audit findings since ranking seventh in 2006-07, 9%. This increasing trend emphasises the need for management attention in this category.

Employee Expenses (17%)

In most cases payroll processing matters related to records administration processing control weaknesses, authorisation, internal reporting, management of excessive leave balances and the preparation, accurate calculation and disclosure of entitlements.

Non-current physical assets (15%)

For non-current physical assets the most common matter raised was in relation to appropriate and timely valuation. Many State entities are charged with the responsibility of managing public assets of significant value. Ensuring values are appropriately maintained and presented is therefore an important part of management and governance oversight. This remains a key area of concern because undervaluing non-current assets can lead to undercharging depreciation and possibly inappropriate reinvestment decisions.

Other observations were in relation to the effective control and management of assets including acquisitions, disposals and the reconciliation of asset registers to general ledgers.

Information systems (10%)

To operate effectively it is critical that State entities have strong information and communication technology management and control processes. Recommendations for improvement were for omissions and deficiencies in such areas as:

- user, and administration user, access management
- insufficient segregation of duties of administrator or super user access
- establishment and adherence to formal change management procedures
- establishment of security and continuity plans
- establish comprehensive disaster recovery plans with periodic testing.

Cash and financing (10%)

Management of cash and financing is a critical function of every State entity. Our audits of this area raised issues such as:

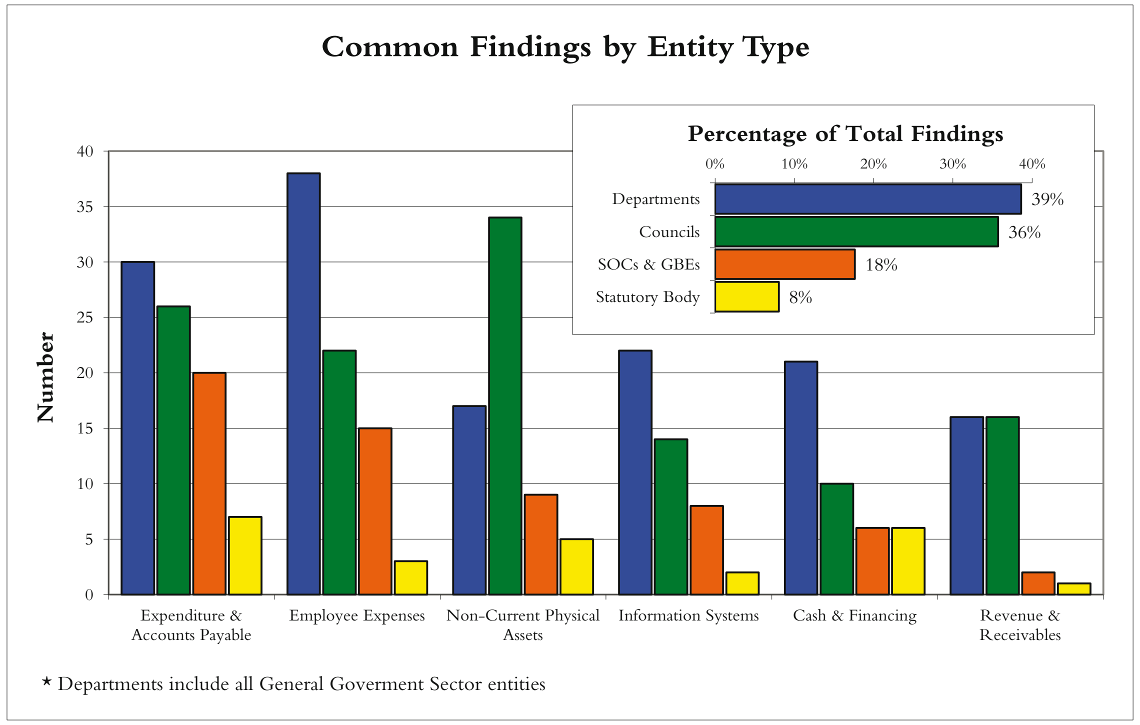
- timely completion of bank reconciliations
- bank reconciliation procedures and review
- follow-up and clearance of adjusting items, such as outstanding cheques
- control issues such as user access and file transfer controls.

Revenue and receivables (8%)

Receipting and processing of revenue is an important part of every State entity and was overall satisfactory. Issues noted were mainly in relation to the treatment and control of debtor operations. This included general debtor control procedures including reconciliation of subsidiary systems, monitoring procedures for aging accounts and appropriate impairment of accounts identified as delinquent.

MATTERS RAISED BY ENTITY TYPE

The following chart provides a dissection of issues raised by entity type.



Overall Departments were the highest represented entity type with 39% of all issues raised. Areas of most significance were Employee expenses, Expenditure and accounts payable and Information systems. The chart also highlights a disproportionately high level of IT risk and data management issues compared to other entity types. Departments need to ensure that sufficient resources and expertise are directed to these as IT issues can detrimentally impact service delivery. Whilst fewer issues were raised, Cash and financing was also unusually high when compared to other entity types. For the majority of these issues, Departmental management were reminded of their effective oversight and review responsibilities.

Councils, with 36%, are also highly represented in the above areas. Similar to departments, there were a number of audit findings in the areas of Expenditure and accounts payable and Employee expenses, although issues of audit concern were highest in Non-current physical assets. Factors such as deficiencies in the effective management of asset systems and valuation issues encompassed the majority to these findings.

ACCOUNTING STANDARDS

STANDARD SETTING GENERALLY

The development of financial reporting accounting standards in Australia is a well ordered, regulated and established process. The Australian Accounting Standards Board (AASB) is charged with this responsibility and is an independent accounting standard-setter. The AASB is an Australian Government agency operating under the *Australian Securities and Investments Commission Act 2001* (ASIC Act). Its mission is to:

(a) develop and maintain high-quality financial reporting standards for all sectors of the Australian economy; and

(b) contribute, through leadership and talent, to the development of global financial reporting standards and to be recognised as facilitating the inclusion of the Australian community in global standard setting.

Convergence in the globalisation of accounting standards, and their development, is a key factor in the establishment of a single set of high quality, understandable accounting standards and to ensure transparent and comparable information in general purpose financial statements.

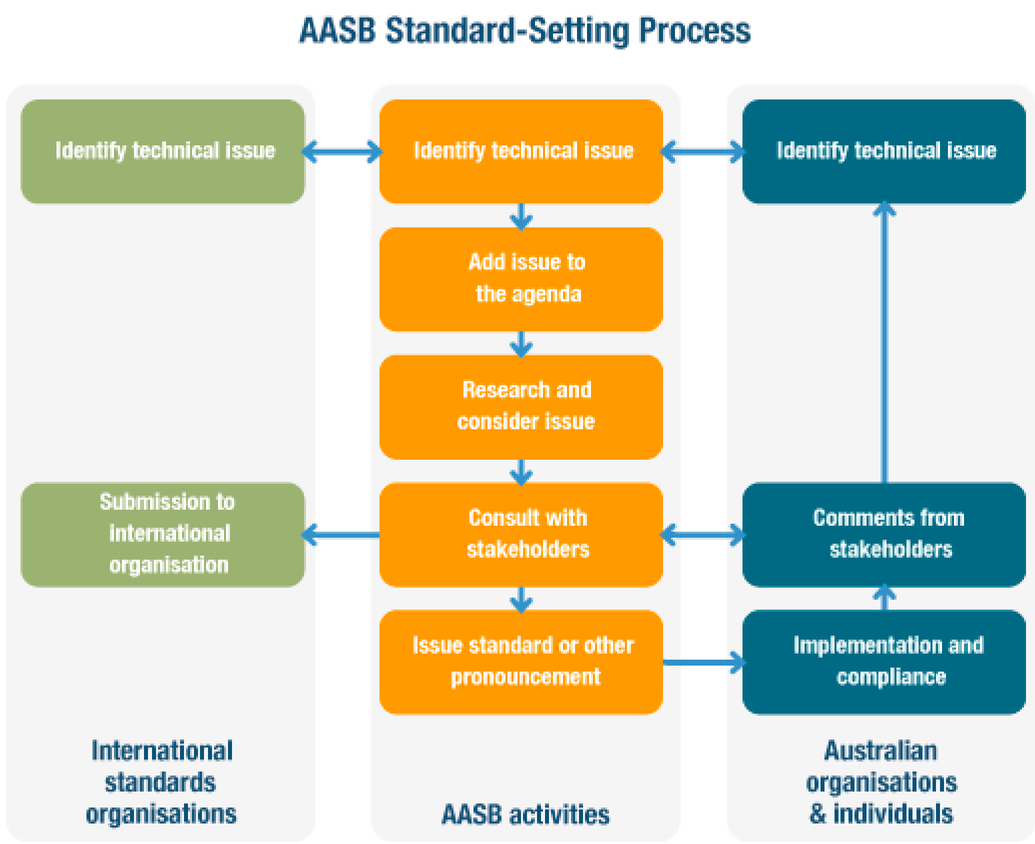
Australia adopted International Financial Reporting Standards (IFRS) since 1 January 2005. Development of standards at an international level is coordinated by the IFRS Foundation, its Interpretation Committee and its standard-setting Board, the International Accounting Standards Board (IASB).

Therefore, issues on the IASB's and IFRS Interpretation Committee's work programs are usually also included on the AASB's work program. The degree of involvement by the AASB varies issue-by-issue and may be substantial or insubstantial. Once a technical issue is identified, the process is one of research, followed by consultation with stakeholders, before the issuance of a new or updated standard. The consultation process usually involves the release of related documents for public comment. This can take the form of an Exposure Draft (ED), Invitation to Comment (ITC), Draft Interpretation or Discussion Paper (DP).

Accounting standards issued in Australia are sector, also referred to as transaction, neutral. This means that, in the main, standards apply to all sectors including the private, public and private not-for-profit sectors. Where transactions are unique to a particular sector, or where an international standard requires an amendment to reflect particular Australian situations, what are called 'Aus paragraphs' are included. Accounting standards issued by the AASB have the force of law, as these impact entities incorporated under the *Corporations Act 2000*, because they are issued under the ASIC Act.

At 31 December 2011, the AASB had issued 57 accounting standards and 39 interpretations.

The AASB's standards setting process is set out as follows:



Source - Australian Accounting Standards Board

ACCOUNTING STANDARDS FOR THE PUBLIC SECTOR

In Australia

As noted previously, standards issued by the AASB are sector neutral applying to all sectors. Some pronouncements apply only to the public sector including:

- AASB 1049 *Whole of Government and General Government Sector Financial Reporting* – in Tasmania this standard applies to two financial reports included in the Treasurer's Annual Financial Report – the General Government Sector financial report and the Total State Sector financial report.
- Interpretation 1038 *Contributions by Owners Made to Wholly-owned Public Sector Entities* – in the main this relates to equity transactions with, and between, entities within the same Government jurisdiction.

In recent years there has been a reduction in public sector specific accounting standards. The approach has tended to be one of amendment and integration into revised or entirely new standards. This includes the use of Aus paragraphs, as previously mentioned.

Internationally

Internationally, the IASB issues standards focussed on the private sector. However, also influencing the development of financial reporting, from a public sector viewpoint, is another independent standard-setting board, the International Public Sector Accounting Standards Board (IPSASB). It develops International Public Sector Accounting Standards (IPSAS), guidance, and resources for use by public sector entities around the world for preparation of general purpose financial statements. The IPSASB has developed guidelines or rules for modifying IFRSs in conjunction with the IASB for application by public sector entities. It also issues and promotes benchmark guidance and facilitates the exchange of information among accountants and those who work in the public sector.

At the time of preparing this report, IPSAS had no status in Australia with the public sector continuing to apply standards issued by the AASB. However, the AASB continues to monitor standards issued by the IPSASB.

OUR ROLE IN THE STANDARD SETTING PROCESS

We are committed to the development of high quality Australian accounting standards in the public interest and regularly contribute to relevant issues when these are open for comment either as Exposure Drafts or Discussion Papers. Such Exposure Drafts or Discussion Papers are issued by the IASB, IPSASB or AASB.

Our comments are provided via the Australasian Council of Auditors General (ACAG). ACAG facilitates coordinated responses from all jurisdictions to proposed Australian and international accounting and auditing pronouncements. In addition, we contributed to the development of papers titled Gaps in Generally Accepted Accounting Practices (GAAP) referred to below.

THE SITUATION IN TASMANIA

For some parts of the local Public Sector, accounting and reporting requirements are also arranged through requirements determined by the Treasurer in the form of Treasurer's Instructions (TIs). Specific TIs apply to entities reporting under the *Financial Management and Audit Act 1990* and *Government Business Enterprises Act 1995*. In relation to Australian Accounting Standards, TIs may provide an exemption, remove an exemption, or set other specific reporting criteria for relevant entities to follow.

In the main State entities are required to comply with Australian accounting standards as issued. To assist, Treasury issues standards compliant model financial statements with which General Government Sector entities comply. To assist local government authorities, we issue model financial statements based on the standards as these impact councils.

GAPS IN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAPS IN GAAP)

Since 2004 Australian Auditors-General have been working with Treasuries and the AASB to address what are seen as gaps in GAAP as these relate to the public sector. Over this period various recommendations have been made to the AASB for the inclusion of public sector specific accounting matters onto its work plan. The most recent recommendation covered accounting for the following, in order of priority:

- Grants and revenue recognition of public sector entities*
- Public private partnerships
- Infrastructure, heritage and cultural assets
- Intangible assets created by government
- Concept of control and significant influence in the public sector*
    - *Administered items*
    - *Distinguishing between contributions from owners and revenue for entities under common control*
    - *Determining control over public sector entities*
    - *Determining significant influence and accounting for associates in the absence of conventional ownership instruments*
- Related party disclosures for not-for-profit public sector entities*
- Accounting for budgeted financial information
- Standards for the reporting of non-financial performance*
- Distinguishing between "for-profit" and "not-for-profit" entities
- Accounting for for-profit entities that undertake activities that are for the public benefit
- Reliable measurement of land under infrastructure
- Accounting for intangible assets acquired at no cost
- Matters relevant to accounting for financial instruments
    - *Accounting for suspensory and interest-free loans*
    - *Difficulties assessing the fair value of non-commercial equity investments*
    - *Determining the appropriate frequency for hedge effectiveness testing**
- Impairment of statutory receivables
- Accounting for social obligations of governments
- Determining discount rates for application in the insurance and superannuation industries.

* under active consideration by the AASB

THE AASB'S WORK PLAN

Significant active projects on the AASB's work program are noted in this section. Details reported here were extracted from the AASB's current work plan which is available on its website at http://www.aasb.gov.au/home.aspx.

Domestic not-for-profit (NFP) sector (includes the public sector)

Entities within the general government sector

An exposure draft (ED) dealing with *Generally Accepted Accounting Principles (GAAP) / Government Finance Statistics (GFS) harmonisation – entities within the General Government Sector (GGS) (ED 212)* is currently under discussion.

The objective of this ED is to develop an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements. Comments closed on October 2011 with outcomes yet to be determined.

Related party disclosures in not-for-profit public sector entities (ED 214)

This ED encompassed treatment of AASB 124 *Related Party Disclosures*, which currently does not apply to general purpose financial statements of not-for-profit (NFP) public sector entities. As currently drafted the ED included the disclosure of information relating to key management personnel (KMP) and Ministers of public sector entities.

In Tasmania the *Local Government Act 1993* requires certain aggregated remuneration related disclosures, in either annual reports or audited financial reports, for councillors and senior management positions. Similar provisions apply to the university although these are required by the Department of Education, Employment and Workplace Relations, not by accounting standards.

AASB 124 does however apply to all government businesses (both Government Business Enterprises (GBEs) and State Owned Companies (SOCs)) although Portfolio Ministers and the Treasurer are not related parties under this standard. As far as remuneration disclosures are concerned, AASB 124 only requires disclosures in aggregate as this relates to Board members and KMP because these entities are not disclosing entities (ie listed companies). The only government businesses to go voluntarily beyond this basic level and provide further disclosures in their financial report at 30 June 2011 were the State's four water entities.

Recommendation

We recommend that all State entities be required to comply with AASB 124 as though they were disclosing entities.

Treasury Comment

Instead of making Government businesses disclosing entities for the purposes of this standard it is considered more appropriate that this be addressed through a Guideline. A draft Guideline has been prepared to apply to all Government businesses. When finalised, this will require disclosure of remuneration details of key management personnel in the Annual Reports of the businesses.

It is our view that all State entities should be regarded as disclosing entities being at least as, if not more than, publicly accountable. We note that proposed government business reporting guidelines recommend full disclosure in line with disclosing entities which we support. We also support similar provisions for all other State entities.

Control in the NFP Public and Private Sector

The AASB is considering issues relevant to developing an ED containing proposals to add NFP sector specific guidance to AASB 10 *Consolidated Financial Statements*. In particular this reviews some principal terms (including 'investor' and 'investee'), elements of control (power, returns and variable returns), regulatory power and its relationship to protective rights and other substantive rights, and principles relating to delegated power (including the notion of agent/principal), particularly in a public sector context.

Borrowing costs of NFP public sector entities

Later this year the AASB will be reviewing the requirements in AASB 123 *Borrowing Costs* as these relate to borrowing costs incurred by NFP public sector entities. Under consideration is removal of the 'expense only option' available to these entities.

Service performance reporting –NFP public sector entities – consultation paper (CP)

This IPSASB originated CP, which was issued late in 2011, centred on the inclusion of service performance information as part of General Purpose Financial Reports (GPFRs). Public sector entities deliver goods and services rather than generate profits. Therefore, their success can be only partially evaluated by examining their financial performance and position.

The CP proposes that GPFRs include reports along the lines of:

(a) information on the scope of the service performance information reported

(b) information on the public sector entity's objectives

(c) information on the achievement of objectives and

(d) narrative discussion of the achievement of objectives.

Submissions on this CP closed on 14 April 2012.

Other relevant domestic exposure drafts

Superannuation entities (ED223)

This ED proposes a comprehensive reform of the financial reporting requirements for superannuation entities and will replace the only remaining AAS standard, AAS 25 *Financial Reporting by Superannuation Plans* first issued in 2005. The new standard proposes significant changes to requirements in relation to:

- Presentation of superannuation entity financial statements
- Measurement and disclosure of defined benefit obligations
- Accounting for obligations arising from insurance arrangements provided to superannuation members
- Disclosure of disaggregated financial information.

One of the objectives of revising reporting requirements for superannuation entities is to align them with other entities applying Australian Accounting Standards. It is expected that reporting will apply to reporting periods beginning on or after two years from the date of issue.

Submissions on this ED closed on 30 April 2012.

INTERNATIONAL DEVELOPMENTS THAT MAY IMPACT AUSTRALIA

IASB financial crisis related projects

The IASB is currently working through an improvement project for the replacement of IAS 39 *Financial Instruments: Recognition and Measurement* (AASB 139), to meet G20 recommendations for more timely recognition of loan losses and for less complexity in relevant accounting requirements. The replacement IFRS 9 (AASB 9) so far incorporates changed requirements for financial asset measurement and financial liability presentation.

AASB 9 applies for reporting periods beginning on or after 1 January 2013. It is available for early adoption and currently contains requirements for the classification and measurement of financial assets, financial liabilities and embedded derivatives.

Subsequent changes in the work plan relate to impairment of financial instruments, offsetting of financial instruments and hedging, and are expected to be completed in the second half of 2012. Following this the AASB would issue the same revisions to AASB 9 shortly thereafter.

IASB Memorandum of understanding projects

Revenue recognition

The AASB recently sought comments on AASB ED 222 *Revenue from Contracts with Customers* following the IASB's own ED. The proposed new standard incorporates some significant changes in the recognition of revenue and would supersede virtually all existing revenue standards and interpretations.

A core principal in the approach taken is to recognise revenue for the transfer of goods or services to customers at an amount that reflects the consideration expected to be received in exchange. A determined transaction price is allocated, and recognised, over the life of the contract through the completion of measurable identified performance obligations. It also includes the requirement to report significant additional disclosures.

The AASB expressed broad support of the IASB's ED, whilst noting its concerns on some specific aspects, including the proposals relating o the transfer of control, customer credit risk and variable considerations. The ED states that the effective date would be no earlier than annual reporting periods beginning on or after 1 January 2015.

Leases

In late 2010 an ED 202 Leases was first circulated for comment. The ED applies to all leases apart from leases of intangibles, natural resources and investment properties held at fair value under AASB 140 *Investment Property*. The ED proposed a "right of use" approach for lease recognition which would require lessees to recognise payments arising under lease contracts as a liability and recognise the right to use the underlying asset as an asset in their statements of financial position.

The result would be to require that all leases, including those currently classified as operating leases, be shown on the statement of financial position. The approach would require significant judgements and estimates, and periodic review of those estimates.

The proposed changes would be substantial and affect not only statements but operations, processes and controls. The AASB, and IASB, received such significant feedback on the ED that subsequent re-exposure in mid 2012 is still a consideration.

OTHER ACCOUNTING STANDARD RELATED DEVELOPMENTS – REPORTING OPERATING SEGMENTS

The Treasurer has issued GBE specific Treasurer's Instruction GBE 08-51-05 *Application of Australian Accounting Standards*, requiring GBEs to comply with AASB 8 *Operating Segments* despite the fact that this standard only applies to disclosing entities. We support this development noting that, effectively, government departments provide segment related information in audited financial statements by way of output based reporting. Similarly, local government councils provide segment information by being required to report their functions/activities and details about significant business activities.

In addition, the State's four water entities are required to comply with AASB 8 because section 39 of the *Water and Sewerage Act 2008* requires that they comply with GBE specific TIs. Currently missing from these requirements are other State-owned companies (SOCs) in respect of which no TIs are issued and whose financial reporting requirements are driven by the *Corporations Act 2000*. This Act requires compliance with Australian Accounting Standards with which they comply.

However, as noted previously, AASB 8 only applies to disclosing entities resulting in our SOCs not applying this standard. We see this as an important accountability gap believing that SOCs need to be at least as accountable as disclosing entities.

Recommendation

We recommend that State-owned companies be required to comply with AASB 8 as though they were disclosing entities.

Treasury Comment

There are currently limited options available to compel State-owned companies to comply with AASB 8. This is being considered as part of the legislative changes required to implement the reform principles for Government businesses.

OTHER EMERGING ISSUES

Clean energy legislation – Carbon reforms

In late 2011 both houses of the Australian Parliament passed Australia's Clean Energy Legislation Package (the Package) commencing 1 July 2012. It provides for Australia's carbon pricing mechanism to initiate changes in behaviour towards a cleaner environment, aimed at reducing greenhouse gas emissions. The Government has committed to a national emissions reduction target of 5% of 2000 levels by 2020. A price on carbon is an incentive for those that will pay it (big polluters) to change the way they do business.

The Package commences with a fixed carbon price for the first three years then provides a mechanism for transition to a flexible price under a cap and trade scheme after 2015. Impacts are designed to be progressive and cumulative. Consequences for all Australian business will be through inputs, operations and outputs comprising direct and indirect exposure.

These changes introduce new business considerations which management of all State entities will need to quickly come to terms with to successfully manage the change. State entities will need to assess their ability to pass on costs along with adjusting prices to recover any rise in costs as a consequence of the carbon price and a changing economic environment. Financial reporting implications may also arise, with potential impacts on asset impairment testing following revised assessments of future recoverable amounts.

The AASB is reviewing financial reporting implications researching factors to identify when determining appropriate accounting treatments.

BASIC REPORTING FRAMEWORK FOR PREPARERS OF SPECIAL PURPOSE FINANCIAL REPORTS

In certain circumstances a small number of State entities can prepare special purpose financial reports (SPFRs). We have noted divergent practices and this commentary has been included to assist preparers when preparation of SPFRs is relevant. Another reason for inclusion is because enacting legislation for some entities, where provisions allow divergence from full application of Australian accounting standards, often provide little, or no guidance.

Provisions may vary from requirements to prepare:

- proper (undefined) accounts
- accounts for the year that show a true and correct view
- of financial statements in a form approved by the Auditor-General.

Whatever the guidance available, financial statements should always be prepared in a manner that presents users with a true and fair view of an entity's financial transactions for the year and its financial position at the year end. However, we acknowledge that for many small State entities compliance with all accounting standards, or even with the AASB reduced disclosure regime, may be impractical and not always informative.

One of the first steps in determining the content of an entity's financial statement is to establish a reporting framework. Section 2M of the *Corporations Act 2001* (the Act) provides reporting guidance for non-reporting entities. This sets out a minimum basic accounting framework for the preparation of proper accounts and records. We consider this an appropriate starting point in the preparation of SPFRs. The Act requires application of the following minimum Australian accounting standards:

- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 1031 *Materiality*
- AASB 1048 *Interpretation of Standards*.

These five standards shape the key presentation format of general purpose financial statements, provide for the scoping of policy, influence the level of recognition of content and require the consideration of other relevant guidance for adoption. Adopting these standards ensures uniformity of approach, presentation and contemporary wording.

From this starting block, financial reports should be augmented by any other accounting standard relevant to the preparation of an entity's financial statements. For example where an entity holds significant physical assets, the reporting framework should include application of AASB 116 *Property, Plant and Equipment*; or; where a significant event occurs after balance date that users and/or decision makers need to be made aware of, AASB 110 *Events after the Reporting Date* should be adopted.

Recommendation

We recommend that State entities preparing special purpose financial reports review and update their financial reporting framework to adopt, as a minimum, AASB 101, 107, 108, 1031 and 1048 along with other standards appropriate to their particular circumstances.

Small State entities wishing to hold their financial reports out to be general purpose financial reports, but want to avoid some of the voluminous disclosures required by some accounting standards, should consider taking advantage of the AASB's recently issued reduced disclosure framework. However, consultation with Treasury and us in advance of making any decision along these lines is recommended. This option is not available to entities in the General Government Sector, Public Non-Financial Corporations Sector and Public Financial Corporations Sector, which are consolidated for whole-of-government reporting purposes.

SPECIAL CAPITAL INVESTMENT FUNDS

Infrastructure investment decisions are managed through the Government's Capital Investment Program (CIP). The CIP includes the Roads and Housing Programs, and is supplemented through allocations from Special Capital Investment Funds such as the Royal Hobart Hospital Redevelopment Fund and the Economic and Social Infrastructure Fund. The Government established several new infrastructure related funds during 2007-08 and 2008-09 (for URHF), including the Infrastructure Tasmania Fund, the Hospitals Capital Fund, the Urban Renewal and Heritage Fund, the Water Infrastructure Fund and the Housing Fund.

The following table sets out the transactions of each of the Funds during 2010-11.

	Opening Balance	Deposits	Transfers	Withdrawals	Closing Balance
	$m	$m	$m	$m	$m
Economic and Social Infrastructure Fund	28.655	17.814	(12.000)	(10.264)	24.205
Infrastructure Tasmania Fund	85.269	0.000	0.000	(24.537)	60.732
Housing Fund	47.442	0.000	0.000	(14.410)	33.032
Hospitals Capital Fund	69.872	0.000	0.000	(21.109)	48.763
Royal Hobart Hospital Redevelopment Fund	0.764	0.000	0.000	(0.115)	0.649
Better Roads Fund	0.146	0.000	0.000	(0.130)	0.016
Urban Renewal and Heritage Fund	11.162	0.000	12.000	(16.692)	6.470
Water Infrastructure Fund	48.052	8.066	0.000	(27.676)	28.442
TOTAL	**291.362**	**25.880**	**0.000**	**(114.933)**	**202.309**

The **Economic and Social Infrastructure Fund (ESIF)** was established in 2003-04 and funds projects assisting economic development and the provision of social infrastructure. Social infrastructure projects relate to education, tourism, parks, heritage, health and housing throughout the State. Economic development projects relate to a range of infrastructure and related developments, including the maintenance of the State's roads and bridges, and water infrastructure. Deposits of $17.814m represented funds transferred from the Consolidated Fund. Total expenditure in 2010-11 from this fund was $22.264m, including a $12.000m transfer to the Urban Renewal and Heritage Fund and ESIF payments which primarily included:

- AFL Arrangement – Hawthorn Football Club, $3.488m,
- Tasmanian Museum and Art Gallery, $2.150m,
- Aurora Stadium, $1.500m,
- Domain Tennis Centre, $1.200m.

The **Infrastructure Tasmania Fund (ITF)** was created in 2007-08 to provide investment in Tasmania's major infrastructure including roads, health infrastructure and information technology. The ITF was established with the proceeds of $312.893m from the sales of Hobart International Airport Pty Ltd and the Printing Authority of Tasmania. A total of $252.169m has now been expended, with a balance of $60.732m remaining. Expenditure from the ITF for 2010-11 was $24.537m and primarily included:

- Health Infrastructure, $11.987m,
- Brighton Transport Infrastructure, $7.818m
- Health Information Infrastructure, $3.549m.

The **Housing Fund (HF)** was established in 2007-08 with initial funding of $60.000m to assist with increasing the supply of public housing. Expenditure from the HF for 2010-11 was $14.410m for the construction of new rental dwellings and social housing around the State.

The **Hospitals Capital Fund (HCF)** was established in 2007-08 with initial funding of $75.000m to provide capacity to invest in the State's major hospital facilities at Hobart, Launceston and Burnie. Expenditure from the HCF for 2010-11 was $21.109m for works which included the Launceston General Hospital car park and redevelopment of the Royal Hobart Hospital.

The **Royal Hobart Hospital (RHH) Redevelopment Fund** was established in 2004-05 to develop and enhance the facilities at the RHH. Expenditure from this fund was $0.115m in 2010-11.

The **Better Roads Fund (BRF)** was established in 2004-05 for road projects including associated maintenance. Expenditure from the BRF for 2010-11 was $0.130m.

The **Urban Renewal and Heritage Fund (URHF)** was established in 2008-09 with initial funding of $25.000m from the ITF to provide for the restoration of heritage assets and the renewal of urban areas in communities throughout Tasmania. Expenditure from the URHF for 2010-11 was $16.692m and was comprised primarily of:

- Princes Wharf Renewal, $8.512m,
- GASP! (Glenorchy Arts Sculpture Project), $1.582m,
- Coles Bay Jetty, $0.910m,
- Leven Wharf Development, $0.760m,
- Maritime Museum, $0.600m,
- Queen Victoria Museum and Art Gallery, $0.537m,
- Franklin Wharf, $0.525m.

The **Water Infrastructure Fund (WIF)** was established in 2007-08 with initial funding of $80.000m from the ITF to facilitate major investment in Tasmania's water infrastructure. All payments were made to the Rivers and Water Supply Commission (RWSC) by the Department of Primary Industries, Parks, Water and Environment. Expenditure from the WIF for 2010-11 was $27.676m. Deposits comprised a repayment by RWSC of a previous equity contribution of $6.710m and additional funds of $1.356m. The repayment by RWSC was sourced from the sale of water rights in connection with the Meander Valley Pipeline Extension project.

TEMPORARY DEBT REPAYMENT ACCOUNT

END OF YEAR BORROWING – SECTIONS 13 AND 15 OF THE *PUBLIC ACCOUNT ACT 1986*

Background

Information reported and conclusions reached in our analysis of the Treasurer's Annual Report 2010-11[1] highlighted uncertainty regarding the application of sections 13 and 15 of the *Public Account Act 1986* (the Act) as this relates to the temporary debt repayment account (also referred to as the end of year borrowing arrangement).

As a result we decided to seek advice from the Solicitor-General and in so doing provided him with the following context:

- The State's Consolidated Fund outcome has been in overdraft since 2008-09 and at least since 2002-03 the State has taken advantage of funds available in the Special Deposits and Trust Fund (SDTF or the Fund) to make temporary debt repayments.
- Inclusion of the Australian Government Funding Management Account, which includes funds provided for the Royal Hobart Hospital development, has assisted government's day to day management of its cash requirement without which the net balance in the Public Account would have been as low as $196m at 30 June 2011.
- The temporary debt repayment account operates in the nature of an overdraft facility with the increase in the amount at 30 June each year approximating the amount by which Consolidated Fund payments exceeded Consolidated Fund receipts at least in each of the past three financial years.

Advice was sought on two matters:

1. For the purposes of section 15, what does "Temporary" mean? It seems to us that in each of the last eight years, at least at each 30 June, the balance has been overdrawn.
2. Are there any balances or funds in the SDTF which should be quarantined from application by the temporary debt repayments? In this regard we drew attention to section 13(2) and to advice provided by the then Solicitor-General to the Department of Treasury and Finance (Treasury) in February 2003.

Previous reports by the Auditor-General and advice obtained in relation thereto

We limited the advice to the two matters referred to above because previous advices provided in 1991[2] and in 2003[3] led us to conclude that while circumstances at the times referred to here were not the same, they were sufficiently similar as to be relevant. Our findings are detailed here.

Report of the Auditor-General on the audit of the Public Account for the year ended 30 June 1991

Chapter 2.3 'Authority for Expenditure from the Special Deposits and Trust Fund' of that report highlighted:

- The extent to which Government programs have in recent years, and in 1990-91 in particular, been financed by reductions in cash reserves attributable to balances in the individual accounts comprising the SDTF.[4]

1 *Report of the Auditor-General No. 3 of 2011-12 'Auditor-General's Report on the Financial Statements of State entities' Volume 1*

2 *Report of the Auditor-General on the audit of the Public Account for the year ended 30 June 1991 pages 27 to 30*

3 *Advice by the Solicitor-General the Department of Treasury and Finance dated 26 February 2003*

4 *Report of the Auditor-General on the audit of the Public Account for the year ended 30 June 1991 pages 27 to 30*

- The conclusion that, as there is no specific provision within the Act for the balance of an account within the SDTF to be overdrawn, advice was sought from the Solicitor-General as to whether overdrawing deposit or trust accounts was proper and lawful.

For the reasons outlined in that 1991 report, the Solicitor-General's advice was provided in that report in full. In summary, the Solicitor-General, at that time, and based on those circumstances, advised:

- The "overdrawing" of the particular accounts within the SDTF, the fund itself always remaining in credit, is not prohibited by the provisions of the Act, so that the particular dealing which he was being asked to consider is lawful. Dealings with other special accounts within the Fund on the same basis would also be lawful.
- The authority for dealing with the accounts in the manner which occurred is to be found in section 13 of the Act. Section 13(3) deems money standing to the credit of a special deposit account or trust account established under sub-section (2) to be money standing to the credit of the Fund. Sub-section (8) precludes the Treasurer from expending money standing to the credit of the Fund except:

  a. for the purposes of the fund, or

  b. under the authority of the Act or

  c. under the authority of some other Act.
- Sections 14 and 15 of the Act give to the Treasurer the authority to expend monies out of the Public Account in certain circumstances, and that authority would satisfy the requirements of exception (b) of the three exceptions to which the Solicitor-General referred. However, it is unnecessary for present purposes to consider those two sections or the provisions of any other Act (exception (c)) because section 13(8) plainly implies that the Treasurer may expend monies standing to the credit of the Fund for the purposes of the Fund.
- "The purposes of the Fund" are not defined, but it is clear that they must be the several purposes for which the monies on deposit or held in trust are to be used. Thus any monies in the Fund may, under the authority of section 13(8), be expended for any one or more of those purposes. The Secretary's requirements as to reimbursement assure that any "overdrawing" of a particular account within the Fund will be made up.
- Because of section 13(3) the monies held on deposit or in trust are not held to the credit of a particular account, but to the credit of the Fund as a "global" account. Thus there is never an overdrawing, either in fact or in law. Rather there is simply a use of monies in the Fund for a purpose of the Fund, with the Secretary ensuring that at the end of the day where monies are deposited for a special purpose they are available and used for that purpose or otherwise dealt with in accordance with the provisions of the Act.
- Nothing in the advice should be taken as commenting upon the appropriateness of the practice in question from an accounting, political, or indeed any other than a strictly legal viewpoint.

Based on that advice the Auditor-General, at that time, concluded:

- The Treasurer has the ability under section 13 of the Act to establish an account within the SDTF with the intention of the account becoming overdrawn.
- There is no statutory limit, other than the balance available in the SDTF, on the amount which may be overdrawn provided that a mechanism for recoupment of the overdrawn amount is established and unswervingly applied.

Of particular relevance was his final conclusion that:

> "It would be seen as something of an aberration if the treasurer had a capacity to authorize expenditure through use of trust accounts and the SDTF without sanction of Parliament, when mainstream expenditure on Government programs through the Consolidated Fund is subject to stringent checks and balances clearly provided for in the Public Account Act".

As a result he recommended that the matter be addressed as a matter of urgency – refer to our recommendation at the end of this Chapter.

Report of the Auditor-General on the audit of the Public Account for the year ended 30 June 1992

This report included two relevant sections:[5]

"1. Policy on internal borrowings.

- In recent years substantial provisions have been made out of the Consolidated Fund for certain future commitments. These provisions are maintained in the Special Deposits and Trust Fund and together with other accounts in that Fund, provide the Government with an ongoing capacity to apply the related cash reserves to other Government programs. The redundancy programs have been substantially financed from this source and there could be considerable scope for similar or other expenditure in subsequent years. The commitments to repay the substantial amounts involved are concurrent and range over many years.
- It is essential that a clear and structured policy be established for reporting and managing such internal borrowings.

2. Cases of recording abnormal transactions through the SDTF rather than the Consolidated Fund.

- Expenditure out of the Consolidated Fund is subject to appropriation by Parliament and receives rigorous scrutiny. Meanwhile expenditure made from individual accounts within the SDTF is limited only by availability of finance and compliance with the purposes determined by the Treasurer for the particular account. Consequently Government fiscal performance tends to be measured primarily through outcomes within the Consolidated Fund.
- Under some circumstances considerable scope exists for influencing those outcomes by reporting certain receipts and expenditure in the SDTF instead of the Consolidated Fund."

Correspondence with the Department of Treasury and Finance in February and March 2003

This correspondence[6] related to end of year borrowing activities and included a copy of advice from the Solicitor-General[7] which confirmed that the Treasurer may approve the use of an account in the SDTF for temporary repayment of debt but that the balance of any overdraft is limited to surplus moneys in the SDTF "which either had not been 'earmarked' for a particular purpose, or else moneys which had been earmarked for a purpose expressed widely enough to encompass that proposed expenditure."

The letter went on to seek the Auditor-General's comments regarding a proposed repayment mechanism. In this regard it was noted that a condition of the temporary repayment of debt account was that it will require repayment of the overdraft balance to meet the cash flow requirements of the SDTF. The letter proposed that the repayment mechanism for the overdraft account be simple and available on demand, as Treasury would borrow additional funds from Tascorp. As a result, the balance of the SDTF would be managed so that it always remains in credit, and all monies deposited within the SDTF will remain available for their designated use at any time.

Following further correspondence, the Auditor-General concluded:

> "I have no objection to or comments on the proposal if implemented in the manner described.[8]"

We concur with that conclusion.

5 *Report of the Auditor-General on the audit of the Public Account for the year ended 30 June 1992 page 22*
6 *Letter from the Secretary to the Auditor-General dated 28 February 2003*
7 *Letter from the Solicitor-General to the Secretary, Department of Treasury and Finance dated 26 February 2003*
8 *Letter to the Secretary dated 25 March 2003*

Advice from the Solicitor-General's Office dated 30 March 2012

The advices and conclusions reached in 1991 and 2003 are clear in that the arrangements described, including the operations of the temporary debt repayment account and the end of year borrowing, are lawful. As a result, we sought not to go over old ground but to seek advice only on the two matters outlined in the background section of this Chapter.

In summary the Solicitor-General advised as follows:

- Having regard to other provisions of the Act monies that were applied in the manner envisaged by section 15(1) could no longer be regarded as temporarily applied if they (or an equivalent sum) were not replaced in the Fund within the same financial year in which they were applied.

  If for example a sum of money is applied from the Fund under section 15 of the Act to meet a deficit in the Consolidated Fund and throughout the financial year in which the money is applied, there remains some level of "debt" to the Fund, that could properly be regarded (at the end of that financial year) as involving a non-temporary application of the sum equivalent to the lowest balance of the "debt".
- As to the second question, subject to one matter, it was not considered that there are any balances of funds in the Fund which should be (or can be) quarantined from the expending of monies under the authority of section 15(1) of the Act. However, section 15(1) cannot be read as authorising the application of monies from trust accounts established under section 13(2), where the monies are held on trust for other purposes, for this would amount to a breach of trust by the Treasurer.

  The first exception to section 13(8) of the Act authorises expenditure from the Fund according to defined purposes only. Where the defined purpose of an account within the Fund is incapable of being interpreted broadly enough to allow expenditure for the purposes of temporary debt repayment, then such an account is quarantined in the relevant way.

In our view, the advice provided by the Solicitor-General is consistent with that provided in 2003 and in 1991 and the temporary debt repayment account and the end of year borrowing arrangements are lawful.

Actions flowing from this advice and research

Audit of the public Account for the year ending 30 June 2012

Our audit procedures will include testing of balances in the Public Account aimed at:

a. ensuring any monies applied in the manner envisaged by section 15(1) were replaced in the Fund within the same financial year in which they were applied and
b. identifying the existence of any conditions attached to any funds established within the SDTF that may preclude balances in such funds from being applied to the temporary debt repayment account. In this regard we note that no such conditions were identified in our 2010-11 audit of the Public Account.

Recommendation

Based on work done in developing this Chapter, we concluded that the recommendation made by the Auditor-General in 1991 remains relevant today. He recommended the matter be addressed as a matter of urgency with the 'matter' being:

> the Treasurer's capacity to authorize expenditure through use of trust accounts and the SDTF without sanction of the Parliament, when mainstream expenditure on Government programs through the Consolidated Fund is subject to stringent checks and balances clearly provided for in the Public Account Act.

Recommendation

We recommend that expenditure by the Treasurer through trust accounts and the Special Deposit and Trust Fund be subject to the same checks and balances as applied when expenditure is made from the Consolidated Fund.

Solicitor-General Comment

The Solicitor-General was offered the opportunity comment and advised that he did not have any comments to make.

Treasury Comment

Thank you for the opportunity to provide comments on the draft Chapter of Auditor-General's Report Volume 6 concerning "End of year Borrowing - Sections 13 and 15 of the *Public Account Act 1986*". My comments are as follows:

The Temporary Debt Repayment Account was established in April 2003 for the purpose of recording transactions associated with the temporary repayment of State Debt and the financing of Consolidated Fund deficits, from surplus funds held in the Special Deposits and Trust Fund.

At the time, the advice of the then Solicitor-General and the then Auditor-General was sought in relation to the proposed use of internal overdraft financing through the establishment of the Temporary Debt Repayment Account.

The approved terms and conditions of the Temporary Debt Repayment Account limit the overdraft balance to a level that ensures that the balance of the Special Deposits and Trust Fund remains in credit overall, and does not exceed the balance of business unit, agency operating and whole-of-government accounts held in the Special Deposits and Trust Fund.

The overdrawn balance of the Temporary Debt Repayment Account is offset by credit balances in a number of other accounts in the Special Deposits and Trust Fund, including the Superannuation Provision Account.

The current financial and economic environment has resulted in the State recording cash deficits since 2009-10. A consequence of the deteriorating cash position is that the Superannuation Provision Account is not currently cash-backed. While this has never diminished the Government's capacity to meet its current and future superannuation payment obligations as they emerge, the overdrawn balance of the Temporary Debt Repayment Account has limited the Government's capacity to consider alternative funding options for the defined benefits superannuation liability.

As part of the process of developing the 2012-13 Budget, the Treasurer has approved funding the emerging cash cost of the defined benefits superannuation liability directly from the Consolidated Fund rather than by notionally setting aside an un-backed provision (the Superannuation Provision Account) in the Special Deposits and Trust Fund.

The emerging cash cost would be funded, from the Consolidated Fund, by agency contributions (at the same total amount as currently required, to avoid any impact on agencies as part of the 2012-13 Budget development Process) and by an adjusted Reserved by Law contribution, which will comprise the balance of the Government's share of pension and lump sum benefits costs. Post the 2012-13 Budget, consideration may be given to the implementation of alternative arrangements in respect of agency contributions, with agency budgets being revised accordingly.

In conjunction with the implementation of an alternative funding model for defined benefits superannuation, the credit balance of the Superannuation Provision Account will be offset against the overdrawn (debit) balance of the Temporary Debt Repayment Account, with both accounts to be subsequently closed.

Section 13(2) of the Public Account Act provides the Treasurer with the authority to establish, close and place conditions on the operation of accounts in the Special Deposits and Trust Fund. Section 13(8) enables the expenditure of money standing to the credit of a Special Deposits and Trust Fund Account, provided that it is in accordance with the approved purpose of that Account.

Subject to the Treasurer's approval, it is proposed that the approved terms and conditions of the Superannuation Provision Account and the Temporary Debt Repayment Account would be amended, to allow the Temporary Debt Repayment Account to receive a contribution from the Superannuation Provision Account and to explicitly provide for contributions received in the Superannuation Provision Account to be used to fund the repayment of internal debt. It is expected that the transfers would be finalised and the accounts closed prior to 30 June 2012.

The residual overdraft of the Temporary Debt Repayment Account would be funded by a temporary overnight borrowing at 30 June in order to gross up cash holdings to equate to the balance of accounts in the Special Deposits and Trust Fund. Such an approach is expected to enhance the transparency of the Government's cash position.

These funding changes are also expected to provide clarification on a number of the issues that resulted in your current review.

As you are aware, I sought your advice in relation to the elimination of the overdrawn balance of the Temporary Debt Repayment Account and the revised funding of the defined benefits superannuation liability.

In respect of the single Recommendation provided in the Draft Report, I make the following additional comments:

As noted above, the proposed elimination of the overdrawn balance of the Temporary Debt Repayment Account should resolve any issues relating to the terms and conditions of that Account.

The proposed introduction of a new Financial Management Act to replace the Public Account Act and, the remaining financial management provisions in, the *Financial Management and Audit Act 1990* is expected to address your concerns in respect of the authorisation of expenditure from the Special Deposits and Trust Fund. As you may recall, the preferred Treasury position provides for the implementation of a single Fund Public Account (rather than the current dual Fund structure), with a single set of rules to govern all expenditure from the Public Account. A Financial Management Bill is currently being drafted and, subject to the Treasurer's approval, will be circulated to stakeholders prior to tabling with a comment period of two months.

LOCAL GOVERNMENT AUTHORITIES
30 JUNE 2011

INTRODUCTION

This section deals with the outcomes from the completion of financial statement audits of Local Government Authorities reporting for the financial year ended 30 June 2011. At the time of preparing our *Report No. 6 of 2011-12, Volume 4 Local Government Authorities 2010-11* (Volume 4), audits of four councils were still in progress. These have now been completed and separate Chapters for each follow. Volume 4 included a detailed comparative analysis section and associated tables which dealt with the other 25 Tasmanian councils. These tables have been updated to incorporate the remaining four councils dealt with here. However, no further commentary is provided. For details and comments on the Local Government Comparative Analysis, please refer to Volume 4.

LOCAL GOVERNMENT COMPARATIVE ANALYSIS
Demographics - 2010-11

Council	Population	Area in Square Kilometres	Population Per Square Kilometre	Number of Rateable Valuations	Number of Rateable Valuations Per Square Kilometre	Average Rateable Valuations Per Head of Population
Clarence	52,935	377	140.4	23,618	62.6	0.4
Glenorchy	44,716	120	372.6	21,091	175.8	0.5
Hobart	50,078	78	643.7	23,534	302.5	0.5
Launceston	65,826	1,411	46.7	29,934	21.2	0.5
Brighton	16,358	171	95.7	6,937	40.6	0.4
Burnie	19,892	610	32.6	19,468	31.9	1.0
Central Coast	21,747	931	23.4	10,433	11.2	0.5
Derwent Valley	10,118	4,104	2.5	4,954	1.2	0.5
Devonport	25,551	111	230.2	11,827	106.5	0.5
Huon Valley	15,372	5,947	2.8	10,048	1.8	0.7
Kingborough	34,171	719	31.2	16,095	14.7	0.5
Meander Valley	19,694	3,320	5.9	9,472	2.9	0.5
Northern Midlands	12,654	5,126	2.5	6,475	1.3	0.5
Sorell	13,407	583	23.0	8,370	14.4	0.6
Waratah-Wynyard	14,096	3,526	4.0	7,407	2.1	0.5
West Tamar	22,476	690	32.6	10,820	15.7	0.5
Break O'Day	6,514	3,521	1.9	6,250	1.8	1.0
Central Highlands	2,322	7,976	0.3	3,674	0.5	1.6
Circular Head	8,263	4,891	1.7	4,778	1.0	0.6
Dorset	7,355	3,223	2.3	5,124	1.6	0.7
Flinders	900	1,994	0.5	1,117	0.6	1.2
George Town	6,892	653	10.6	4,321	6.6	0.6
Glamorgan Spring Bay	4,507	2,587	1.8	5,564	2.2	1.2
Kentish	6,286	1,155	5.4	3,544	3.1	0.6
King Island	1,683	1,094	1.5	3,674	3.4	2.2
Latrobe	10,020	600	16.7	5,500	9.2	0.5
Southern Midlands	6,146	2,611	2.4	3,495	1.3	0.6
Tasman	2,413	659	3.7	3,357	5.1	1.4
West Coast	5,251	9,575	0.5	4,757	0.5	0.9
Total	**507,643**	**68,363**	**7.4**	**275,638**		
Average per Council	**17,505**	**2,357**	**60.0**	**9,505**	**29.1**	**0.7**
Total 2009-10	**503,292**	**67,849**	**7.4**	**273,597**		
Average per Council 2009-10	**17,355**	**2,340**	**60.1**	**9,434**	**29.2**	**0.7**

Average Population per square kilometre for Tasmania	7.43
Average Rateable properties per square kilometre	4.03
Average Rateable properties per Head of Population	0.54

Source

Population figures derived from Australian Bureau of Statistics - Regional Population Growth, Australia 2009-10. Local Government areas taken from ABS website "2001 Census Community Profile Series" Statistics estimated at 30 June 2005. Rateable properties obtained from council

LOCAL GOVERNMENT COMPARATIVE ANALYSIS
Employee Costs - 2010-11

Council	Total Employee Costs	FTE's	Average Cost per FTE *	FTE per 1000 Population	Total Labour Costs to Operating Revenue	Total Labour Costs to Operating Expenditure	Provisions for Employee Entitlements	Employee Entitlements per FTE
	$'000s	No.	$'000s	No.	%	%	$'000s	$
Clarence	14,846	220	67	4.2	29.8	29.5	**3,308**	**15,036**
Glenorchy	20,514	273	75	6.1	40.1	37.6	**5,661**	**20,736**
Hobart	46,041	596	77	11.9	47.9	46.8	**10,778**	**18,084**
Launceston	30,523	418	73	6.4	37.2	36.9	**6,418**	**15,354**
Brighton	3,068	48	64	2.9	26.0	29.5	**777**	**16,188**
Burnie	14,783	192	77	9.7	42.3	43.0	**2,050**	**10,677**
Central Coast	9,374	141	66	6.5	46.1	45.0	**2,173**	**15,411**
Derwent Valley	3,052	46	66	4.5	31.1	31.3	**1,651**	**35,891**
Devonport	12,279	160	77	6.3	37.1	37.8	**2,518**	**15,738**
Huon Valley	9,222	130	71	8.5	45.8	47.6	**1,219**	**9,377**
Kingborough	10,050	169	59	4.9	33.6	31.7	**1,803**	**10,669**
Meander Valley	5,334	77	69	3.9	31.1	33.3	**1,207**	**15,675**
Northern Midlands	4,662	64	73	5.1	33.0	31.3	**1,383**	**21,609**
Sorell	5,262	79	67	5.9	37.6	38.9	**894**	**11,316**
Waratah-Wynyard	5,146	83	62	5.9	36.5	36.6	**1,356**	**16,337**
West Tamar	6,516	92	71	4.1	32.9	36.7	**1,619**	**17,598**
Break O'Day	4,468	61	76	9.4	40.3	34.1	**792**	**12,982**
Central Highlands	1,583	28	57	12.1	28.7	22.3	**551**	**19,679**
Circular Head	4,082	56	73	6.8	33.1	33.4	**795**	**14,196**
Dorset	4,275	50	86	6.8	35.8	38.8	**1,004**	**20,080**
Flinders	1,443	20	72	22.2	36.1	31.3	**184**	**9,200**
George Town	3,320	46	72	6.7	38.3	35.6	**577**	**12,543**
Glamorgan Spring Bay	3,132	51	61	11.3	33.8	35.2	**584**	**11,451**
Kentish	1,992	28	70	4.5	21.8	21.3	**346**	**12,357**
King Island	2,117	32	74	19.0	37.2	36.6	**369**	**11,531**
Latrobe	2,895	45	64	4.5	29.8	31.4	**673**	**14,956**
Southern Midlands	3,270	46	71	7.5	39.6	35.6	**1,139**	**24,761**
Tasman	1,176	19	64	7.9	22.5	26.0	**89**	**4,684**
West Coast	3,420	53	65	10.1	33.0	34.8	**530**	**10,000**
Total	**237,845**	**3,323**					**52,448**	
Average per Council	**8,202**	**115**	**70**	**7.8**	**35.1**	**34.8**	**1,809**	**15,314**
Total 2009-10	**226,467**	**3,259**					**49,393**	
Average per Council 2009-10	**7,809**	**112**	**67**	**7.7**	**35.5**	**34.1**	**1,703**	**14,744**

** Staff costs include capitalised salaries and wages*

Income Statements - 2010-11

Council	Operating Revenue *	Non-Operating Revenue *	Total Revenue	Operating Expenditure	Non-Operating Expenditure **	Total Expenditure	Net Operating Surplus/ (Deficit)	Surplus (Deficit)	Surplus/ (Deficit) to Total Revenue	Comprehensive Surplus/ (Deficit)
	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	$'000s	%	$'000s
Clarence	49,753	4,019	53,772	50,302	64	50,366	(549)	3,406	6.3	10,907
Glenorchy	51,116	11,100	62,216	54,492	–	54,492	(3,376)	7,724	12.4	44,873
Hobart	96,119	2,500	98,619	98,376	–	98,376	(2,257)	243	0.2	(7,052)
Launceston	82,017	9,397	91,414	82,640	–	82,640	(623)	8,774	9.6	137,017
Brighton	11,821	885	12,706	10,402	–	10,402	1,419	2,304	18.1	4,335
Burnie	34,919	3,636	38,555	34,405	–	34,405	514	4,150	10.8	18,631
Central Coast	20,330	4,292	24,622	20,843	–	20,843	(513)	3,779	15.3	46,475
Derwent Valley	9,808	410	10,218	9,742	–	9,742	66	476	4.7	4,729
Devonport	33,074	9,175	42,249	32,514	–	32,514	560	9,735	23.0	(13,705)
Huon Valley	20,156	11,362	31,518	19,379	–	19,379	777	12,139	38.5	26,000
Kingborough	29,936	4,084	34,020	31,657	19	31,676	(1,721)	2,344	6.9	60,967
Meander Valley	17,133	3,535	20,668	16,039	2,528	18,567	1,094	2,101	10.2	9,600
Northern Midlands	14,121	1,931	16,052	14,876	–	14,876	(755)	1,176	7.3	7,662
Sorell	13,998	1,049	15,047	13,510	–	13,510	488	1,537	10.2	5,580
Waratah-Wynyard	14,098	6,610	20,708	14,066	–	14,066	32	6,642	32.1	37,195
West Tamar	19,807	3,610	23,417	17,757	–	17,757	2,050	5,660	24.2	9,048
Break O'Day	11,090	1,131	12,221	13,094	–	13,094	(2,004)	(873)	(7.1)	22,805
Central Highlands	5,517	141	5,658	7,099	–	7,099	(1,582)	(1,441)	(25.5)	(1,010)
Circular Head	12,339	799	13,138	12,221	–	12,221	118	917	7.0	28,661
Dorset	11,928	2,932	14,860	11,017	–	11,017	911	3,843	25.9	1,056
Flinders	3,996	779	4,775	4,603	–	4,603	(607)	172	3.6	4,088
George Town	8,670	1,089	9,759	9,321	–	9,321	(651)	438	4.5	2,278
Glamorgan Spring Bay	9,278	383	9,661	8,894	–	8,894	384	767	7.9	2,001
Kentish	9,151	698	9,849	9,345	–	9,345	(194)	504	5.1	12,865
King Island	5,697	284	5,981	5,777	174	5,951	(80)	30	0.5	8,635
Latrobe	9,702	1,845	11,547	9,216	–	9,216	486	2,331	20.2	36,194
Southern Midlands	8,264	1,818	10,082	9,173	–	9,173	(909)	909	9.0	5,138
Tasman	5,234	294	5,528	4,516	–	4,516	718	1,012	18.3	1,689
West Coast	10,379	2,866	13,245	9,820	–	9,820	559	3,425	25.9	10,142
Total	**629,451**	**92,654**	**722,105**	**635,096**	**2,785**	**637,881**	**(5,645)**	**84,224**		**536,804**
Average per Council	**21,705**	**3,195**	**24,900**	**21,900**	**99**	**21,996**	**(195)**	**2,904**	**11.2**	**18,510**
Total 2009-10	**591,068**	**345,004**	**936,072**	**617,879**	**2,787**	**620,666**	**(28,005)**	**315,406**		**7,557**
Average per Council 2009-10	**20,382**	**11,897**	**32,278**	**21,306**	**96**	**21,402**	**(966)**	**10,876**	**11.1**	**261**

* *Operating revenue includes 2010 Financial Assistance Grant received in June 2009.*
** *Non-operating revenue and expenditure include capital grants, contributed assets and revaluation and impairment adjustments. Also, Non-operating revenue includes the net result of Financial Assistance Grant received in advance.*

Council	Operating Surplus Ratio	Self Financing Ratio	Rate Revenue	Rate Revenue to Operating Revenue	Average Rate Per Rateable Valuation	Rate Revenue Per Head of Population	Rateable Revenue to Operating Revenue	Councils' Own Source Revenue	Councils' Own Source Revenue to Operating Revenue	Operating Government Grants *	Operating Grants per Head of population	Operating Government Grants to Operating Revenue	Depreciation to Operating Revenue
	No.	%	$'000s	%	$	$	%	$'000s	%	$'000s	$	%	%
Clarence	(1.10)	27.7	36,949	74.3	1,564	698	74.3	44,817	90.1	4,936	93	9.9	25.2
Glenorchy	(6.60)	6.2	23,112	45.2	1,096	517	45.2	45,741	89.5	5,375	120	10.5	28.4
Hobart	(2.35)	14.3	58,455	60.8	2,484	1,167	60.8	91,622	95.3	4,497	90	4.7	16.4
Launceston	(0.76)	19.3	50,228	61.2	1,678	763	61.2	75,574	92.1	6,443	98	7.9	19.8
Brighton	12.00	22.1	6,470	54.7	933	396	54.7	9,648	81.6	2,173	133	18.4	20.8
Burnie	1.47	16.7	17,910	51.3	920	900	51.3	31,141	89.2	3,778	190	10.8	20.8
Central Coast	(2.52)	24.9	11,566	56.9	1,109	532	56.9	16,516	81.2	3,814	175	18.8	24.8
Derwent Valley	0.67	23.0	5,057	51.6	1,021	500	51.6	6,768	69.0	3,040	300	31.0	20.2
Devonport	1.69	22.7	22,233	67.2	1,880	870	67.2	30,104	91.0	2,970	116	9.0	21.7
Huon Valley	3.85	19.1	8,336	41.4	830	542	41.4	15,580	77.3	4,576	298	22.7	20.2
Kingborough	(5.75)	18.1	18,312	61.2	1,138	536	61.2	26,550	88.7	3,386	99	11.3	23.4
Meander Valley	6.39	34.8	9,191	53.6	970	467	53.6	12,556	73.3	4,577	232	26.7	27.2
Northern Midlands	(5.35)	30.3	7,109	50.3	1,098	562	50.3	10,171	72.0	3,950	312	28.0	31.2
Sorell	3.49	28.2	9,177	65.6	1,096	684	65.6	11,693	83.5	2,305	172	16.5	27.0
Waratah-Wynyard	0.23	22.3	7,754	55.0	1,047	550	55.0	10,998	78.0	3,100	220	22.0	20.5
West Tamar	10.35	21.2	12,538	63.3	1,159	558	63.3	17,202	86.8	2,605	116	13.2	23.3
Break O'Day	(18.70)	37.6	6,162	55.6	986	946	55.6	7,514	97.8	3,576	549	32.2	29.4
Central Highlands	(28.68)	22.6	2,680	48.6	729	1,154	48.6	3,616	65.5	1,901	819	34.5	52.9
Circular Head	0.96	19.0	6,219	50.4	1,302	753	50.4	9,660	78.3	2,679	324	21.7	20.9
Dorset	7.64	30.8	5,600	46.9	1,093	761	46.9	8,151	68.3	3,777	514	31.7	26.9
Flinders	(15.19)	20.6	1,142	28.6	1,022	1,269	28.6	2,390	59.8	1,606	1,784	40.2	35.6
George Town	(7.51)	26.7	5,746	66.3	1,330	834	66.3	7,033	81.1	1,637	238	18.9	21.5
Glamorgan Spring Bay	4.14	25.2	5,651	60.9	1,016	1,254	60.9	7,391	79.7	1,887	419	20.3	17.2
Kentish	(2.12)	18.8	4,154	45.4	1,172	661	45.4	6,446	70.4	2,705	430	29.6	21.1
King Island	(1.40)	18.3	1,658	29.1	451	985	29.1	3,526	31.9	2,171	1,290	38.1	22.3
Latrobe	5.01	26.0	5,374	55.4	977	536	55.4	8,087	83.4	1,615	161	16.6	24.4
Southern Midlands	(11.00)	26.4	3,617	43.8	1,035	589	43.8	5,263	63.7	3,001	488	36.3	38.5
Tasman	13.72	29.4	3,552	67.9	1,058	1,472	67.9	4,346	83.0	888	368	17.0	18.8
West Coast	5.39	22.7	5,489	52.9	1,154	1,045	52.9	8,078	77.8	2,301	438	22.2	23.0
Total			**361,441**							**91,269**			
Average per Council	**(1.10)**	**23.3**	**12,463**	**54.0**	**1,150**	**776**	**54.0**	**18,558**	**78.6**	**3,147**	**365**	**21.4**	**24.9**
Total 2009-10			**337,088**							**86,337**			
Average per Council 2009-10	**0.97**	**22.2**	**10,785**	**53.0**	**1,090**	**732**	**53.7**	**17,405**	**78.3**	**2,977**	**351**	**21.7**	**27.5**

* *Operating grant revenue excludes 2010 Financial Assistance Grant*

LOCAL GOVERNMENT COMPARATIVE ANALYSIS
Balance Sheets - 2010-11

Council	Current Assets	Current Liabilities	Working Capital	Current Ratio	Net Financial Liabilities Ratio *	Non-Current Assets	Non Current Liabilities	Loan Debt *	Interest coverage *	Indebtedness Ratio
	$000	$000	$'000s	No.	%	$'000s	$'000s	$'000s	%	%
Clarence	53,082	8,684	44,398	6.1	85	615,996	1,533	1,138	151.96	3.4
Glenorchy	29,016	8,688	20,328	3.3	12	667,677	11,848	10,466	3.62	25.9
Hobart	33,757	18,349	15,408	1.8	(16)	879,082	30,539	7,955	33.09	33.3
Launceston	66,126	37,707	28,419	1.8	(1)	1,415,538	28,022	15,378	17.20	37.1
Brighton	4,731	1,464	3,267	3.2	27	163,408	99	–	92.11	1.0
Burnie	11,084	4,063	7,021	2.7	5	330,435	4,089	2,110	30.95	13.1
Central Coast	6,746	4,772	1,974	1.4	(15)	396,812	4,620	2,340	47.63	28.0
Derwent Valley	3,485	2,557	928	1.4	(11)	90,637	1,945	1,973	21.37	28.7
Devonport	11,428	5,886	5,542	1.9	(7)	397,260	7,944	8,378	19.07	26.4
Huon Valley	13,393	3,917	9,476	3.4	18	197,115	789	–	–	5.1
Kingborough	16,876	6,947	9,929	2.4	18	604,429	4,558	–	284.00	17.2
Meander Valley	18,337	2,226	16,111	8.2	81.2	258,759	1,881	–	–	15.0
Northern Midlands	2,578	1,863	715	1.4	2	255,142	349	–	–	3.4
Sorell	10,408	3,165	7,243	3.3	31	199,268	2,786	3,082	16.61	23.8
Waratah-Wynyard	7,661	2,267	5,394	3.4	29	155,857	553	195	183.88	5.0
West Tamar	8,028	2,724	5,304	2.9	21	237,601	811	902	62.56	4.7
Break O'Day	7,286	1,946	5,340	3.7	45	131,925	218	–	–	2.9
Central Highlands	7,454	709	6,745	10.5	119	114,822	37	–	–	1.0
Circular Head	10,114	2,214	7,900	4.6	46	137,269	1,976	2,195	82.75	20.5
Dorset	17,046	2,238	14,808	7.6	108	148,231	1,575	350	134.93	19.3
Flinders	8,103	511	7,592	15.9	29	43,806	223	–	–	9.3
George Town	5,069	1,306	3,763	3.9	4	101,859	2,652	2,576	12.37	37.7
Glamorgan Spring Bay	2,981	1,496	1,485	2.0	8	87,344	607	531	77.03	8.2
Kentish	5,748	987	4,761	5.8	30	84,019	1,802	1,784	11.3	28.0
King Island	3,591	1,007	2,584	3.6	45	66,989	579	659	17.00	16.4
Latrobe	7,137	1,787	5,350	4.0	25	152,747	1,451	390	92.52	17.9
Southern Midlands	9,277	1,679	7,598	5.5	78	91,200	934	906	31.04	17.7
Tasman	2,442	339	2,103	7.2	20	16,189	798	832	26.98	18.4
West Coast	4,991	1,812	3,179	2.8	15	99,691	1,370	1,392	21.83	17.0
Total	**387,975**	**133,310**	**254,665**			**8,141,107**	**116,588**	**65,532**		
Average per Council	**13,378**	**4,597**	**8,782**	**4.3**	**29.4**	**280,728**	**4,020**	**2,260**	**50.7**	**16.7**
Total 2009-10	**405,012**	**130,110**	**274,902**			**7,573,637**	**107,270**			
Average per Council 2009-10	**13,966**	**4,487**	**9,479**	**4.5**		**261,160**	**3,699**			**17.4**

* *First year information included in table.*

Council	Rate Debtors	Rate Debtors to Rates Raised	Payments for Property, Plant & Equipment	Depreciation	Total Capital Expenditure to Depreciation Ratio	Rate Revenue to Non-Current Infrastructure Assets	Non-Current Infrastructure Assets per Square Kilometre	Non-Current Infrastructure Assets per Head of Population	Non-Current Infrastructure Assets per Rateable Valuation
	$'000s	%	$'000s	$'000s	%	%	$	$	$
Clarence	1,424	3.9	10,319	12,513	82.5	8.9	1,095,942	7,805	17,494
Glenorchy	377	1.6	12,572	14,506	86.7	5.0	3,859,558	10,358	21,959
Hobart	952	1.6	28,213	15,764	179.0	8.9	8,439,409	13,111	27,899
Launceston	911	1.8	39,787	16,254	244.8	5.4	657,383	14,091	30,987
Brighton	100	1.5	4,469	2,459	181.7	6.0	627,018	6,555	15,456
Burnie	1,045	5.8	9,470	7,270	130.3	6.6	446,444	13,690	13,989
Central Coast	314	2.7	8,559	5,045	169.7	3.5	352,470	15,089	31,453
Derwent Valley	566	11.2	3,018	1,978	152.6	7.7	16,020	6,498	13,271
Devonport	414	1.9	22,299	7,174	310.8	7.0	2,866,901	12,455	26,907
Huon Valley	227	2.7	4,617	4,078	113.2	5.3	26,640	10,306	15,767
Kingborough	158	0.9	11,123	7,013	158.6	3.7	683,951	14,391	30,554
Meander Valley	377	4.1	5,878	4,662	126.1	4.5	61,657	10,394	21,611
Northern Midlands	371	5.2	5,083	4,410	115.3	3.5	39,896	16,162	31,584
Sorell	522	5.7	4,452	3,784	117.7	5.5	288,791	12,558	20,115
Waratah-Wynyard	141	1.8	3,287	2,892	113.7	6.7	32,997	8,254	15,708
West Tamar	467	3.7	14,842	4,610	322.0	7.1	254,822	7,823	16,250
Break O'Day	414	6.7	3,015	3,257	92.6	11.6	27,107	14,652	15,271
Central Highlands	349	13.0	1,125	2,916	38.6	2.5	13,240	45,483	28,746
Circular Head	353	5.7	3,704	2,579	143.6	5.4	23,529	13,927	24,085
Dorset	386	6.9	4,591	3,211	143.0	4.3	40,332	17,674	25,369
Flinders	42	3.7	1,274	1,421	89.7	2.8	20,192	44,736	36,045
George Town	190	3.3	2,199	1,868	117.7	7.1	123,522	11,703	18,667
Glamorgan Spring Bay	260	4.6	2,571	1,600	160.7	11.4	19,638	10,989	8,901
Kentish	193	4.6	2,379	1,934	123.0	11.8	67,028	12,316	21,845
King Island	88	5.3	1,789	1,269	141.0	9.1	57,058	37,089	16,990
Latrobe	171	3.2	2,606	2,368	110.1	4.3	208,800	12,503	22,778
Southern Midlands	314	8.7	4,223	3,185	132.6	4.7	29,637	12,591	22,141
Tasman	177	5.0	853	985	86.6	34.4	23,088	6,305	4,532
West Coast	238	4.3	6,618	2,383	277.7	7.4	7,758	14,146	15,615
Total	**11,541**		**224,935**	**143,388**					
Average per Council	**398**	**4.5**	**7,756**	**4,944**	**146.9**	**7.3**	**703,822**	**14,954**	**21,103**
Total 2009-10	**10,448**		**217,428**	**145,508**					
Average per Council 2009-10	**360**	**4.7**	**7,498**	**5,018**	**147.5**	**6.5**	**667,728**	**13,735**	**19,635**

BREAK O'DAY COUNCIL

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Signed financial statements were received on 8 November 2011 and an unqualified audit report was issued on 19 December 2011.

KEY FINDINGS AND DEVELOPMENTS

For the first time, at 30 June 2011, Council was required under section 17 of the *Audit Act 2008* to submit its financial statements to the Auditor-General within 45 days after the end of the financial year. Council did not provide signed financial statements within this timeframe. In 2009-10, Council had also not complied with the then 90 day requirement for preparation of its financial statements under Section 84 of the *Local Government Act 1993*. Council needs to satisfy its statutory reporting obligations.

Preparation of financial statements in 2010-11 was inhibited by turnover in finance staff. To overcome this Council sourced external assistance. However, our audit identified adjustments to the financial statements presented for audit which were required to ensure appropriate presentation. In addition a number of procedural and reconciliation items were noted requiring management attention. Council have acknowledged issues raised and as a consequence have retained external assistance for 2011-12 on a monthly basis to provide necessary financial knowledge and continuity.

FINANCIAL RESULTS

Council generated a Net Operating Deficit before capital grants of $2.004m in 2010-11 (2009-10, $1.659m deficit). It is our view that, to ensure long-term financial sustainability, councils should, as a minimum, operate on a break-even basis. Council operated below break-even and achieved a result considerably worse than its budgeted deficit of $1.349m before accounting for infrastructure related transactions. This situation needs to be addressed by Council.

After accounting for capital grants, the Net Deficit reduced to $0.873m (2009-10, deficit $0.796m). Council recorded a Comprehensive Surplus of $22.805m (2009-10, $5.041m), which included fair value revaluation of non-current asset increments of $13.528m and an increase in its interest in Ben Lomond Water of $10.150m.

Consistent with the Comprehensive surplus of $22.805m, Council's Net Assets increased to $137.048m, up from $114.242m in the previous year. As at 30 June 2011 Council had Net Working Capital of $5.340m, down from $5.760m in 2010, mainly due to lower cash balances of $1.307m offset to an extent by increases in Receivables of $1.104m. Council's cash from operations has now declined for three consecutive years in a row.

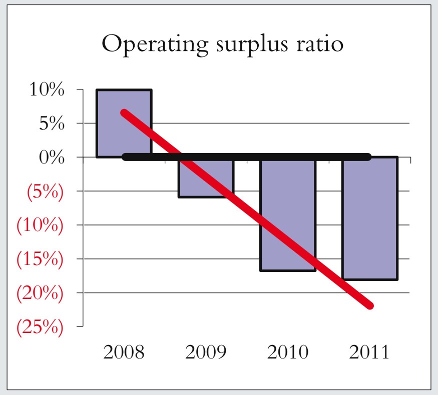
Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

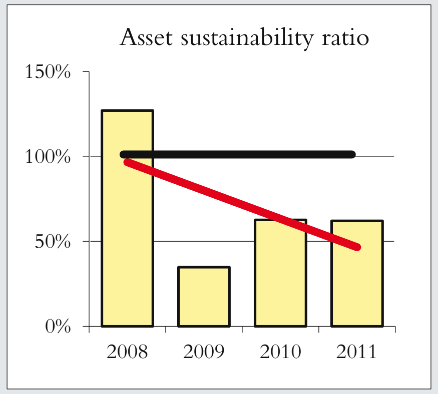
Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were not able to compute an asset renewal funding ratio, as Council's long-term asset management plan did not provide sufficient information on future infrastructure costs.

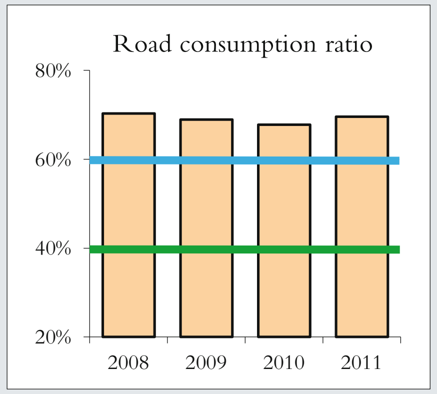
In general, the ratios indicate:



Council recorded operating deficits in each of the past three years with the trend line indicating deficits are increasing. Negative ratios indicate Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges.

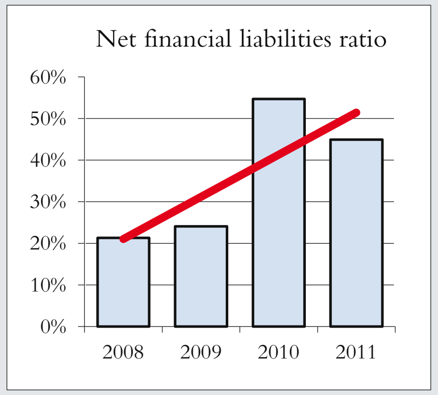


Asset sustainability ratio was below the 100% benchmark in each of the last three years under review. Over the four year period, Council's average ratio was 72%, which is below the benchmark, indicating, subject to levels of maintenance expenditure, Council did not maintain its investment in existing assets.



This ratio represents Council's utilisation of road infrastructure assets. Results above the blue line benchmark indicates a low risk rating, below the green line a high risk rating and between the two lines a moderate risk rating.

The graph indicates that at 30 June 2011 Council had used (consumed) approximately 30% of the service potential of its road infrastructure assets. This indicates a low financial sustainability risk in relation to road assets. Overall, during this period, Council's road infrastructure assets had sufficient capacity to continue to provide services to ratepayers.



Council recorded positive Net financial liabilities ratios in all years under review which means that its financial assets exceeded its total liabilities each year. This indicates that Council was in a strong liquidity position and in a position to meet existing commitments with a capacity to borrow should the need arise.

Council's total liabilities consist of payables, provisions, trust funds and deposits. It had no borrowings at either 30 June 2010 or 2011. Borrowings totalling $3.079m and cash of $0.117m were transferred to Ben Lomond Water on 1 July 2009 which is why the ratio improved in 2010 and 2011.

Governance

A review of governance arrangements indicated that Council:

- does not have an audit committee
- is preparing draft long-term asset management and long-term financial management plans.

Conclusion as to financial sustainability

Taken together these ratios provide differing messages when considering Council's financial sustainability. From a financial operating perspective, Council's increasing operating deficits in the past three years indicate action is needed to increase revenues, reduce costs or some combination of both. However, despite poor operating performance, Council's liquidity is strong, it is debt free and generating positive, although declining, operating cash flows indicating it is in a sound position to meet its short-term commitments and may have a capacity to borrow should the need arise.

Council's Asset sustainability ratio indicates, based on our 100% benchmark, that it under invested in existing assets over the period of the analysis. Council's road consumption ratio shows low risk, indicating that its road assets continue to provide service capacity to its ratepayers.

From a governance perspective, Council does not have an audit committee nor has it completed long-term asset management or long-term financial management plans. Council needs to address these governance aspects.

Based on these ratios and governance arrangements we concluded that at 30 June 2011, Council was at high financial sustainability risk from a governance and operating perspective, low financial sustainability risk from a debt management perspective and moderate risk from an asset management perspective.

Management comments on this assessment of its financial sustainability

Council is well aware of the financial sustainability issues. Council has undertaken an organisational/operational review to identify a sustainable organisational structure, seeking possible partnership arrangements with neighbouring Councils, finding an appropriate balance of in-house versus outsourcing and matching organisational structure to strategic planning goals.

Council is also undertaking major planning (Municipal Management Plan) to identify long term priorities for services and infrastructure. Council will also consider appropriate borrowings to fund future infrastructure investment, particular to account for generational equity issues.

COMPREHENSIVE INCOME STATEMENT

	2010-11	2010-11	2009-10
	Estimate*	Actual	Actual
	$'000s	$'000s	$'000s
Rates	5 823	6 162	5 865
Fees and charges	1 244	724	789
Grants **	2 784	3 576	2 652
Other revenue	476	310	297
Total Revenue	**10 327**	**10 772**	**9 603**
Employee costs	4 067	4 468	4 037
Depreciation	3 282	3 257	3 160
Other expenses	4 327	5 365	4 345
Total Expenses	**11 676**	**13 090**	**11 542**
Net Operating (Deficit) before	**(1 349)**	**(2 318)**	**(1 939)**
Finance costs	0	(4)	0
Interest revenue	0	318	280
Net Operating (Deficit)	**(1 349)**	**(2 004)**	**(1 659)**
Capital grants	509	1 123	878
Financial assistance grant received in advance	0	591	583
Offset Financial assistance grant in advance **	0	(583)	(598)
Net Surplus (Deficit)	**(840)**	**(873)**	**(796)**
Other Comprehensive Income			
Fair value revaluation of non-current assets	0	13 528	4 751
Write-up of investment in Ben Lomond	0	10 150	1 086
Comprehensive Surplus (Deficit)	**(840)**	**22 805**	**5 041**

** The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit).*
The Offset figures enable the above table to balance with Council's Comprehensive income statement.

Comment

In 2010-11 Council recorded a Net Operating Deficit before net financing revenues of $2.318m, compared to a deficit of $1.939m in 2009-10, an increase of $0.379m. The higher deficit was predominantly due to a combination of the following increases:

- Employee costs, $0.431m, primarily due to an EBA increase, a reduction in the capitalisation of employee costs, staff movements and additional hours due to flood damage
- Other expenses, $1.020m, primarily attributable to an increase in material and services costs and contract payments mainly caused by additional expenditures relating to floods in January, March and April 2011.

These higher costs were offset to an extent by higher:

- Rates revenue of $0.297m, due to a higher general rate
- Grants revenue of $0.924m, primarily due to additional disaster relief funding, $0.992m.

After accounting for Interest revenue and Finance costs, Council achieved a Net Operating Deficit of $2.004m (2009-10, Deficit $1.659m). Net interest revenue was a consistent source of revenue for Council averaging $0.380m per annum over the past four years.

Following the recognition of Capital grants, Council recorded a Net Deficit of $0.873m, an increase of $0.077m from the deficit in the prior year. Budgeted funding was mainly for Roads to Recovery, $0.656m, however Council also received other grants including funds for the Scamander Life Saving Club, $0.125m, St Helens SES Rescue Station $0.110m, Beaumaris to Scamander footpath upgrade, $0.092m, and State bushfire funds, $0.055m.

Other Comprehensive Income totalled $23.678m in 2010-11 and comprised:

- fair value revaluation of Council's roads, bridges, drains and building asset classes totalling $13.528m
- an increase in the recorded value of Council's investment in Ben Lomond Water which arose in two respects. Firstly, a favourable adjustment of $9.752m arising from Council's final ownership interest, initially approved by the Treasurer at 5.40% and applied to Ben Lomond Water's net assets on this basis at 30 June 2010, but subsequently changed by the Treasurer to 7.40%. Therefore, the $9.752m represents Council's additional 2.00% interest at 30 June 2010. Secondly, $0.398m being Council's 7.40% interest in the increase in net assets of Ben Lomond Water at 30 June 2011.

Excluding non-operating items, Council budgeted for a Deficit of $1.349m but generated an actual Net Operating Deficit of $2.004m. This was predominantly due to the higher Employee costs and Other expenditure previously mentioned. As we noted last year, it is our view that, to assure long-term financial sustainability, councils should, as a minimum, operate on a breakeven basis.

STATEMENT OF FINANCIAL POSITION

	2011	2010
	30-Jun	30-Jun
	$'000s	$'000s
Cash and financial assets	5 570	6 877
Receivables	1 569	465
Inventories	77	36
Other	70	111
Total Current Assets	**7 286**	**7 489**
Payables	878	638
Provisions - employee benefits	654	649
Other	414	442
Total Current Liabilities	**1 946**	**1 729**
Net Working Capital	**5 340**	**5 760**
Property, plant and equipment	95 443	82 337
Investment in Ben Lomond Water	36 482	26 331
Other	0	24
Total Non-Current Assets	**131 925**	**108 692**
Provisions - employee benefits	138	134
Provisions - rehabilitation	80	76
Total Non-Current Liabilities	**218**	**210**
Net Assets	**137 047**	**114 242**
Reserves	118 093	103 901
Accumulated surpluses	18 954	10 341
Total Equity	**137 047**	**114 242**

Comment

For the reasons outlined in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $22.805m.

Net Assets increased similarly to $137.047m. Reasons for line item movements included:

- a decrease in Cash and financial assets of $1.307m – this movement is explained later in the Statement of Cash Flows section of this Chapter
- Receivables increased by $1.104m due to the inclusion of outstanding disaster relief funding claims totalling $0.992m due to recent flooding in the municipality yet to reimbursed
- Payables increased by $0.240m due to the timing of contractor payments at year end including a large construction works account
- Property, plant and equipment increased by $13.106m due primarily to revaluation of Council's roads, bridges, drains and building asset classes, $13.528m
- Council's investment in Ben Lomond Water increasing in fair value by $10.151m for reasons previously outlined.

STATEMENT OF CASH FLOWS

	2010-11	2009-10
	$'000s	$'000s
Receipts from customers	6 975	7 226
Cash flows from government	2 950	2 901
Payments to suppliers and employees	(10 017)	(9 045)
Interest received	433	357
Cash from operations	**341**	**1 439**
Capital grants and contributions	1 068	878
Dividends - Ben Lomond Water	122	1
Payments for property, plant and equipment	(3 015)	(3 274)
Proceeds from sale of property, plant and equipment	177	391
Cash used in investing activities	**(1 648)**	**(2 004)**
Contribution Ben Lomond water to repay debt	0	716
Repayment of borrowings	0	(716)
Cash from financing activities	**0**	**0**
Net (decrease) increase in cash	**(1 307)**	**(565)**
Cash at the beginning of the year	6 877	7 559
Less cash transferred to Ben Lomond Water	0	(117)
Cash at end of the year	**5 570**	**6 877**

Comment

At 30 June 2011, Council held Cash of $5.570m, comprising cash at bank and on hand, $0.085m, committee accounts, $0.009m, and cash on deposit with short maturities, $5.477m. Council had not entered into any material contractual commitments to meet existing obligations.

Council's cash position decreased by $1.307m during 2010-11. Cash from operations, $0.341m, Capital grants, $1.068m, Dividends received from Ben Lomond Water, $0.122m, and Proceeds from sale of property, plant and equipment, $0.177m, were below Payments for property plant and equipment of $3.015m. The shortfall was covered from existing cash held. Cash was impacted by additional expenditure for Payments to suppliers and employees which included unforeseen expenditure due to floods in early 2011. Claims for disaster relief funding, $0.992m, had not been received prior to year end as noted under the Statement of Financial Position section of this Chapter. This was the primary reason for the lower Cash from operations in 2010-11.

Payments for Property, plant and equipment of $3.015m included expenditure on:

- Bridges, $0.560m, including the George River Bridge on St Columba Falls Road, $0.192m
- Road and surfacing works, $1.148m, including Binalong Bay Road resurface, $1.117m
- Buildings, $0.552m, including the St Marys Railway Station, $0.147m
- Plant, machinery, and other office equipment, $0.580m.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09	2007-08
Financial ratios					
Profitability					
Operating surplus deficit ($'000s)		(2 004)	(1 659)	(710)	1 185
Operating surplus ratio *	>1.0	(18.1%)	(16.8%)	(5.9%)	9.9%
Asset management					
Asset sustainability ratio*	>100%	62%	63%	35%	127%
Asset renewal funding ratio* **	90%-100%	N/A	N/A	N/A	N/A
Road asset consumption ratio *	>60	69.6%	67.8%	68.9%	70.3%
Liquidity					
Net financial assets (liabilities) ($'000s)		(4 975)	(5 403)	(2 895)	(2 536)
Net financial liabilities ratio * ***	0%-(50%)	44.9%	54.7%	24.1%	21.3%
Operational efficiency					
Liquidity ratio	2:1	5.53	6.80	5.00	4.23
Current ratio	1:1	3.74	4.33	3.67	3.14
Interest coverage		-	-	14.39	29.60
Asset investment ratio	>100%	93%	104%	121%	171%
Self financing ratio		3.1%	14.6%	21.0%	36.2%
Own source revenue		67.8%	73.2%	78.3%	75.2%
Debt collection	30 days	31	26	31	21
Creditor turnover	30 days	35	29	33	42
Rates per capita ($)		946	915	1 152	1 069
Rates to operating revenue		55.6%	59.3%	60.5%	55.9%
Rates per rateable property ($)		986	946	1 192	1 101
Operating cost to rateable property ($)		2 094	1 862	2 088	1 773
Employee costs expensed ($'000s)		4 468	4 037	3 835	3 538
Employee costs capitalised ($'000s)		172	339	314	333
Total employee costs ($'000s)		4 640	4 376	4 149	3 871
Employee costs as a % of operating expenses		34%	35%	30%	33%
Staff numbers (FTEs)		61	61	61	64
Average staff costs ($'000s)		76	72	68	60
Average leave balance per FTE ($'000s)		12	13	13	12

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *Information not available to calculate ratio.*
*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue.*

Comment

Financial ratios relating to Profitability, Asset management and Liability management were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Liquidity and Current ratios remained strong over the period of review, indicating an ability to meet short-term commitments. This was due mainly to the large cash balances held at each year end and low levels of creditors and no debt.

Asset investment ratio shows Council's total capital expenditure against depreciation declined from a strong position in 2007-08, 171%, to just below the benchmark in 2010-11, 93%. Council will need to monitor this trend to ensure adequate investment in new and existing assets.

The Self financing ratio declined in 2011-10 due to lower cash flows from operations as outlined under the Cash Flow Statement section of this Chapter. Own source revenue indicates Council generates an average of 74% of its operating revenue from its own sources, such as rates fees and charges. The decline in 2010-11 to 68%, was mainly due to higher operating grant funding as a result of disaster recovery flood funding.

Creditor turnover increased to 35 days in 2010-11, slightly longer than benchmark due to a number of larger capital project payables outstanding at year end. An increase in outstanding receivables resulted in Council's Debt collection ratio, 31 days, increasing just above the benchmark.

Council's rate statistics were comparable over the period of review. Its rate statistics and ratios all deceased in 2009-10 primarily due to water and sewerage rates not being raised following the water and sewerage reforms.

Employee costs as a percentage of operating costs increased to 35% in 2009-10 due to employee costs increasing slightly and total operating expenses decreasing following the transfer of water and sewerage activities.

Average staff costs increasing over the period under review in line with Council's EBA increases.

KENTISH COUNCIL

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Initial signed financial statements were received on 15 August 2011. Amended financial statements were received on 30 November 2011, with an unqualified audit opinion issued on 2 December 2011.

This delay was caused by a combination of factors initially sparked by Audit questioning an approach adopted for valuing Council's road assets. This was finally resolved in November leading to amended financial statements being provided to Audit.

KEY FINDINGS AND DEVELOPMENTS

There were no significant findings or developments during the year. The audit was completed satisfactorily with no major issues outstanding.

In January 2011, floods caused approximately $2.500m in damage to Council's infrastructure assets. At 30 June 2011, Council had received funding from the Tasmanian Relief and Recovery Arrangements Program – January 2011 Floods (the Program) of $1.253m towards costs incurred in reinstating damaged assets totalling $1.595m. The reinstatement process is still progressing and Council anticipate additional funding will be received from the Program.

FINANCIAL RESULTS

Council generated a Net Operating Deficit, after net financing revenue, of $0.194m in 2010-11 (2009-10, Surplus $0.044m). The deficit result was due primarily to net flood damage costs of $0.342m without which a surplus would have eventuated.

Council achieved a Net Surplus, after capital grants and grants in advance of $0.504m (2009-10, $1.442m) and a Comprehensive Surplus of $12.865m ($3.698m). The Comprehensive Surplus included the net impacts of asset revaluations, $15.850m offset by the net write down in Council's interest in Cradle Mountain Water of $3.544m.

Council's Net Assets increased to $86.978m, up from $74.113m the previous year. As at 30 June 2011 Council had Net Working Capital of $4.761m, up from $4.429m in 2010. The increase was due mainly to higher Receivables of $0.843m which included a significant debtor related to Tasmanian Relief and Recovery Arrangements Program – January 2011 Floods, offset by an increase in Payables of $0.306m.

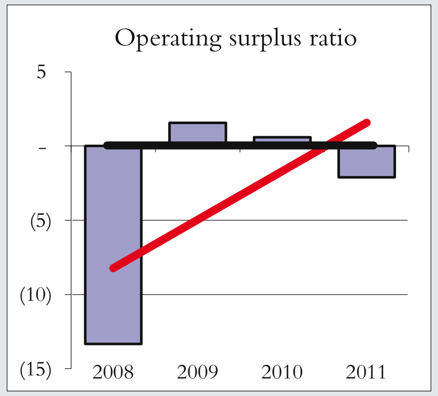
Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

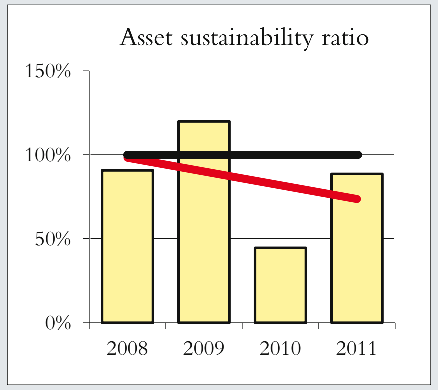
Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were not able to compute an asset renewal funding ratio as Council's long-term asset management plan did not provide sufficient information on future infrastructure costs.

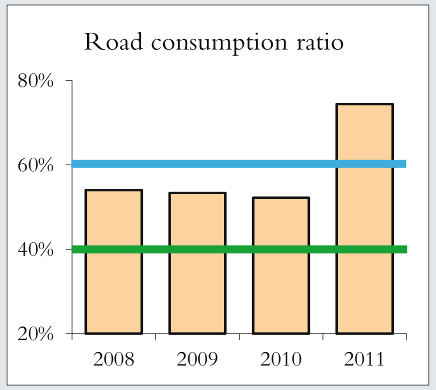
In general, the ratios indicate:



Council recorded an operating deficit in 2010-11 compared with surpluses in the prior two years. The 2010-11 result was negatively impacted by net flood damage costs without which a positive ratio would have eventuated. The improving trend indicates Council's concerted effort to operate on a break even basis although it is noted that Council budgeted to incur an operating deficit of $0.540m.

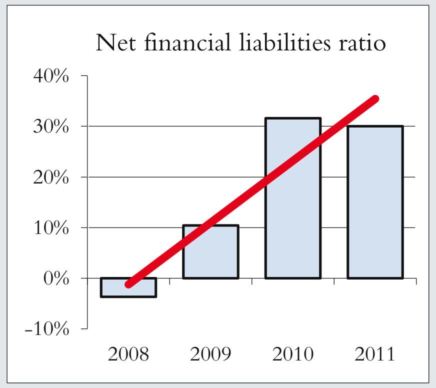


Asset sustainability ratio was below the 100% benchmark in three of the four years under review, averaging 86% over the four year period although trending downwards. This indicated, subject to levels of maintenance expenditure and in the absence of a long-term asset management plan, Council may not have adequately maintained its investment in existing assets.



These ratios represent Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicated a low risk rating, below the green line a high risk rating and between the two lines a moderate risk rating. The graph indicates that at 30 June 2011 Council had used (consumed) approximately 36% of the service potential of its road infrastructure assets.

This indicates a low financial sustainability risk. The improvement in the ratio at 30 June 2011 was primarily due to the revaluation of road assets at 30 June 2011. The revaluation, undertaken by an external engineer, reviewed useful lives and residual values resulting in an adjustment to the accumulated depreciation balance. Overall, at that point in time, Council's road assets had sufficient capacity to continue to provide services to ratepayers.



Council recorded a positive Net financial liabilities ratio with liquid assets well in excess of current and non-current liabilities post 30 June 2008. Council's positive ratios indicate a strong liquidity position, it being able to meet all current commitments.

Council's total liabilities consisted of payables, employee provisions, borrowings, trust funds and deposits.

Governance

A review of governance arrangements indicated that Council has a finance and audit committee but that it meets irregularly. It has a road assets asset management plan but does not have a long term financial management plan.

Based on our assessment, Council's governance could be strengthened if its audit committee included both internal and external members, met regularly, was supported by an internal audit function, had some oversight regarding Council's financial sustainability and if it had a role in recommending to the General Manager signature of financial statements. Such a review of the financial statements could, for example, cover accounting policies used, methods used to account for significant or unusual transactions, significant estimates and judgements.

The road asset management plan is currently under review which we understand is aimed at improving longer term asset replacement forecasts.

Conclusion as to financial sustainability

From a financial operating perspective, Council recorded surpluses in two of the past three years with the operating ratio trending upwards.

The Asset sustainability ratio indicates Council's expenditure on existing assets varied over the period and averaged 86%, which was slightly below our 100% benchmark. This indicates Council may have under invested in existing assets over the past four years although not significantly. Council's Road asset consumption ratio improved in 2010-11 and at 30 June 2011 its road assets had sufficient capacity to continue to provide services to its ratepayers. However, the improvement at 30 June 2011 was largely due to an asset revaluation carried out in the 2010-11 financial year which included a re-assessment of asset lives and residual values.

Council's liquidity is adequate to meet its short term commitments, it had a manageable debt level and a capacity to borrow should the need arise.

Council has established an audit committee but which does not have a significant role in the review of Council's annual financial statements. A road asset management plan exists, but is being updated and Council does not have long-term financial management plans. On the basis of these factors we concluded Council's governance was in the high risk range.

Based on these ratios and governance arrangements we concluded that at 30 June 2011 Council was at high sustainability risk from a governance perspective but a moderate risk from an operating and asset management perspective and low risk from a net financial liabilities perspective.

Management comments on this assessment of its financial sustainability

Management broadly agrees with the above assessment and believes that overall sustainability risk is moderate to low. Council intends to review the composition and terms of reference of its audit committee during the current financial year. Development and review of asset management plans is underway to provide longer term forecasts for inclusion in a long term financial plan. A long term financial plan is to be developed during the 2012-13 budget process.

COMPREHENSIVE INCOME STATEMENT

	2010-11	2010-11	2009-10
	Estimate*	Actual	Actual
	$'000s	$'000s	$'000s
Rates	4 031	4 154	4 081
Fees and charges	259	362	312
Grants **	2 091	2 705	2 399
Other revenue	2 068	1 650	463
Total Revenue	**8 449**	**8 871**	**7 255**
Employee costs	1 935	1 992	1 978
Depreciation	1 826	1 934	1 743
Other expenses	5 379	5 276	3 550
Total Expenses	**9 140**	**9 202**	**7 271**
Net Operating Deficit before	**(691)**	**(331)**	**(16)**
Finance costs	(137)	(143)	(141)
Interest revenue	288	280	201
Net Operating Surplus (Deficit)	**(540)**	**(194)**	**44**
Capital grants	630	658	1 342
Financial assistance grant received in advance	0	615	575
Offset Financial assistance grant in advance **	0	(575)	(519)
Net Surplus	**90**	**504**	**1 442**
Other Comprehensive Income			
Fair value revaluation of non-current assets - Council	0	15 850	4 853
Fair value revaluation of non-current assets - Associates	0	55	0
Fair value initial adjustment Cradle Mountain Water	0	0	(2 597)
Fair value adjustment arising from change in allocation order	0	(3 573)	0
Current year fair value adjustment Cradle Mountain Water	0	29	0
Total comprehensive income items	**0**	**12 361**	**2 256**
Comprehensive Surplus	**90**	**12 865**	**3 698**

** The Estimate represents Council's original estimate for the year. This is provided for comparison only and was not subject to audit.*

*** Grants received in advance have been shown separately after Net Operating Surplus (Deficit) The Offset figures enable the above table to balance with Council's own Comprehensive income statement*

Comment

In 2010–11 Council recorded a Net Operating deficit before net financing revenues of $0.331m, compared to a deficit of $0.016m in the prior year. The higher deficit was due to a combination of the following factors:

- higher Depreciation of $0.191m, due to the impact of a revaluation of road assets
- additional Other expenses of $1.726m, due to flood damage costs totalling $1.595m, partially offset by:
    - higher Grants revenue of $0.306m, with increased funding from the Federal Government for Financial Assistance Grants, $0.200m
    - increased Other revenue of $1.187m, due to Tasmanian Relief and Recovery Arrangements Program – January 2011 Floods funding of $1.253m. Had Council been fully funded for flood damage costs, a net surplus before net financing revenue of $0.011m would have been reported.

After accounting for Interest revenue and Finance costs, Council recorded a Net Operating Deficit of $0.194m (2009-10, Surplus $0.044m). This highlights the importance of interest revenue to Council, with interest revenue averaging $0.237m per annum over the past four years.

After accounting for Capital grants, Council recorded a Net Surplus of $0.504m for 2010-11, which reduced by $0.938m from the $1.442m surplus in 2009-10. The decrease was primarily attributable to the Surplus in 2009-10 including non-recurrent State funding for Blackspot improvements of $0.850m.

Other Comprehensive Income totalled $12.361m (2009-10, $2.256m) and included:

- fair value revaluation increments of Council's road assets, $15.850m. The upward movement in the road valuation was mainly due to a higher residual value applied to the road pavement and seal
- a decrease in Council's investment in Cradle Mountain Water due to two factors. Firstly, an unfavourable adjustment of $3.573m arising from Council's final ownership interest, initially based on an interim allocation order by the Treasurer, at 3.00%, applied to Cradle Mountain Water's net assets on this basis at 30 June 2010. This changed to 1.90% when the final allocation order was made. The $3.573m represented Council's decreased interest of 1.10% at 30 June 2010. Secondly, the $0.029m increase being Council's 1.90% interest in the higher net assets of Cradle Mountain Water at 30 June 2011.

STATEMENT OF FINANCIAL POSITION

	2011	2010
	$'000s	$'000s
Cash and financial assets	4 422	4 609
Receivables	1 115	272
Other	211	223
Total Current Assets	**5 748**	**5 104**
Payables	551	245
Borrowings	70	67
Provisions - employee benefits	258	239
Other	108	124
Total Current Liabilities	**987**	**675**
Net Working Capital	**4 761**	**4 429**
Property, plant and equipment	77 417	61 452
Investments in associates	401	336
Investment in water corporation	6 201	9 745
Total Non-Current Assets	**84 019**	**71 533**
Borrowings	1 714	1 781
Provisions - employee benefits	88	68
Total Non-Current Liabilities	**1 802**	**1 849**
Net Assets	**86 978**	**74 113**
Reserves	64 058	47 960
Accumulated surpluses	22 920	26 153
Total Equity	**86 978**	**74 113**

Comment

As detailed in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $12.865m. Net assets increased in 2010-11 by the same amount to $86.978m. Major line item movements included:

- decreased Cash of $0.187m which is discussed further in the Statement of Cash Flows section of this Chapter
- higher Receivables of $0.843m, due to a significant outstanding debt for flood funding of $0.664m
- higher Payables of $0.306m due primarily to additional flood damage repair and capital creditors outstanding at 30 June 2011
- increased Property, plant and equipment of $15.965m primarily due to:
  - road revaluation increments of $15.850m
  - additions of $2.379m, offset by
  - depreciation expense of $1.934m
- reduction in Council's investment in Cradle Mountain Water of $3.544m, for the reasons outlined in the Comprehensive Income Statement section of this Chapter.

STATEMENT OF CASH FLOWS

	2010-11	2009-10
	$'000s	$'000s
Receipts from customers	5 924	4 795
Cash flows from government	3 073	2 678
Payments to suppliers and employees	(7 414)	(6 284)
Interest received	280	136
Finance costs	(143)	(156)
Cash from operations	**1 720**	**1 169**
Capital grants and contributions	338	1 464
Dividends received - Cradle Mountain Water	0	6
Payments for property, plant and equipment	(2 379)	(2 597)
Proceeds from sale of property, plant and equipment	198	26
Cash used in investing activities	**(1 843)**	**(1 101)**
Proceeds from borrowings	0	0
Repayment of borrowings	(64)	(94)
Cash used in financing activities	**(64)**	**(94)**
Net decrease in cash	**(187)**	**(26)**
Cash at the beginning of the year	4 609	4 903
Less cash transferred to Cradle Mountain Water	0	(268)
Cash at end of the year	**4 422**	**4 609**

Comment

Council's cash balance at 30 June 2011, $4.422m, comprised cash at bank, on hand and short-term deposits.

At 30 June 2011, Council reported $3.480m (2009-10, $3.375m) of its cash balance was being held for specific purposes, including cash backed reserves and unexpended grant funds.

Council's cash position reduced by $0.187m during 2010-11 with Cash from operations of $1.720m, Capital grants and contributions of $0.338m and Proceeds from sale of property, plant and equipment of $0.198m, being insufficient to fund Payments for property, plant and equipment of $2.379m and the Repayment of borrowings, $0.064m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.551m to $1.720m which included Council's operating deficit of $0.194m adjusted for depreciation of $1.934m, a non cash item, providing $1.740m in operating cash inflows.

Payments for property, plant and equipment of $2.379m largely comprised capital expenditure for infrastructure assets which included:

- Sheffield Streetscape, $0.578m
- Mersey River/Lamberts Road bridge, $0.378m
- Stage 1 refurbishment of Multipurpose Health Precinct, $0.556m.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09	2007-08
Financial ratios					
Profitability					
Operating surplus (deficit) ($'000s)		(194)	44	127	(993)
Operating surplus ratio *	>0	(2.12)	0.59	1.55	(13.33)
Asset management					
Asset sustainability ratio*	100%	89%	45%	120%	91%
Asset renewal funding ratio* **	90%-100%	N/A	N/A	N/A	N/A
Road asset consumption ratio *	>60%	74.4%	52.2%	53.4%	54.0%
Liquidity					
Net financial assets (liabilities) ($'000s)		2 748	2 357	853	(272)
Net financial liabilities ratio * ***	0%-(50%)	30.0%	31.6%	10.4%	(3.7%)
Operational efficiency					
Liquidity ratio	2:1	7.60	11.19	2.90	2.80
Current ratio	1:1	5.82	7.56	2.73	2.57
Interest coverage	3:1	11.03	6.49	17.19	12.98
Asset investment ratio	>100%	123%	149%	147%	137%
Self financing ratio		18.8%	15.7%	39.3%	24.6%
Own source revenue		70.4%	67.8%	73.3%	74.3%
Debt collection	30 days	23	23	8	16
Creditor turnover	30 days	26	15	23	42
Rates per capita ($)		661	650	774	701
Rates to operating revenue		45.4%	54.7%	58.0%	57.0%
Rates per rateable property ($)		1 172	1 122	1 345	1 215
Operating cost to rateable property ($)		2 556	2 037	2 284	2 418
Employee costs expensed ($'000s)		1 992	1 978	1 962	1 531
Employee costs capitalised ($'000s)		-	-	-	-
Total employee costs ($'000s)		1 992	1 978	1 962	1 531
Employee costs as a % of operating expenses		22%	27%	24%	18%
Staff numbers (FTEs)		28	30	30	29
Average staff costs ($'000s)		70	66	65	53
Average leave balance per FTE ($'000s)		12	10	8	8

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** Information not available to calculate ratio.*
**** This benchmark between 0 - (50%) is anticipating a situation where total liabilities should not be greater than 50% of operating revenue. Where the ratio is positive, as is the case with Kentish Council, liquid assets exceed total liabilities.*

Comment

Financial ratios relating to the Operating deficit, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Liquidity and Current ratios were well above benchmark in all years under review which indicated an ability to meet short-term commitments. This was due mainly to the large cash investments held at each year end.

Interest coverage ratios reflect Council's low level of finance costs associated with its borrowings.

Asset investment ratios indicate Council invested strongly in new and existing assets in all years under review.

Council's positive Self financing ratios indicated it generated operating cash flows which contributed towards capital expenditure programs. Own source revenue was fairly constant over the period, with Council generating the majority of its operating revenue from its own sources. In 2010-11 it was reliant on grant funding to the extent of 29.6% (2009-10, 32.2%).

Council's rate statistics were relatively consistent over the period under review. These all decreased in 2009-10 mainly due to water and sewerage rates not being raised.

Employee costs as a percentage of operating costs decrease in 2010-11 due to the impact of additional operating costs resulting from the January floods. Operating costs increased by 27 percent, with Employee costs increasing by only one percent.

Average staff costs and leave balances increased over the period under review primarily due to EBA increases.

KING ISLAND COUNCIL

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Unsigned financial statements were received on 3 October 2011. Amended final signed statements were received on 22 November 2011, and an unqualified audit report was issued on the same day.

Other than the late submission of the financial statements (see comments below) the audit was completed satisfactorily with no items outstanding.

KEY FINDINGS AND DEVELOPMENTS

Timely and quality financial reporting

For the first time, at 30 June 2011, Council was required under section 17 of the *Audit Act 2008* to submit its financial statements to the Auditor-General within 45 days after the end of the financial year. Council was 99 days late and needs to ensure it satisfies this statutory reporting obligation in future.

Property Plant and Equipment Registers

Council's property, plant and equipment (PPE) registers were not updated for 2010-11 resulting in our recommendation that Council regularly updates its PPE registers, undertakes fixed asset reconciliations, ensure the PPE registers agree to the general ledger and maintains sufficient supporting documents to support the financial statements and for audit purposes.

Up-to-date asset revaluations

Despite a recommendation to this effect as part of the 2009-10 financial audit, Council has not, with the exception of the Aerodrome, completed an up-to-date full revaluation of those of its assets which are reported at valuation. Under Australian Accounting Standard *AASB 116 Property, Plant and Equipment*, Council is required to ensure revaluations are made with sufficient regularity to ensure that the carrying amount of these assets do not differ materially from fair value at reporting date. Management has advised that a full review of road assets will be completed in the 2011-12 financial year.

FINANCIAL RESULTS

Council generated a Net Operating Deficit after net financing revenue of $0.080m in 2010-11 (2009-10, deficit $0.306m). This improved result was due primarily to increased income from Rates, Grants and Interest.

Council achieved a Net Surplus after capital grants of $0.030m (2009-10, $0.416m) and a Comprehensive Surplus of $8.635m ($3.001m). The Comprehensive Surplus included an upward revaluation of fixed assets, $8.421m, and an increase in the fair value of Council's interests in Cradle Mountain Water, $0.163m.

Consistent with the Comprehensive surplus of $8.635m, Council's Net Assets increased to $68.994m, up from $60.360m on the previous year. As at 30 June 2011 Council's Net Working Capital was $2.584m, down from $3.081m due mainly to lower cash holdings.

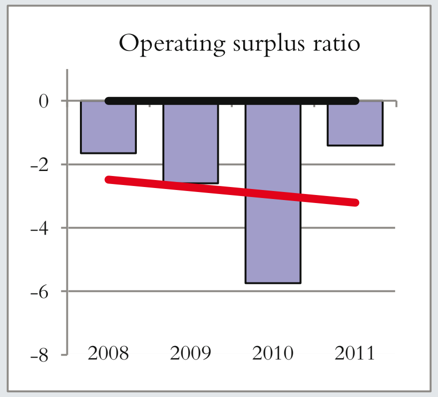
Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

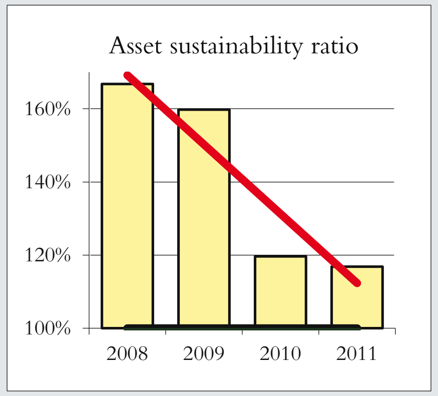
Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were not able to compute an asset renewal funding ratio as Council's long-term asset management plan did not provide sufficient information on future infrastructure costs.

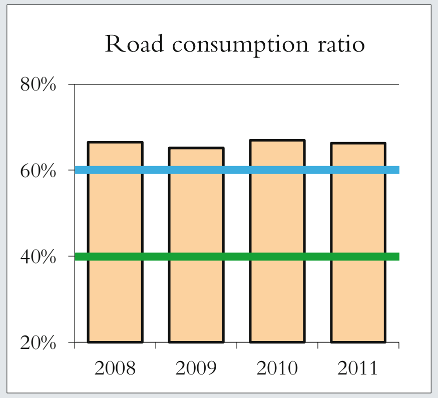
In general, the ratios indicate:



Council's operating surplus ratios reflect operating deficits in all four years under review. Negative ratios indicate that Council did not generate sufficient revenue to fulfil its operating requirements, including its depreciation charges. This is a situation that will need to be remedied by Council. Of concern is that Council budgeted for a deficit of $0.362m.

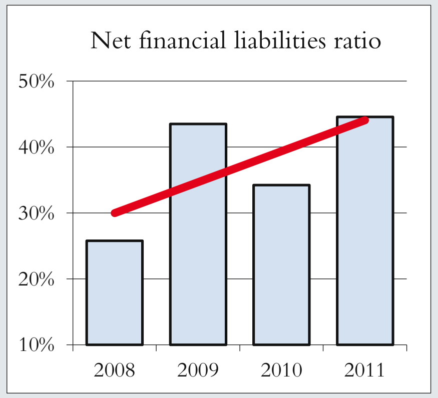


Asset sustainability ratio was above the benchmark in all four years under review indicating that over this period Council was adequately investing in existing assets.



The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating with data between the two lines representing a moderate risk rating.

The graph indicates that at 30 June 2011 Council had used (consumed) approximately 34% of the service potential of its road infrastructure assets. This was consistent over the four year period and indicates a low financial sustainability risk.



Council recorded a positive Net financial liabilities position with liquid assets in excess of current and non-current liabilities in each year under review. Council's positive ratios indicate a strong liquidity position, with Council able to meet its commitments.

Governance

A review of Council's governance arrangements indicated that it does not have:

- an audit committee
- a long-term asset management plan
- a long-term financial management plan.

Conclusion as to financial sustainability

From a financial operating perspective, Council recorded deficits in each of the past four years with a trend line indicating increasing deficits.

Asset sustainability ratios indicated Council's expenditure on existing assets averaged 141% over the period, well above our 100% benchmark. Council Road asset consumption ratios remained relatively unchanged over the four year period, and exceeded our 60% benchmark indicating its road assets had sufficient capacity to continue to provide services to its rate payers.

Council's Net financial liabilities ratios are positive indicating its liquidity is strong and it has capacity to borrow should the need arise.

Council did not have an audit committee or long-term financial or asset management plans. These aspects of governance need to be addressed.

Based on these ratios and governance arrangements we concluded that, at 30 June 2011, Council was at high sustainability risk from a governance perspective, moderate risk from an operating perspective but low risk from asset management and net financial liabilities perspectives.

Management comments on this assessment of its financial sustainability

1. Management considers the assessment of Council's financial sustainability is appropriate.
2. Council is currently developing a long term financial plan as part of the 2012-13 budget process.
3. Council has recently undertaken an asset management audit. Council already has asset registers covering buildings, bridges, roads and plant. These are sound operationally, but do need updating and in some cases revaluation. This is planned for next financial year.
4. Management notes the AG's observation that it does not have an audit committee. Management will suggest to Council the formation of such in the new financial year.

COMPREHENSIVE INCOME STATEMENT

	2010-11 Estimate* $'000s	2010-11 Actual $'000s	2009-10 Actual $'000s
Rates	1 581	1 658	1 581
Fees and charges	1 059	1 579	1 503
Grants **	2 064	2 171	2 036
Other revenue	54	101	102
Total Revenue	**4 758**	**5 509**	**5 222**
Employee costs	1 899	2 117	1 751
Depreciation	1 227	1 269	1 231
Other expenses	2 109	2 333	2 600
Total Expenses	**5 235**	**5 719**	**5 582**
Net Operating Deficit before	**(477)**	**(210)**	**(360)**
Interest revenue	154	188	110
Finance costs	(39)	(58)	(56)
Net Operating Deficit	**(362)**	**(80)**	**(306)**
Capital grants	269	269	694
Repayment of Grants	0	(170)	0
Net loss on disposal of property, plant & equipment	0	(4)	0
Financial assistance grants received in advance	0	310	295
Offset Financial assistance grant in advance **	0	(295)	(267)
Net Deficit	**(93)**	**30**	**416**
Other Comprehensive Income			
Fair value revaluation of non-current assets	0	8 421	752
Net asset revaluation increments/(decrements)	0	0	(94)
Fair value adjustment on available for sale assets	0	21	0
Change in fair value of investment in Cradle Coast Water	0	163	1 927
Total comprehensive income items	**0**	**8 605**	**2 585**
Total Comprehensive Surplus (Deficit)	**(93)**	**8 635**	**3 001**

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
** *Grants received in advance have been shown separately after Net Operating Deficit.*
The offset figures enable the above table to balance with Council's own Comprehensive income statement

Comment

In 2010-11 Council recorded a Net Operating Deficit before net financing revenues of $0.210m compared to a deficit of $0.360m in the prior year. The improved result was due to a combination of the following factors:

- increased Rates revenue of $0.077m, due to a higher general rate
- increased Grants revenue of $0.135m, with higher funding from the Federal Government for Financial Assistance Grants, $0.075m, and for Regional Health Services, $0.115m
- increased fees and charges, $0.076m, mainly due to higher airport landing fees, $0.031m, and refuse disposal fees, $0.025m

- lower Other expenses, by $0.267m, mainly due to a change in internal costings related to internal plant charges
- higher Employee costs, $0.366m, mainly reflected by a change in costing this year. In prior years an amount was transferred from wages and salaries, representing contract staff hired and capitalised against the projects they worked upon. This totalled $0.235m in 2009-10. Adjusting for this amount, in the current year, shows the annual increase in employee expenditure is consistent with 2009-10 and prior years.

After accounting for Interest revenue and Finance costs the Net Operating Deficit was $0.080m (2009-10, deficit $0.306m), highlighting the importance of Interest revenue to Council's annual operating performance.

Net Surplus after capital grants and contributions amounted to $0.030m (2009-10, $0.416m). Capital grants, $0.269m in 2010-11, mainly comprised of the Regional Air Safety program of $0.202m. $0.170m was repaid this year for funding received in 2009-10 under the Affordable Housing Program as the program was not fully completed by Council.

Other Comprehensive Surplus totalled $8.635m in 2010-11 which, in addition to the operating results referred to above, included:

- fair value revaluation of the Aerodrome by $8.421m. This was high because the Aerodrome had not been re-valued since 1 October 2005 and the revaluation took into account upgrades completed in previous years on various areas of the Aerodrome, for example the upgrade of the runway
- an increase in Council's investment in Cradle Mountain Water, $0.163m being its interest in the net assets of Cradle Mountain Water at 30 June 2011.

STATEMENT OF FINANCIAL POSITION

	2011	**2010**
	$'000s	$'000s
Cash and financial assets	0	211
Receivables	508	377
Investments	2 926	3 357
Inventories	157	159
Other	-	91
Total Current Assets	**3 591**	**4 195**
Bank Overdraft	34	0
Payables	223	206
Borrowings	104	142
Other	301	307
Provisions - employee benefits	345	459
Total Current Liabilities	**1 007**	**1 114**
Net Working Capital	**2 584**	**3 081**
Property, plant and equipment	62 421	53 580
Investment in Cradle Mountain Water	4 568	4 385
Total Non-Current Assets	**66 989**	**57 965**
Borrowings	555	659
Provisions - employee benefits	24	27
Total Non-Current Liabilities	**579**	**686**
Net Assets	**68 994**	**60 360**
Reserves	43 918	36 198
Accumulated surpluses	25 076	24 162
Total Equity	**68 994**	**60 360**

Comment

For the reasons outlined in the Comprehensive Income Statement section of this Chapter, Total Equity increased by $8.634m. Net Assets increased by the same amount to $68.994m. Major line item movements included:

- lower Cash and financial assets, $0.211m. Council reported an overdrawn bank balance at 30 June 2011 of $0.034m. This movement is explained later in the Statement of Cash Flows section of this Chapter
- decreased Investments by, $0.431m, mainly due to lower Capital grants and the repayment of the Affordable Housing Program grant
- lower Employee provision, $0.114m, due to reductions in long service, annual and sick leave provisions. This reflected the departure of a number of long serving staff and other staff taking their full annual and long service leave entitlements
- increased Property, plant and equipment, $8.841m, due to net additions of $1.789m, the revaluations of the Aerodrome, $8.421m, offset by depreciation of $1.269m and the written down value of disposals of $0.100m
- increased Investment in Cradle Mountain Water, $0.183m, due to the revaluation mentioned in the previous section of this Chapter.

STATEMENT OF CASH FLOWS

	2010-11	2009-10
	$'000s	$'000s
Receipts from customers	3305	3 366
Cash flows from government	2 221	2 116
Payments to suppliers and employees	(4 613)	(4 683)
Interest received	189	110
Finance Costs	(58)	(56)
Cash from operations	**1 044**	**853**
Capital grants and contributions	274	738
Capital grants repaid	(170)	0
Dividends	16	23
Proceeds from investments	431	0
Payments for investments	0	(321)
Payments for property, plant and equipment	(1 788)	(1 704)
Proceeds from sale of property, plant and equipment	96	103
Cash used in investing activities	**(1 141)**	**(1 161)**
Payments from trust funds	(6)	(8)
Repayment of borrowings	(142)	(311)
Cash from financing activities	**(148)**	**(319)**
Net decrease in cash	**(245)**	**(627)**
Cash at the beginning of the year	211	838
Cash at end of the year	**(34)**	**211**

Comment

At 30 June 2011, Council had a bank overdraft of $0.034m with cash holdings declining by $0.245m from the prior year. This was mainly due to Cash from operations, $1.044m, capital grants and contributions, $0.274m and proceeds from investments, $0.431m, being insufficient to meet Payments for property, plant and equipment, $1.788m, borrowing repayments, $0.148m, and the repayment of the Affordable Housing Program grant, $0.170m. Council was in a negative cash flow position due to timing of loan funding for capital expenditure of $0.377m.

Movement in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.191m to $1.044m which included Council's operating deficit, $0.080m adjusted for depreciation of $1.269m, a non cash item, providing $1.189m in operating cash inflows.

Council's investments totalled $2.926m at 30 June 2011 which comprised Term deposits of $2.507m and a Cash management account of $0.419m which were held for purposes including:

- Employee entitlements, $0.369m
- Restricted funds, $2.294m, for Asset replacement reserves including Naracoopa Jetty, Community, Lighthouse and Airport
- Trust funds and deposits $0.301m.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09	2007-08
Financial ratios					
Profitability					
Net Operating deficit ($'000s)		(80)	(306)	(142)	(85)
Operating surplus ratio *	> 0	(1.40)	(5.74)	(2.60)	(1.65)
Asset management					
Asset sustainability ratio*	>100%	117%	120%	160%	167%
Asset renewal funding ratio* **	90%-100%	N/A	N/A	N/A	N/A
Road asset consumption ratio *	>60%	66.3%	67.0%	65.2%	66.5%
Liability Management					
Net financial assets (liabilities) ($'000s)		2 539	1 824	2 378	1 330
Net financial liabilities ratio * ***	0-(50%)	44.6%	34.2%	43.5%	25.8%
Operational efficiency					
Liquidity ratio	2:1	5.19	6.02	6.24	7.02
Current ratio	1:1	3.57	3.77	3.61	3.93
Interest Coverage	3:1	17.00	14.23	25.73	13.08
Asset investment ratio	>100%	141%	138%	160%	167%
Self financing ratio		18.3%	16.0%	28.9%	21.0%
Own source revenue		61.9%	61.8%	70.5%	70.1%
Debt collection	30 days	57	45	40	50
Creditor turnover	30 days	23	20	12	3
Rates per capita ($)		715	682	872	834
Rates to operating revenue		29.1%	29.7%	36.9%	37.8%
Rates per rateable property ($)		451	434	558	519
Operating cost to rateable property ($)		1 572	1 546	1 552	1 395
Employee costs expensed ($'000s)		2 117	1 751	1 846	1 501
Employee costs capitalised ($'000s)		213	235	188	-
Total employee costs ($'000s)		2 330	1 986	2 034	1 501
Employee costs as a % of operating expenses		37%	31%	33%	29%
Staff numbers (FTEs)		32	34	33	33
Average staff costs ($'000s)		74	58	61	45
Average leave balance per FTE ($'000s)		28	33	45	43

* *For commentary on these indicators refer to the Financial Results section of this chapter.*
** *Information not available to calculate ratio.*
*** *This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue. Where the ratio is positive, as is the case with King Island Council, liquid assets exceed total liabilities.*

Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will examine Operational efficiency measures.

Liquidity ratio shows Council had sufficient liquid assets to meet its short term liabilities as they fall due. The decrease in this ratio over the four year review period shows that overall cash holdings have fallen since 2007-08.

Current ratio reflected a strong working capital position and was well above benchmark in all four years under review showing a sound ability to meet short-term commitments.

Interest coverage ratio was consistent with Council's generally low level of borrowings indicating Council's debt servicing requirements were low.

Asset investment ratios indicated Council's investment in new and existing assets for the period of review was above benchmark.

Self financing ratio improved from 2009-10 but fluctuated over the review period reflecting movements in Operating revenue.

Own source revenue was consistent with 2009-10 but showed a large decrease compared to 2008-09. This reflects that Council has become more dependant on grant funding over the period of review with around 38% of its total operating revenue received from this source in 2010-11.

The Debt collection ratio was worse than benchmark for all years under review due to a number of small businesses not being able to pay their outstanding accounts, in particular rates, in a timely manner. Council has entered into repayment plans with these businesses.

The rates statistics were consistent from 2009-10 with the change prior to this year due to water and sewerage rates not being raised.

The increase in the ratios for Employee costs as a percentage of operating expenses, and Average staff costs, were due to the change in internal costing discussed in the Comprehensive Income Statement section of this Chapter.

TASMAN COUNCIL

AUDIT OF THE 2010-11 FINANCIAL STATEMENTS

Initial signed financial statements were received on 18 August 2011. Due to the poor quality of the financial statements presented, they were not accepted as complete in all material respects and returned to Council for revision. Re-signed financial statements were subsequently received on 24 November 2011, with an unqualified audit opinion issued on the same day.

Other than the poor quality of the initial financial statements, and their late submission (see comments below), the audit was completed satisfactorily with no items outstanding.

KEY FINDINGS AND DEVELOPMENTS

Timely and quality financial reporting

For the first time, at 30 June 2011, Council was required under section 17 *Audit Act 2008*, to submit its financial statements to Auditor-General within 45 days after the end of the financial year. Council did not provide signed financial statement to the Auditor-General within that timeframe. When statements were initially submitted, they were not considered of sufficient quality to warrant acceptance. Under section 17(2), the Auditor-General determines whether financial statements are complete in all material respects before a submission is accepted. Following this determination, completion of the financial statements was inhibited by staff changes. Council subsequently sourced external assistance from Brighton Council to complete the financial statements. Significant rework was required to ensure appropriate presentation of the revised financial statements. Council has made arrangements to retain this assistance for 2011-12 as part of initial actions to meet its reporting requirements in the future.

Up-to-date asset revaluations

Despite a recommendation to this effect, as part of the 2008-09 and 2009-10 financial audits, Council has not completed an up-to-date full revaluation of road assets. Under Australian Accounting Standard *AASB 116 Property, Plant and Equipment*, Council is required to ensure revaluations of infrastructure assets are made with sufficient regularity to ensure that the carrying amount of each asset does not differ materially from its fair value at reporting date. Management have advised that a full revaluation of road assets will be completed in the 2011-12 financial year.

Bank reconciliations

Following completion of our 2008-09 and 2009-10 audits we recommended that Management improve aspects of monthly bank reconciliations. This was followed-up at our 2010-11 audits when we noted that issues surrounding timely completion and review of bank reconciliations had not been addressed. The timely completion and review of regular monthly bank reconciliations is a critical financial control in financial operations and in the prevention and detection of fraud. Management are currently utilising external assistance to address issues raised and we will review outcomes in the 2011-12 audit cycle.

FINANCIAL RESULTS

Council generated a Net Operating Surplus of $0.718m in 2010-11 (2009-10, $0.866m). It reported a Net Surplus of $1.012m ($0.920m), which included Capital grants of $0.145m, ($0.264m) and Contributions – non monetary assets, $0.130m, ($0).

Council achieved a Comprehensive Surplus of $1.689m (2009-10, $1.638m) which included the net impact of upward asset revaluations, $0.672m ($0.460m).

Consistent with the Comprehensive Surplus of $1.689m and transfer to Public Space $0.013m, Council's Net Assets increased to $17.494m, up from $15.792m the previous period. As at 30 June 2011 Council had Net Working Capital of $2.103m, up from $1.179m at 30 June 2010.

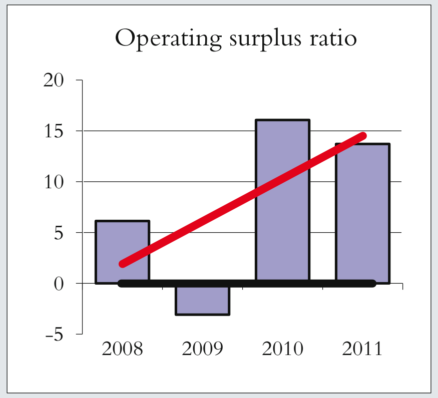
Assessment of financial sustainability

Our assessment of financial sustainability is based on a review of relevant ratios and selected internal governance arrangements.

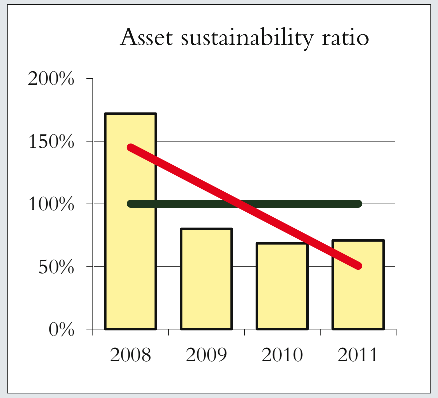
Relevant financial sustainability ratios

The following four graphs summarise key ratios highlighting important aspects of Council's financial performance over the past four years. In each of the graphs the black line (where applicable) represents the benchmark for the ratio and the red line is the actual four-year trend. We were not able to compute an asset renewal funding ratio because Council did not have long-term asset management and financial management plans.

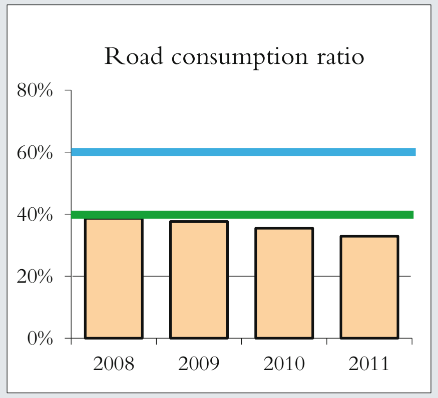
In general, the ratios indicate:



Positive Operating surplus ratios reflected Council's operating surpluses in three of the four years under review. Positive ratios indicate Council generated sufficient revenue to fulfil its operational requirements, including its depreciation charges. The deficit in 2008-09 was due to the timing of revenue and expenditure for Pirates Bay visitor centre. The expenditure was recorded in 2008-09, where as the funding was received in 2007-08.

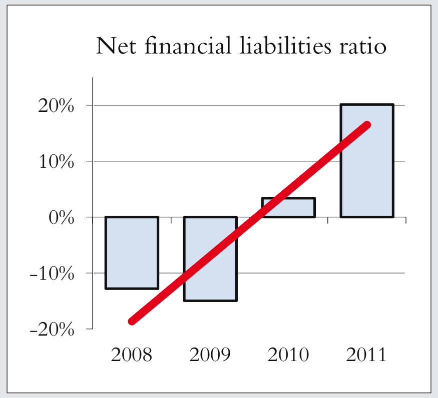


Asset sustainability ratio was below benchmark for the past three years and averaged 98% over the four year period. While 2007-08 was above the benchmark, the ratio in subsequent years indicates that Council was under investing in existing assets. Council needs to address the declining trend in the ratio to ensure sufficient investment in existing assets.



The ratio represents Council's utilisation of road infrastructure assets. Data above the blue line benchmark indicates a low risk rating, data below the green line indicates a high risk rating with data between the two lines representing a moderate risk rating.

The graph indicates at 30 June 2011 Council had used (consumed) approximately 67% of its road assets indicating that, at that point in time, the remaining service potential was relatively low. Council needs to address this situation. A full revaluation (referred to earlier) of its road assets, which should include a condition assessment by a suitably qualified person, will assist Council to more fully assess the remaining service potential of its road assets.



Council's Net financial liabilities ratio improved over the four year period, with the positive ratio at 30 June 2011 indicating liquid assets well in excess of total liabilities. Council was in a strong liquidity position able to meet its current commitments. The improvement in 2009-10 resulted from the transfer of borrowings to Southern Water.

Council's total liabilities consisted of payables, employee provisions and borrowings.

Governance

A review of governance arrangements indicated that Council does not have:

- an audit committee
- a long-term asset management plan
- a long-term financial management plan.

Conclusion as to financial sustainability

From a financial operating perspective, Council's operating surpluses indicate it is generating sufficient revenue to meet operating requirements.

Council's Asset sustainability ratio indicates, based on our 100% benchmark, that it under invested in existing assets in the last three years of our analysis and needs to rectify this trend to ensure sufficient investment in future. Road consumption ratio was at high financial sustainability risk. As noted previously, Council have not recently undertaken a full revaluation of its road assets and needs to do so in order to determine the service potential remaining in its roads assets.

Net financial liabilities ratio was positive at 30 June 2011 demonstrating Council had the capacity to service debt and could borrow should the need arise.

Council does not have an audit committee, long-term asset management plan or long-term financial management plan. These aspects of governance need to be addressed.

Based on these ratios and governance arrangements, we concluded that at 30 June 2011 Council was at high financial sustainability risk from a governance and asset management perspective and a low risk from an operating and financial liabilities perspective.

Management comments

The General Manager has been in constant communication with the Tasmanian Audit Office audit team since their initial visit nearly 12 months ago and their assistance in identifying and clarifying matters that need addressing has been invaluable. A key issue that Council had to resolve was of course the timely preparation of acceptable financial statements which was achieved following an internal management review and the subsequent utilisation of specific expertise from Brighton Council.

As a consequence of the audit investigations, Council has put in place a number of changes that have already significantly improved our day to day operations. This has been an ongoing process and utilising the expertise from Brighton Council has identified additional areas for improvement with the added benefit of realising the potential of existing employees. To ensure continuity and a process of continual improvement Council has duly executed a formal service agreement with Brighton. We will also be utilising their assistance with the preparation of asset management plans.

I can re-confirm that Council will complete in the 2011-12 financial year a road asset condition assessment and associated revaluation. In addition, the matter of bank reconciliations has been rectified and will be managed accordingly into the future.

In response to the principle concern identified in the draft Auditor-General's Report of long term financial sustainability, the combined effect of the above matters will enable us to prepare the necessary asset and financial management plans during the 2012-13 financial year. This will provide Council the clarity and direction to establish a process of informed decision making regarding the financing of an appropriate, achievable and sustainable level of service of our assets in addition to the range of other services we provide to our community and visitors.

The contents of the draft Auditor-General's Report were as a result, consistent with what the audit team and the General Manager have identified and discussed.

COMPREHENSIVE INCOME STATEMENT

	2010-11 Estimate* $'000s	2010-11 Actual $'000s	2009-10 Actual $'000s
Rates	2 854	3 552	3 347
Fees and charges	502	403	429
Grants **	645	888	1 073
Other revenue	333	240	478
Total Revenue	**4 334**	**5 083**	**5 327**
Employee costs	1 169	1 176	1 143
Depreciation	838	985	960
Other expenses	2 235	2 300	2 331
Total Expenses	**4 242**	**4 461**	**4 434**
Net Operating Surplus before	**92**	**622**	**893**
Finance costs	(69)	(55)	(85)
Interest revenue	0	151	58
Net Operating Surplus	**23**	**718**	**866**
Capital grants	0	145	264
Contributions - non-monetary assets	0	130	0
Financial assistance grant received in advance **	0	219	235
Offset Financial assistance grant in advance **	0	(200)	(167)
Expenditure Pirates bay Visitor Centre	0	0	(278)
Net Surplus	**23**	**1 012**	**920**
Other Comprehensive Income			
Fair value revaluation of non-current assets	0	672	460
Fair value initial adjustment Southern Water	0	0	258
Current year fair value adjustment Southern Water	0	5	0
Comprehensive Surplus	**23**	**1 689**	**1 638**

* *The Estimate represents Council's final estimate for the year. This is provided for comparison only and was not subject to audit.*
** *Grants received in advance have been shown separately after Net Operating Surplus.*
The offset figures enable the above table to balance with Council's own Comprehensive income statement.

Comment

In 2010-11 Council recorded a Net Operating Surplus before net financing revenue of $0.622m compared to $0.893m in 2009-10, and $0.530m better than budgeted.

The decrease of $0.271m was predominately due to a combination of the following factors:

- lower Grants, $0.185m, mainly due to lower Roads to recovery grants
- decreased Other revenue of $0.238m as a result of a significant reduction in planning fees, offset by
- increased Rates of $0.205m, due to a higher general rate.

After accounting for interest revenues and finance costs, Council generated a Net Operating Surplus of $0.718m (2009-10, $0.866m).

Council's Net Surplus amounted to $1.012m in 2010-11, a $0.092m improvement from the $0.920m surplus in 2009-10. The improvement was predominately due to Contributions – non monetary assets received for land identified as Council owned, $0.130m (2009-10, nil).

Other Comprehensive Income resulted in a surplus of $1.689m, primarily due to fair value revaluation of land and buildings, $0.672m.

STATEMENT OF FINANCIAL POSITION

	2011	2010
	$'000s	$'000s
Cash and financial assets	1 973	1 677
Receivables	219	274
Other financial assets	250	0
Total Current Assets	**2 442**	**1 951**
Payables	181	307
Borrowings	89	219
Provisions - employee benefits	69	50
Other	0	196
Total Current Liabilities	**339**	**772**
Net Working Capital	**2 103**	**1 179**
Property, plant and equipment	15 215	14 595
Investments in associates	39	50
Investment in Southern Water	920	915
Intangible assets	15	48
Total Non-Current Assets	**16 189**	**15 608**
Borrowings	743	907
Provisions - employee benefits	20	20
Other	35	68
Total Non-Current Liabilities	**798**	**995**
Net Assets	**17 494**	**15 792**
Reserves	7 087	5 446
Accumulated surpluses	10 407	10 346
Total Equity	**17 494**	**15 792**

Comment

For the reasons outlined in the Comprehensive Income Statement section of this Chapter, Total Equity increased in line with the Comprehensive Surplus of $1.689m and transfer to Public Space $0.013m. Net Assets increased by the same amount. Reasons for major line item movements were:

- higher Cash and financial assets of $0.296m and Other financial assets of $0.250m. Refer to the Statement of Cash Flows section of this Chapter for further explanation
- lower total Borrowings, $0.294m, as a result of loan repayments made during the year
- increased Property, plant and equipment, $0.620m, primarily due to additions, $0.983m and revaluation increments, $0.672m, offset by depreciation of $0.965m.

STATEMENT OF CASH FLOWS

	2010-11	2009-10
	$'000s	$'000s
Receipts from customers	4 408	3 891
Cash flows from government	888	811
Payments to suppliers and employees	(3 901)	(3 510)
Interest received	199	56
Finance costs	(55)	(85)
Cash from operations	**1 539**	**1 163**
Capital grants and contributions	145	263
Payment for other financial assets	(250)	0
Payments for property, plant and equipment	(853)	(765)
Proceeds from sale of property, plant and equipment	9	90
Cash used in investing activities	**(949)**	**(412)**
Repayment of borrowings	(294)	(215)
Cash from financing activities	**(294)**	**(215)**
Net increase in cash	**296**	**536**
Cash at the beginning of the year	1 677	844
Transfer on restructure	0	297
Cash at end of the year	**1 973**	**1 677**

Comment

At 30 June 2011 Council held cash and financial assets of $1.973m comprising cash at bank and on hand, $0.030m, and short-term deposits, $1.943m. Council noted $0.114m (2009-10, $0.068m) was restricted as it related to trust funds and deposits.

Council's cash position improved by $0.296m during 2010-11, with Cash from operations, $1.539m, and Capital grants and contributions, $0.145m, being more than sufficient to meet Payments for property, plant and equipment, $0.853m, and Repayments of borrowings, $0.294m. In addition, Council invested $0.250m into Other financial assets being a managed fund with Commonwealth Bank.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.376m to $1.539m, which included Council's operating surplus of $0.718m adjusted for depreciation of $0.985m, a non-cash item, providing $1.703m in operating cash inflows.

Major capital expenditure projects during the period included the works building additions, $0.338m, Tasman Civic Centre stage, $0.155m, Tasman Opportunity Shop, $0.151m and Public Toilets Murdunna, $0.032m, infrastructure works, $0.248m, works in progress, $0.156m and plant and equipment additions of $0.111m.

FINANCIAL ANALYSIS

	Bench Mark	2010-11	2009-10	2008-09	2007-08
Financial ratios					
Profitability					
Operating surplus deficit ($'000s)		718	866	(187)	449
Operating surplus ratio *	> 0	13.72	16.08	(3.08)	6.11
Asset management					
Asset sustainability ratio*	>100%	70.8%	68.4%	80.1%	171.9%
Asset renewal funding ratio* **	90%-100%				
Road asset consumption ratio *	> 60%	32.9%	35.5%	37.7%	38.7%
Liquidity					
Net financial assets (liabilities) ($000's)		1 055	184	(909)	(938)
Net financial liabilities ratio * ***	0%-(50%)	20.2%	3.4%	(15.0%)	(12.8%)
Operational efficiency					
Liquidity ratio	2:1	8.12	2.70	1.87	1.55
Current ratio	1:1	7.20	2.53	1.53	1.29
Interest Coverage	3:1	26.98	12.68	(1.13)	16.81
Asset investment ratio	>100%	87%	80%	160%	265%
Self financing ratio		29.4%	21.6%	(0.2%)	28.6%
Own source revenue		83.0%	80.1%	61.8%	57.4%
Debt collection	30 days	20	26	30	38
Creditor turnover	30 days	21	36	30	41
Rates per capita ($)		1 472	1 410	1 258	1 234
Rates to operating revenue		67.9%	62.2%	48.1%	38.6%
Rates per rateable property ($)		1 058	868	773	783
Operating cost to rateable property ($)		1 312	1 173	1 658	1 902
Employee costs expensed ($'000s)		1 176	1 143	2 483	3 373
Employee costs capitalised ($'000s)		40	75	88	17
Total employee costs ($'000s)		1 216	1 218	2 571	3 390
Employee costs as a % of operating expenses		27%	25%	40%	49%
Staff numbers (FTEs)		19	18	38	58
Average staff costs ($'000s)		64	68	68	58
Average leave balance per FTE ($'000s)		5	4	5	7

** For commentary on these indicators refer to the Financial Results section of this chapter.*
*** Information not available to calculate ratio.*
**** This benchmark between 0% and (50%) is anticipating a situation where total net liabilities should not be greater than 50% of operating revenue. Where the ratio is positive, as is the case with Tasman Council, liquid assets exceed total liabilities.*

Comment

Financial ratios relating to Profitability, Asset management and Liquidity were discussed in the Financial Results section of this Chapter. This section will focus on Operational efficiency measures.

Liquidity and Current ratios were all positive and above benchmark in most years under review indicating an ability to meet short-term commitments. This was due mainly to the cash investments held at each year end and low levels of unpaid creditors.

Interest coverage ratios reflected Council's low level of finance costs reflecting its relatively low level of debt.

Self financing ratio indicates Council generated sufficient cash flows from operations in three of the four years under review. The negative ratio in 2008-09 was attributable to an unusually high payables balance at 30 June 2008.

Own source revenue was consistent over the last two periods. It increased significantly in 2009-10 due to a reduction in Commonwealth and State grant funds totalling $1.245m, to operate the Multi Purpose Aged Care Facility.

Debt collection ratio improved consistently over the period of review. Creditor turnover fluctuated but was better than benchmark at 30 June 2011. Council's policy is to pay all outstanding invoices within a 30 day period.

Rates statistics increased significantly from 2008-09 to 2009-10 with Rates to operating revenue increasing 14.1% as a result of higher rates charged and growth in the number of rateable properties.

Employee numbers in 2010-11 remained consistent with 2009-10. The significant decrease from 2007-08 to 2008-09 and to 2009-10 was primarily due to:

- a pro rata adjustment to staff numbers in 2008-09 to reflect that Multi Purpose Aged Care Facility staff were only employed by Council for the seven months ended 31 January 2009
- Brighton Council was engaged to provide services performed originally by administrative staff, with these charges included in Other expenses.

Average staff costs per FTE were relatively consistent over the past 3 years.

OTHER STATE ENTITIES
31 DECEMBER 2011

ANZAC DAY TRUST

INTRODUCTION

The *Anzac Day Observance Act 1929* (the Act) legislates for 25 April each year to be observed as a public holiday, known as Anzac Day, in commemoration of serving and ex-servicemen and women. The Act specified what activities may or may not occur on Anzac Day including race meetings, sporting events, and public entertainment activities. The Act also creates the Anzac Day Trust, the role of which is to promote the welfare of veterans and their dependents by providing financial assistance through the Anzac Day Trust Fund. In exchange for allowing sporting events, such as race meetings, on Anzac Day, the RSL negotiated that a portion of profits from those race meetings would be provided to the Fund. However it was very rare that Anzac Day race meetings resulted in a net profit. Because of this, the legislation was changed to allow a payment in lieu of the sum derived from race meetings.

On 17 November 2011 the Act was amended following an extensive review and consultation by the Department of Treasury and Finance at the request of the Minister. The amendments enacted sought to ensure that the Act reflected contemporary views about the commemoration of Anzac Day, and that the role and governance of the Anzac Day Trust, remains appropriate.

Significant amendments included:

- all restrictions relating to activities undertaken on Anzac Day will apply until 12.30pm, (previously 12:15pm)
- restrictions were expanded to include shows, regattas, markets, bazaars and gambling activities (gambling restrictions begin at 4.00am)
- the annual report of the Trust to be made publicly available
- updated governance arrangements.

The amendment also updated the *Shop Trading Hours Act 1984* to provide that most shops, apart from pharmacies, service stations and small shops, will be closed on Anzac Day until 12.30pm. Related employee protection provisions were also made.

With effect from 1 January 2012 administration of the Fund was transferred from the Department of Treasury and Finance to the Department of Premier and Cabinet.

The Trust's special purpose financial statement is prepared on a cash basis, which is in accordance with Section 14 of the Act.

The Responsible Minister is the Minister for Veterans' Affairs.

AUDIT OF THE 2011 FINANCIAL STATEMENTS

Signed financial statements were received on 21 February 2012 and an unqualified audit report was issued on 15 March 2012.

KEY FINDINGS AND DEVELOPMENTS

Under section 17 *Audit Act 2008*, the Trust is required to submit its financial statements to the Auditor-General within 45 days after the end of the financial year. The Trust submitted its financial statements on 21 February, six days late. Steps need to be taken to comply with this statutory deadline.

Apart from the Trust missing the statutory deadline, the audit was completed satisfactorily with no other major items outstanding.

SUMMARY OF FINANCIAL RESULTS

	2011	2010
	$'000s	$'000s
Opening Cash Balance	**2**	**20**
Total Receipts	22	22
Total Payments	23	40
Closing Cash Balance	**1**	**2**

Comment

The decrease in Total Payments of $0.017m was mainly due to the timing of grant payments to Legacy Tasmania. The Legacy grant payment is related to welfare services for ex-service personnel and their dependents. The decrease was due to only one scheduled payment in 2011, compared to two payments in the prior year covering 2010 and 2009.

BOARD OF ARCHITECTS OF TASMANIA

INTRODUCTION

The Board of Architects of Tasmania (the Board) was established under the *Architects Act 1929*. Its functions are to provide for registration of architects, conduct examinations for registrations or determine qualifications and attend to complaints.

The Responsible Minister is the Minister for Workplace Relations.

AUDIT OF THE 31 DECEMBER 2011 FINANCIAL STATEMENTS

Signed financial statements were received on 26 March 2012, which was 40 days after the statutory reporting deadline, and an unqualified audit report was issued the 11 May 2012.

Other than late submission of the financial statements, the audit was completed satisfactorily with no major items outstanding.

SUMMARY OF FINANCIAL RESULTS

	2011	**2010**
	$'000s	$'000s
Total Revenue	44	42
Total Expenses	33	36
Net Surplus	**11**	**6**
Total Assets	90	78
Total Liabilities	27	25
Net Assets	**63**	**53**
Total Equity	**63**	**53**

Comment

The Board's Net Surplus increased from $0.006m to $0.011m in 2011. The prior year's result was primarily affected by a retrospective back pay in the Registrar's fees of $0.006m.

Net Assets increased from $0.053m to $0.063m at 31 December 2011 being the Net Surplus for the year. Total Assets comprised cash on hand and cash invested in short-term bank deposits.

PROPERTY AGENTS TRUST

INTRODUCTION

The Property Agents Trust (the Trust) was established under the *Property Agents and Land Transactions Act 2005* (the Act). The functions of the Trust are to manage the Property Agents Guarantee Fund (the Fund) and to generate income to distribute to specified entities in accordance with the Act.

In managing the Fund, the Trust's functions include:

- establishing and maintaining the Fund to meet claims for loss suffered by people as a result of certain acts and omissions of real estate agents, property managers and general auctioneers, their directors, employees or agents
- paying any compensation arising from claims made under section 169 'Right to claim compensation' of the Act.

The Responsible Minister is the Minister for Corrections and Consumer Protection.

AUDIT OF THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2011

Signed financial statements were received on 15 February 2012 and an unqualified audit report was issued on 28 March 2012.

KEY FINDINGS AND DEVELOPMENTS

During the 2011 financial year the Trust resolved to change its financial year end from 31 December to 30 June. This was done so as to align its financial reporting period with that of the Property Agents Board. Financial statements were prepared for the six months to 30 June 2011 an analysis of which was included in our *Report of the Auditor-General No.7 of 2011-12*. However, under current legislation the Trust is still required to prepare financial statements as at 31 December. The Summary of Financial Results in this Chapter includes the two full years ended 31 December 2010 and 31 December 2011. The Trust has requested an amendment to the current legislation to allow preparation at 30 June.

The audit was completed satisfactorily with no major items outstanding.

SUMMARY OF FINANCIAL RESULTS

	2011	**2010**
	$'000s	$'000s
	12 months	12 months
Total Revenue	2 434	2 064
Total Expenses	1 615	1 766
Net Surplus	**819**	**298**
Total Assets	13 473	12 542
Total Liabilities	125	13
Net Assets	**13 348**	**12 529**
Total Equity	**13 348**	**12 529**

Comment

The Trust recorded a Net Surplus of $0.819m, an improvement of $0.521m, compared to the prior year. This was predominately due to higher interest revenues of $0.375m, or 18.32%, combined with a reduction in Trust distributions, down $0.159m, or 9.15%. Distributions were to the:

- Property Agents Board for education and training, $0.619m, (2010, $0.473m)
- Real Estate Scholarship Board to assist in funding the employment and training of scholarship trainees, $0.506m, ($0.415m)
- Department of Justice for administration costs, $0.453, ($0.507m), and no distribution to the Rental Bond Authority in 2011, ($0.340m).

The Trust's administration expenses totalled $0.038m in 2011, ($0.030m).

Total Assets comprised predominantly Cash, $4.609m ($0.599m), and other financial assets including deposits and floating rate notes, $8.502m, ($11.718m). In the main these cash balances represent the Fund which the Act requires must be no less than $3.000m. These funds are invested as prescribed by section 166 of the Act, with net income generated, together with interest earned on trust accounts managed by real estate agents, property managers, general auctioneers and conveyancers, added to the Fund.

THE SOLICITORS' TRUST

INTRODUCTION

The Solicitors' Trust (the Trust) was established under the *Legal Professional Act 1959* and has continued under the *Legal Profession Act 2007* (the Act). The Trust consists of three Trustees appointed by the Governor, comprising two legal practitioners nominated by the Law Society and one person nominated by the Minister who is a member of a recognised accounting body. The function of the Trust is to administer and manage the Solicitors Guarantee Fund (the Fund).

The Fund is utilised for operations prescribed under the Act including operation of the Legal Profession Board and the Disciplinary Tribunal, compensation of claimants, administration and for any other purpose approved by the Minister.

The following monies are deposited into the Fund:

- interest earned on statutory deposits made by legal practitioners
- interest earned on trust accounts operated by legal practitioners
- unclaimed money that remains unclaimed 12 months after the date of an annual publication by the Trust of an advertisement detailing unclaimed money paid by legal practitioners since the previous advertisement
- interest on funds held.

Statutory Deposits from funds contributed by law firms are in accordance with quarterly calculations prescribed by the Act. These funds are not owned by the Trust and are available for recall by the law firms at any time. The Statutory Deposits earn interest which is either deposited to the Trust's operating account or reinvested on maturity.

The Trust invests funds in accordance with the *Trustee Act 1898* and applies income arising from funds invested to meet operational expenses and to maintain the Fund. The Fund is required to be maintained at an amount of $3.500m, or such greater amount as the Minister and the Trust determine ($4.500m as at 31 December 2010). The Trust is required to advise the Minister if the Fund exceeds $3.500m, or the greater amount determined by the Minister and the Trust. The Minister may then invite law bodies, such as the Legal Profession Board, Legal Aid Commission of Tasmania, Law Foundation of Tasmania or any other law related body to make application for a grant of money from the Fund. The Minister may also specify conditions under which a grant is made.

The Trust primarily derives its income from interest earned on the Fund, on statutory deposits made by legal practitioners and on funds held in trust accounts of legal practitioners. The costs of administering the Trust itself are relatively low, with the main expenditure being for salaries and Trustee remuneration. Receivables are raised for amounts to be recovered from solicitors when they are in default, but which are then provided against based on an assessment of recovery.

The primary purpose of the Fund is to provide compensation to clients of legal firms for the loss of money or other property held in trust as a result of default in specified circumstances.

The Trust reports on a calendar year basis.

The Responsible Minister is the Attorney-General.

AUDIT OF THE 31 DECEMBER 2011 FINANCIAL STATEMENTS

Signed financial statements were received on 23 February 2012, which was eight days late, with an unqualified audit report issued on 5 April 2012. Other than late submission of the financial statements, the audit was completed satisfactorily with no matters outstanding.

KEY FINDINGS AND DEVELOPMENTS

The Trust prepares special purpose financial statements on the basis of the unique financial activities it undertakes. Details of the basis for the preparation the Trust's financial statements are outlined in the notes to these statements. This basis details that the Trust complies with the following accounting standards:

- AASB 107 *Statement of Cash Flows*
- AASB 1031 *Materiality* and
- AASB 110 *Events after the Reporting Period*.

We have accepted these statements concluding from our audits that they present fairly, in all material respects, the Trust's financial performance and position.

However, in the Chapter in this Report headed Basic reporting framework for preparers of special purpose financial reports, we recommend that State entities preparing special purpose financial reports, as a minimum comply with the following standards:

- AASB 101 *Presentation of Financial Statements*
- AASB 107 *Statement of Cash Flows*
- AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- AASB 1031 *Materiality*
- AASB 1048 *Interpretation of Standards*.

We also recommend compliance with other standards appropriate to the particular circumstances of each State entity or application of the AASB reduced disclosure standard. Therefore, as this relates to the Trust, in addition to the three standards they are currently complying with, we recommend compliance with AASB 101, 108 and 1048.

SUMMARY OF FINANCIAL RESULTS

	2011	2010
	$'000	$'000
Income	4 068	2 717
Expenditure	139	172
Net Surplus from Operations	**3 929**	**2 545**
Movement in provisions	149	(223)
Net Surplus after Non-Operating Items	**4 078**	**2 322**
Distributions:		
Legal Profession Board	811	757
Legal Aid Commission	802	250
Department of Justice	0	150
Sentencing Advisory Council	250	0
Launceston Community Legal Centre	167	0
Women's Legal Service	81	0
Hobart Community Legal Centre	75	0
Other Grants	65	0
Net Surplus after Distributions	**1 826**	**1 165**
Cash	9 239	8 180
Accounts receivable	1 169	1 193
Accrued Interest on Investment & Deposit Accounts	635	279
Other assets	7	7
Total Assets	**11 049**	**9 659**
Payables	45	33
Provision for costs	263	278
Provision for Guarantee claims	1 091	1 523
Total Liabilities	**1 398**	**1 834**
Total Equity	**9 651**	**7 825**

Comment

The Trust achieved a Net Surplus from Operations of $3.929m which was $1.384m, higher than in 2010. This was mainly due to a $1.402m increase in interest revenue received or accrued.

The Net Surplus after Non-Operating Items increased by $1.755m over the prior year, principally due to an improved assessment of the guarantee fund claims provision in respect of Avery and Piggott, Wood and Baker.

The Trust made $2.251m (2010, $1.157m) in distributions in 2011 including, $0.811m ($0.757m) to the Legal Profession Board, $0.802m ($0.250m) to the Legal Aid Commission, $0.250m to the Sentencing Advisory Council and $0.167m to the Launceston Community Legal Centre.

Total Assets comprised predominantly Cash, $9.239m (2010, $8.180m) and accounts receivable (liquidator's reimbursements), $1.169m ($1.193m). Liabilities were principally the Provision against guarantee claims, $1.091m, ($1.523m). The Trustees reduced the fund estimates mainly due to recent judgements and reassessments for compensation for outstanding claimants on the Piggott Wood & Baker and John Avery Guarantee Fund provisions.

At balance date the Trust administered $22.457m, ($26.413m) of Statutory Deposits. The balance is dependent upon the level of activity and funds held in trust by the legal practitioners.

TASMANIAN QUALIFICATIONS AUTHORITY

INTRODUCTION

The Tasmanian Qualifications Authority (the Authority) was established under the *Tasmanian Qualifications Authority Act 1985*. Its functions include providing consolidated statements of qualifications to students, conducting and moderating assessment for senior secondary courses and issuing the Tasmanian Certificate of Education (TCE). The Authority also accredits relevant courses and registers Vocational Education and Training and non-university higher education organisations.

The Responsible Minister is the Minister for Education and Skills.

AUDIT OF THE 31 DECEMBER 2011 FINANCIAL STATEMENTS

Signed financial statements were received on 27 February 2012 and an unqualified audit report was issued on 2 March 2012.

For the first time, at 31 December 2011, the Authority was required under section 17 of the *Audit Act 2008* to submit its financial statements to the Auditor-General within 45 days after the end of the financial year. The Authority did not provide signed financial statements within this timeframe; however, working with the Department of Education, who prepare the statements, it is implementing procedures to address this.

Other than late submission of the financial statements, the audit was completed satisfactorily.

SUMMARY OF FINANCIAL RESULTS

In accordance with Ministerial approval, the Authority's financial statements were prepared on a cash basis.

	2011	**2010**
	Actual	Actual
	$'000s	$'000s
Opening Trust Fund Balance	**566**	**505**
Total Receipts	3 675	3 699
Total Payments	3 618	3 638
Excess of Receipts over Payments	**57**	**61**
Closing Trust Fund Balance	**623**	**566**

Comment

The Authority's main source of income was attributed appropriation receipts, $3.582m, (2010, $3.476m), which it received from the Department of Education.

Significant payments included,

- salaries and wages $2.256m, (2010, $2.175m). The Authority employed an average of 18.42 FTE's (full-time equivalents) in 2011, (2010, 20.03 FTE). Despite this fall in FTE's, salaries and wages increased by $0.081m in 2011due to:

    - incremental progression for employees within their salary classifications
    - Tasmanian State Service Award rates increase of 2% in March 2011
    - a higher rate paid to casuals due to the Authority paying below minimum wages in prior years, including back pay.
- rent $0.221m, (2010, $0.221m)
- travel and transport $0.181m, ($0.181m)
- printing costs relating to general activities, including marking of external exams $0.131m, ($0.160m).

The Authority's trust fund balance increased steadily in recent years to $0.623m at 31 December 2011. These funds, which are held on behalf of the Authority within the Department of Education, are held to enable the Authority to meet its future operating commitments.

THEATRE ROYAL MANAGEMENT BOARD

INTRODUCTION

The functions of the Theatre Royal Management Board (the Board) include management of the Theatre Royal (the Theatre) as a place of theatre and performing arts and to arrange for, organise and promote performing arts in the Theatre and other places in Tasmania. The Theatre employed six full time staff, four part time staff and a number of casual employees during the year.

The Responsible Minister is the Minister for Tourism and the Arts.

AUDIT OF THE 31 DECEMBER 2011 FINANCIAL STATEMENTS

Signed financial statements were received on 15 February 2012 and an unqualified audit report was issued on 28 February 2012.

Note 16 to the financial statements, Economic Dependency includes the comment that:

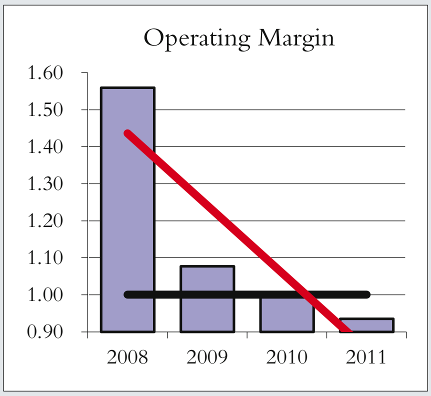
> 'The Theatre Royal Management Board is dependent on the State Government for a significant portion of its revenue used to operate the business. At the date of this report the Board have no reason to believe the State Government will not continue to support the Theatre Royal Management Board.'

As a result, the financial statements were prepared on the basis that the Theatre is a going concern.

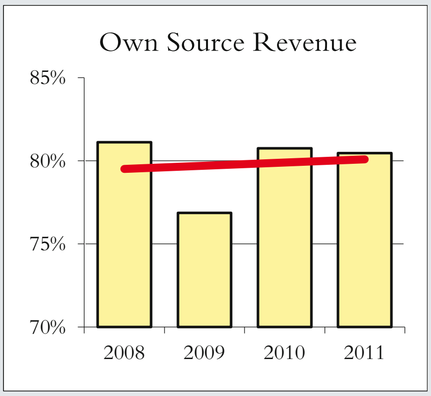
The audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

The following graphs summarise key ratios highlighting important aspects of the Board's financial performance over the past four years. In general, the ratios indicate:



Operating margin showed a downward trend over the four years under review, and dropped below the benchmark of 1 in 2011. Over the four year period the Board averaged a break-even result, reflecting its not-for-profit status. However, ticket sales were, in the main, down in 2011 which the Board will need to address so as to avoid potential going concern difficulties and/or greater reliance on the State.



Own source revenue ratio showed the Board generated on average 80% of operating revenue from its own sources, mainly ticket sales and hire income. Fluctuations between years reflected funding for one-off projects, such as the development of an Asset Management Plan ($0.045m received in 2009 and $0.026m in 2010) and commissioning an Architectural Study ($0.030m in 2009).

COMPREHENSIVE INCOME STATEMENT

	2011	2010
	$000's	$000's
Operating revenue	1 483	1 594
Entrepreneurial ventures surplus	68	0
Grants and contributions	288	376
Donations	4	4
Total Revenue	**1 843**	**1 974**
Salaries and operating expenses	1 852	1 752
Depreciation	119	122
Entrepreneurial ventures deficit (surplus)	0	90
Total Expenses	**1 971**	**1 964**
Net (Deficit)/Surplus	**(128)**	**10**
Comprehensive (Deficit)/Surplus	**(128)**	**10**

Comment

In 2011 the Board recorded a Net Deficit of $0.128m, compared to a Net Surplus of $0.010m in 2010. As a not-for-profit entity, the Board is not expected to generate surpluses but rather to ensure sustainable delivery of its objectives.

There was a decrease in the number of events held at the Theatre from an abnormally high 184 in 2010 to a normal 153 in 2011 and, at the same time, attendance levels also suffered. This was believed to be predominantly a result of the global financial uncertainty that created a difficult trading environment for theatre companies throughout Australia in 2011. These factors caused a lower level of utilisation of the Theatre resulting in lower Operating revenue, down $0.110m, a major cause of the Net deficit. In addition, costs related to the Board's strategic initiatives, principally being the Wapping P4 development proposal, contributed to the Net Deficit.

Reasons for variations in surpluses or deficits of entrepreneurial ventures are difficult to interpret from one year to the next. In 2011 there was a small surplus of $0.068m.

STATEMENT OF FINANCIAL POSITION

	2011	2010
	$000's	$000's
Cash	237	387
Investments	1 537	1 479
Receivables	308	46
Other	59	97
Total Current Assets	**2 141**	**2 009**
Capital WIP	6	0
Equipment	14	21
Leasehold improvements	908	1 019
Total Non-Current Assets	**928**	**1 041**
Payables	772	628
Provisions - employee benefits	54	55
Other	0	0
Total Current Liabilities	**826**	**683**
Provisions - employee benefits	80	75
Total Non-Current Liabilities	**80**	**75**
Net Assets	**2 163**	**2 291**
Accumulated Surpluses	2 163	2 291
Total Equity	**2 163**	**2 291**

Comment

Equity decreased by the Comprehensive Deficit of $0.128m to $2.163m at 31 December 2011. The corresponding decrease in Net Assets was reflected in:

- lower Cash, $0.150m, for reasons provided in the Statement of Cash Flows section of this Chapter
- higher Receivables, $0.262m, due to timing of debtors at year end, predominately Arts Tasmania, $0.121m for grant monies outstanding at year end, and instalment payments owing for tickets ordered being reclassified as an asset for the first time, $0.099m
- decreased Other assets, $0.038m, mainly due to lower prepayments for insurance and settlement fees
- lower Non-current assets, $0.113m, mainly reflecting the annual depreciation charge
- increased Payables, $0.144m, as a result of the Taste of Tasmania event not being settled at 31 December 2011.

The Theatre Royal building, land and certain items of plant and equipment are vested in the Crown in accordance with section 12 of the *Theatre Royal Management Board Act 1986*. Although there is no financial value placed on the lease, for the purposes of its financial statements, the Board acknowledges the lease of the building, and related plant and equipment, as an asset in accordance with section 10(4) of the aforementioned Act.

STATEMENT OF CASH FLOWS

	2011	2010
	$000's	$000's
Government grants	295	350
Receipts from customers	1 204	1 531
Payments to suppliers and employees	(1 665)	(1 709)
Interest received	82	66
Cash from operations	**(84)**	**238**
Payments for fixed assets	(7)	(13)
Payments for leasehold improvements	0	(2)
Deposits to investments	(59)	(148)
Cash from (used in) investing activities	**(66)**	**(162)**
Net increase (decrease) in cash	**(150)**	**75**
Cash at the beginning of the year	387	312
Cash at end of the year	**237**	**387**

Comment

The Board's overall cash position declined by $0.150m to $0.237m at 31 December 2011. This negative result was primarily due to the reduction in Cash from operations. This resulted from lower ticket sales and was discussed previously in the Comprehensive Income Statement section of this Chapter.

FINANCIAL ANALYSIS

	Bench Mark	2011	2010	2009	2008
Financial Performance					
Result from operations ($'000s) (before capital grants)		(128)	10	117	549
Operating margin *	>1.0	0.94	1.01	1.08	1.56
Underlying result ratio		(6.9%)	0.5%	7.1%	35.9%
Self financing ratio		(4.6%)	12.0%	28.0%	14.3%
Own source revenue (%) *		80.5%	80.7%	76.9%	81.1%
Financial Management					
Current ratio	>1.0	2.59	2.94	2.67	4.54

* *For commentary on these indicators refer to the Financial Results section of this Chapter.*

Comment

Underlying result ratio declined in each year under review in line with the lower Result from operations. In 2011 a deficit result was achieved mainly due to the decline in ticket sales for the period.

Self financing ratio indicated the Board's ability to fund its operations and programs from operating cash. The ratio fluctuated over the four year period in line with movements in cash generated from operations. In 2011 a negative ratio was recorded because net cash from operations was negative.

Current ratio was above benchmark in all four years, indicating that the Board was able to meet its short-term commitments.

UNIVERSITY OF TASMANIA

INTRODUCTION

The University of Tasmania (the University) is administered under the provisions of the *University of Tasmania Act 1992*. The University relies predominantly on Commonwealth support for its recurring activities.

The Consolidated financial report comprises the financial statements of the University, being the parent entity, and entities under its control during the financial year. Controlled entities are:

- University of Tasmania Foundation Inc
- AMC Search Limited
- UTASAT Pty Ltd as trustee for the UTAS Asset Trust. Its activities were not material and at 31 December 2011 it had net assets of $638
- Southern Ice Porcelain Pty Ltd (deregistered 28 March 2011, it did not trade in 2011).

The Commonwealth Department of Education, Employment and Workplace Relations (DEEWR) sets financial reporting guidelines that Universities must adhere to. These requirements are consistent with Australian Accounting Standards and the University complies with these guidelines and standards.

The University reports on a calendar year basis, hence the financial results relate to the year ended 31 December 2011. The results reported in this Chapter relate to the University's consolidated financial performance.

The Responsible Minister is the Minister for Education and Skills.

AUDIT OF THE 2011 FINANCIAL STATEMENTS

Signed financial statements were received on 14 February 2012, signed by the University Council on 10 February 2012, and an unqualified audit report was issued on 15 February 2012.

The audits of the University's financial statements, and those of its subsidiary entities that were subjected to audit, were completed successfully with no matters outstanding.

As part of the audit, a management letter was issued recommending that management:

- obtain independently confirmed valuations of its unlisted investment funds at 31 December
- obtain an updated actuarial valuation of the Supplementary Pension Scheme liability.

KEY FINDINGS AND DEVELOPMENTS

Major developments at the University this year included:

- Further development of Menzies Research Institute/Health Sciences Collocation project referred to as Menzies stage 2. An additional $15.646m was spent in 2011 and the total balance of work in progress at 31 December 2011 was $21.667m. The total project budget is $89.700m and target completion date is January 2013.
- The Domain House Agreement for Sale of Land between the University and Department of Economic Development, Tourism and the Arts came into effect on 29 November 2011. The University purchased the Domain House land and buildings for $4.500m and received $3.500m from the State Government towards the restoration of Domain House.
- In December 2011 the University signed a deed agreeing to surrender the lease of its Clinical School Building, effective 30 June 2013, to the Minister administering the *Crown Lands Act 1076 (Tas)* with no compensation payable by the Crown. Leasehold improvements of $7.280m were impaired immediately through the asset revaluation reserve.
- Further development of the Institute for Marine and Antarctic Studies (IMAS) building adjacent to CSIRO on the Hobart waterfront. Target completion is early 2014. In connection with this development, the University was granted Princess Wharf land for no consideration by the Department of Primary Industries, Parks, Water and Environment. This land was independently valued at $3.500m. In addition, the University purchased the Wharf Apron at Princess Wharf for $0.150m.
- Continued development of the Technology One Student Management System (SLIMS project) which has a budget of $22m. A further $3.230m was spent in 2011 and the total amount in work in progress at 31 December was $5.804m.
- A Deed of Agreement between the University and Tasmanian University Union Incorporated (TUU) came into effect on 31 December 2011. The University and the TUU have agreed that in return for certain benefits provided to the TUU, the University will manage the trading operations and in particular will:
    - acquire the retail and catering operations of the TUU
    - purchase the residential accommodation owned by the TUU
    - take over the TUU's head leases for residential accommodation
    - take over the leases relating to the TUU lease premises at Inveresk.
- During the year the Commonwealth recovered $6.331m relating to prior year enrolment reconciliations. In addition to 2010 reconciliation adjustments, this also included $1.882m of adjustments relating to 2005-2009.
- An improvement in operating cash flows of $16.615m. Cash generated from operating activities improved to $26.461m which was more in line with cash generated in 2009 and 2008.
- Net investment returns totalled $5.335m, predominantly from short-term treasury funds. This was $9.000m less than 2010, with the return on the long-term investment portfolio being negative 1.0%. Details of these movements are shown in the following table:

	2011	**2010**	**2009**	**2008**
	$'000s	$'000s	$'000s	$'000s
Investment revenue and income				
Interest	7 331	4 820	6 054	3 633
Dividends	18 870	9 441	7 452	13 942
Realised gains / (losses)	(10 566)	(10 151)	789	(3 089)
Unrealised gains / (losses)	(10 300)	10 225	13 359	(41 976)
Proceeds from sale of investment (IELTS*)	0	0	0	3 192
Total	**5 335**	**14 335**	**27 654**	**(24 298)**

* *International English Language Testing System*

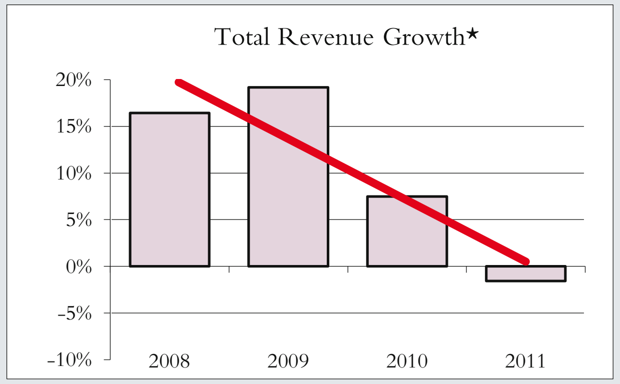
FINANCIAL RESULTS

The University incurred an operating deficit of $5.593m (2010, $0.518m) but a Comprehensive surplus of $13.506m (2010, $98.961m). While the growth in student load in 2011 was 1.1%, this was lower than target negatively impacting the operating result. Additionally, as noted previously, a return of prior year payments totalling gross $6.331m was made to the Commonwealth. The deficit was also caused by total salary costs, which grew by 7.6% in 2011, growing at a greater rate than revenue, and higher other operating expenses which increased by 16.5%.

For further explanations, refer to comments under the Statement of Comprehensive Income Section in this Chapter.

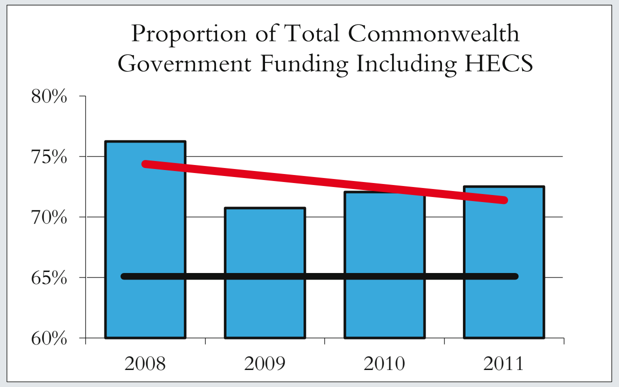
At 31 December the University's net assets totalled $791.342m, an increase of $13.506m on 2010 being the comprehensive surplus for the year.

The following graphs summarise key ratios highlighting important aspects of the University's financial performance over the past four years. Where applicable, in each graph the benchmark is represented by the black line with the red line being the actual performance trend line. In general, the ratios indicated:



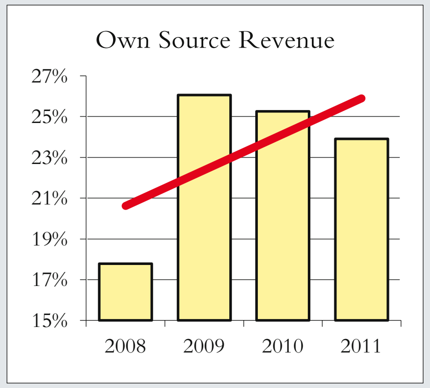
Total Revenue growth, expressed in percentage terms, was high in 2009 when investment gains were particularly high compared to the other three years under review. The decline in 2011 was mainly due to:

- lower Australian Government financial assistance for capital funding - 2011: $18.000m (2010, $48.534m)
- lower Investment revenue due to adverse investment conditions
- total enrolment growth in 2011 was 1.1% (2010, 7%).

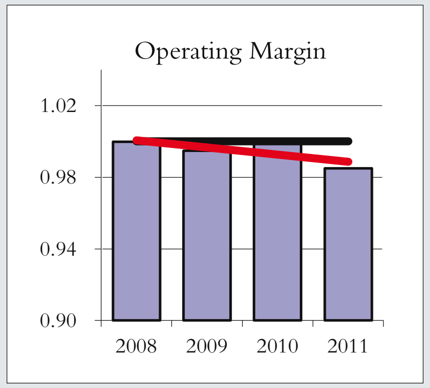


The University's reliance on Commonwealth Government Funding remained relatively constant over the review period. The DEEWR benchmark of less than 65% was again exceeded in 2011, indicating the University remained in a high risk category. (DEEWR's benchmark is aimed at universities becoming less reliant on the Commonwealth for their funding).

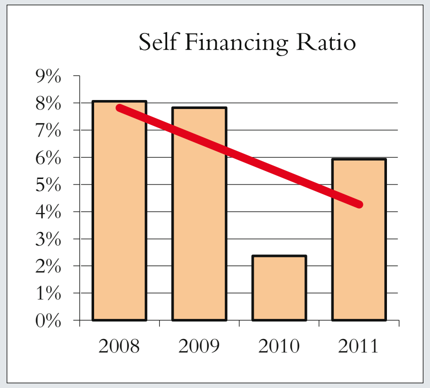
**Total revenue includes all revenue sources inclusive of capital grants*



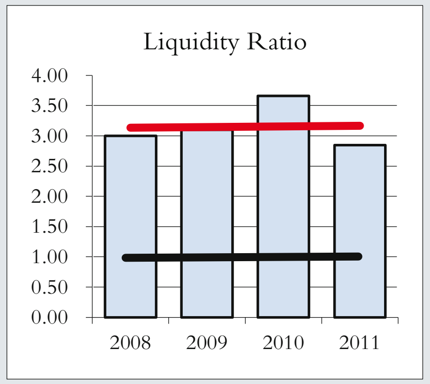
Own source revenue as a percentage of total revenue decreased slightly in 2011 due to a reduction in capital grants, investment gains and contract research revenue relative to state and commonwealth funding.



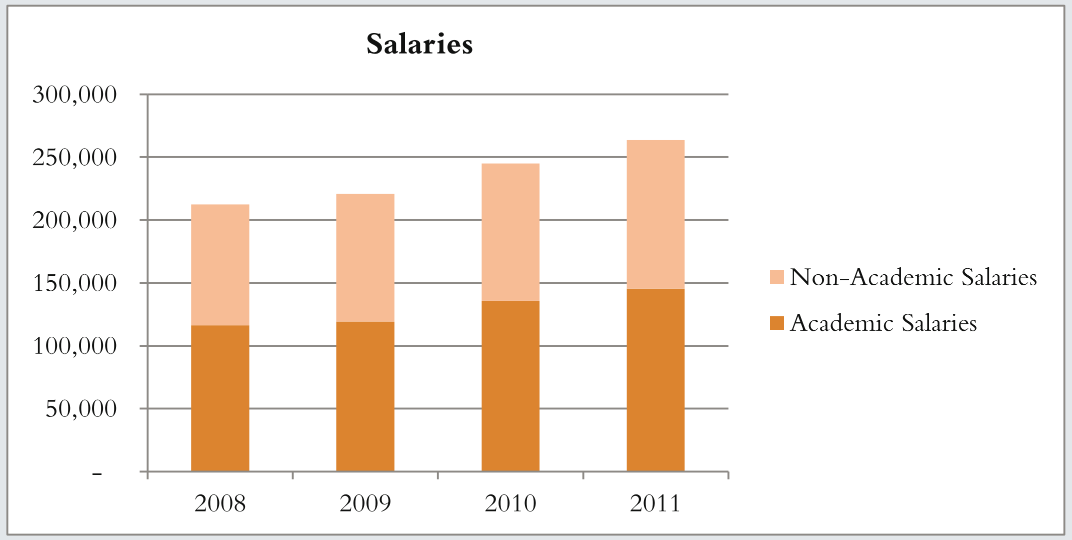
The Operating margin approximated the benchmark of one in all four years under review, however, for reasons previously outlined, 2011 was below 2010.



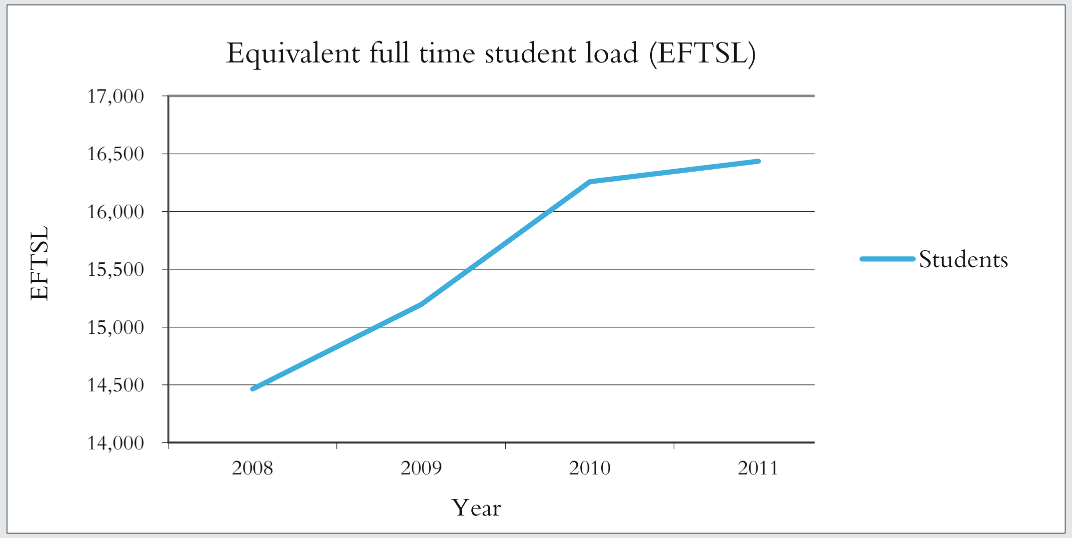
The Self financing ratio is derived from net operating cash flows divided by operating revenues. The decline in 2010 was mainly due to significantly lower Cash generated from operating activities ($9.846m) primarily caused by the return of prior year Commonwealth Grant Funds of $9.772m. Cash generated from operating activities improved to $26.461m in 2011 which was more in line with cash generated in 2009 and 2008.



The Liquidity ratio was above the benchmark in all four years indicating the University was able to meet short-term commitments. The ratio was also above the DEEWR benchmark of 'greater than one', resulting in the University being in a low risk category for this measure.



- Higher total salary costs in 2011 were primarily due to increases in:
  - academic salary costs of 7.17% (to $145.594m)
  - non-academic salary costs of 8.15% (to $118.127m)
- Other impacts on salary costs were:
  - Enterprise Bargaining Agreements (EBA) increments of 4%, effective 1 July 2011
  - incremental progressions for employees within their salary classifications
  - current year adjustment to annual leave of $2.542m (2010, $4.923m).



Total student numbers steadily increased over the four year period. The University continues to target student growth, however, the 2011 result was below target. The increase of 178 students in 2011 or 1.1% was significantly lower than 2010 (increase of 1,061 students or 7%). The University is highly dependent on student numbers for Commonwealth funds to finance its operations.

COMPREHENSIVE INCOME STATEMENT

	2011	**2010**	**2009**	**2008**
	$'000s	$'000s	$'000s	$'000s
State government grants	14 078	12 946	12 481	13 512
Commonwealth grants	262 662	235 454	237 092	217 674
Higher Education Contributions scheme	60 743	59 268	58 277	48 513
User charges and fees	60 132	54 168	53 380	49 513
Other operating revenue	48 966	54 403	36 951	42 337
Deferred Government superannuation contributions	(356)	90	(2 859)	3 170
Total Revenue	**446 225**	**416 329**	**395 322**	**374 719**
Academic salary costs	144 178	130 933	119 363	116 139
Non-academic salary costs	117 001	109 227	101 557	96 365
Depreciation and amortisation	20 256	19 828	17 777	16 810
Repairs and maintenance	16 393	14 431	18 010	16 592
Research sub-contractors	27 378	29 341	21 664	19 705
Scholarships and prizes	20 671	21 467	22 299	20 831
Consultancy and advisory services	15 401	13 508	13 137	11 179
Other operating expenses	90 896	78 022	83 559	77 194
Actuarial reassessment of Commonwealth funded superannuation liability	(356)	90	(2 859)	(3 170)
Total Expenses	**451 818**	**416 847**	**394 507**	**371 645**
Net surplus (deficit) before taxation and non-operating adjustments	**(5 593)**	**(518)**	**815**	**3 074**
Income Tax Expense (benefit)	0	2	(2)	3
Net surplus (deficit) after taxation, before non-operating adjustments	**(5 593)**	**(520)**	**817**	**3 071**
Investment gains (losses)	5 335	14 335	27 654	(24 298)
Capital grants received from the State and Commonwealth	27 202	55 832	23 400	29 449
Current year movement in restricted funds	(814)	(5 711)	6 292	(915)
Income recognised upon integration with AMC	0	0	0	62 775
Take up of academic leave	(2 542)	(4 923)	0	0
Surplus for the year	**23 588**	**59 013**	**58 163**	**70 082**
Gain (loss) on revaluation of land, buildings and leasehold improvements	(10 082)	39 191	0	5 084
Gain (loss) on revaluation of art	0	757	0	0
Total comprehensive income	**13 506**	**98 961**	**58 163**	**75 166**

Comment

The Net deficit before taxation and non-operating adjustments was $5.593m, an increase of $5.075m on the previous year. The higher operating deficit was impacted by the University not reaching its student load target for the year. In addition, the University returned $6.331m of funding from prior years to the Commonwealth.

Salary costs grew at a greater rate than revenue. In 2011 academic salaries increased by 7.17% and non academic salaries by 8.15%. The other significant increase in expenditure was 16.50% in Other operating expenses. Reasons for line by line changes in income and expenses include:

- Commonwealth operating grants were higher by $27.208m, attributable to higher:
  - Commonwealth Grant scheme, $11.602m,
  - Partnership and Participation Program, $1.472m,
  - Diversity and Structural Adjustment Fund, $2.055m,
  - Scholarship funding, $1.558m,
  - Australian Research Council (ARC) funding, $2.440m,
  - Australian Government Research (non ARC funding), $5.889m
- User charges and fees increased by $5.964m derived from Fee paying overseas students $4.101m and $1.771m in other fees and charges
- Other operating revenue decreased by $5.437m, due to lower industry research funding of $2.393m, with a number of significant contracts concluding during 2010. In addition, there was a reduction of $3.259m in other non-research contract revenue
- total Academic salary costs were $9.738m higher and Non-Academic salary costs rose by $8.900m, primarily due to:
  - Enterprise Bargaining Agreements (EBA) increments of 4%, effective 1 July 2011
  - incremental progressions for employees within their salary classifications
  - current year adjustment to annual leave of $2.542m (2010, $4.923m)
- Other operating expenses increased by $12.874m, primarily due to higher payments for:
  - non-capitalised equipment, $2.806m,
  - consumables, $2.405m,
  - telecommunications, $2.873m, including an additional $1.600m related to a variation of the Tasmanian Research & Education Network (TREN) contract with Aurora.

The Surplus for the year fell by $35.425m (from $59.013m to $23.588m). In addition to the Net deficit before taxation and non-operating adjustments, the major variations in the Surplus when compared with the previous year were:

- Investment gains were $9.000m less than 2010 ($5.335m in 2011, $14.335m in 2010). The return on the long-term investment portfolio was negative 1.0%
- Capital grants received from the State and Commonwealth governments decreased by $28.630m (from $55.832m in 2010) mainly due to reduction in funding from the:
  - Education Investment Fund, $20.000m for the Integrated Marine Observing System (IMOS) received in 2010
  - Teaching and Learning Capital Fund, $10.534m. This was one-off funding received in 2010 for relocating the school of nursing to the Domain, $5.284m; extension of school of nursing facilities at Newnham, $4.031m and refurbishment of the Morris Miller Library, $1.219m.

Further, there was a $10.082m adjustment to the asset revaluation reserve in 2011. The adjustments related to the impairment to leasehold improvements arising from the surrender of the lease of the Clinical School Building to the State government, $7.280m and an adjustment of $2.802m to Work In Progress relating to a building previously revalued.

STATEMENT OF FINANCIAL POSITION

	2011	2010	2009	2008 *
	$'000s	$'000s	$'000s	$'000s
Cash and short term investments	78 825	77 569	68 478	67 175
Receivables	18 881	12 834	11 339	16 388
Investments	0	(63)	0	0
Inventories	967	737	582	691
Other	9 947	10 577	3 250	6 229
Total Current Assets	**108 620**	**101 654**	**83 649**	**90 483**
Payables	20 127	13 273	13 118	16 813
Provisions	36 423	29 835	23 653	22 598
Other	18 021	14 510	13 864	13 368
Total Current Liabilities	**74 571**	**57 618**	**50 635**	**52 779**
Net Working Capital	**34 049**	**44 036**	**33 014**	**37 704**
Investments	198 868	211 371	184 261	164 328
Property, plant and equipment	558 691	530 174	475 090	438 132
Receivables	8 521	10 426	10 513	11 408
Intangibles	18 902	9 194	3 110	1 000
Total Non-Current Assets	**784 982**	**761 165**	**672 974**	**614 868**
Provisions	27 689	27 365	27 113	31 860
Total Non-Current Liabilities	**27 689**	**27 365**	**27 113**	**31 860**
Net Assets	**791 342**	**777 836**	**678 875**	**620 712**
Restricted Funds	123 032	99 870	102 171	93 047
Reserves	269 395	279 477	239 529	239 529
Retained surpluses	398 915	398 489	337 175	288 136
Total Equity	**791 342**	**777 836**	**678 875**	**620 712**

* - *Due to a change in accounting policy in 2010, investments were shown as Non-Current Assets. Comparative information for 2009 and 2008 was amended accordingly.*

Comment

Consistent with the Comprehensive result discussed earlier in this Chapter, the University's Total Equity increased by $13.506m (2010, $98.961m).

The corresponding increase in Net Assets at 31 December 2011 resulted in the following major line item movements:

- Receivables increased by $6.047m due primarily to three large invoices raised in December 2011 for $3.840m. In addition, accrued revenue receivable increased by $1.912m, which mainly consisted of distributions from investment funding received in January
- Payables increased by $6.854m mainly due to higher accrued expenses of $7.962m due to the capital works programs in 2011
- Provisions, including superannuation and leave liabilities, increased by $6.912m. The annual leave provision increased by $4.305m and the long service leave provision increased by $3.661m
- Investment funds held reduced by $12.503m, with a portfolio return of negative 1% and outgoings on major capital projects

- Property, plant and equipment increased by $28.517m due to net additions and improvements at cost, $55.944m, less annual depreciation and amortisation charges of $19.543m and impairment losses of $7.280m. Major additions in 2011 included:
  - Medical Science stage 2 WIP, $15.646m,
  - Plant and equipment, $10.264m,
  - Land, $7.134m,
  - IMAS (Princess Wharf) WIP, $3.256m
- Intangibles increased by $9.708m. Major components were:
  - Web Services Phase 1, $2.340m,
  - Additions to work in progress of $6.123m (included $3.843m for the Student System project)
  - Amortisation offset of $0.712m.

STATEMENT OF CASH FLOWS

	2011	2010	2009	2008
	$'000s	$'000s	$'000s	$'000s
State government grants	19 336	14 241	14 269	15 463
Commonwealth grants and funding	311 200	285 636	287 075	268 710
Receipts from customers	133 126	130 433	126 397	111 688
Payments to suppliers and employees	(438 764)	(423 784)	(398 989)	(368 756)
Investment receipts	1 563	3 320	2 646	3 111
Cash from operations	**26 461**	**9 846**	**31 398**	**30 216**
Commonwealth Capital grant funding	23 702	55 832	18 000	23 449
State Capital grant funding	3 500	0	5 400	6 000
Net proceeds on disposal from (payments for) investments	(8 426)	(29 031)	14 418	(56 871)
Dividends and interest received*	22 503	10 875	10 763	14 464
Payments for property, plant and equipment and intangibles	(69 196)	(41 077)	(57 834)	(39 503)
Proceeds from sale of property, plant and equipment	649	1 425	995	1 140
Cash acquired on integration with AMC	0	0	0	15 061
Other investing cash flows	2 063	1 221	(1 634)	(850)
Cash (used in) investing activities	**(25 205)**	**(755)**	**(9 892)**	**(37 110)**
Net increase (decrease) in cash	**1 256**	**9 091**	**21 506**	**(6 894)**
Cash at the beginning of the year	77 569	68 478	46 972	23 259
Cash at end of the year	**78 825**	**77 569**	**68 478**	**16 365***

* *A change in accounting policy reclassified some investments to cash in 2009 with comparative information not adjusted.*

Comment

The Net increase in cash for the year was $1.256m, due to Cash from operations of $26.461m exceeding Cash used in investing activities of $25.205m by this amount. Cash from operations of $26.461m is in line with expectations being the Net deficit for the year of $5.593m adjusted for non-cash charges such as depreciation and amortisation, $20.256m and growth in employee provisions of $6.912m and in Payables of $6.854m.

Cash at year end amounted to $78.825m consisting of cash on hand, $10.278m and Short term deposits and bills, $68.547m. Short term deposits and bills consist of term deposits with major Australian financial institutions and a short term account at call with Tascorp.

FINANCIAL ANALYSIS

	Bench Mark	2011	2010	2009	2008
Financial Performance					
Total Revenue Growth*	>5	(1.59%)	7.47%	19.16%	16.44%
Proportion of Total Commonwealth Govt Funding*	<65	72.50%	72.06%	70.74%	76.25%
Result from operations before tax & non-operating adjustments ($'000s)		(5 593)	(518)	815	3 074
Operating margin *	>1.0	0.99	1.00	0.99	1.00
State grants as a % of operating income		3.2%	3.1%	3.1%	3.6%
HECS as a % of operating income		14%	14%	14%	13%
Underlying results ratio		(1.25%)	(0.12%)	0.20%	0.82%
Self financing ratio *		5.9%	2.4%	7.8%	8.1%
Own source revenue (%) *		24%	25%	26%	18%
Financial Management					
Liquidity ratio *	>1.0	2.85	3.66	3.10	3.00
Debt collection	30 days	43	31	27	31
Creditor turnover	30 days	43	30	30	27
Capital Management					
Asset renewal ratio	100%	70%	84%	N/A	N/A
Consumption ratio - Buildings	>60%	98%	50%	43%	44%
Consumption ratio - Leasehold improvements	>60%	97%	43%	41%	43%
Consumption ratio - Plant and equipment	>60%	44%	43%	43%	42%
Other Information					
Salaries and related expenditure as a % of operating income	50-70%	58%	58%	55%	57%
Academic staff numbers (FTE's)		1 035	1 004	985	1 036
Non-academic staff numbers (FTE's)		1 314	1 253	1 232	1 233
Total staff numbers (FTEs) (including casual staff)		2 349	2 257	2 217	2 269
Average staff costs ($'000s)		111	106	100	94
Average leave balance per FTE ($'000s)		19	16	13	12
Student Numbers **					
Research Higher Degree		574	607	649	668
Non-Research Operating Grant		11 716	11 623	10 785	10 222
Fee Paying Domestic		187	193	229	207
Fee Paying Overseas		2 490	2 362	2 220	2 156
Off-shore		1 468	1 472	1 313	1 210
Total		**16 435**	**16 257**	**15 196**	**14 463**

** For commentary on these indicators refer to the Financial Results section of this Chapter.*
*** Equivalent full-time student load (EFTSL)*

Comment

Comments on ratios not dealt with elsewhere in the Chapter are provided below.

Debt collection lengthened by 12 days in 2011, owing to higher Receivables at year end due primarily to three large invoices raised in December 2011 for $3.840m. All outstanding debts were considered by the University to be collectable. Further explanation of this balance was reported in the Statement of Financial Position section of this Chapter.

Creditor turnover worsened by 13 days in 2011, due primarily due to higher payables at year end due to increased capital works program.

Asset renewal ratio was below the benchmark and worsened by 14% in 2011. A ratio of 70% would normally indicate potential under investment in existing assets. However, this needs to be considered along with planned and actual expenditure on maintenance. The University has committed maintenance programs in place as shown in the following table:

	2011 $'000s	2010 $'000s
Repairs and maintenance		
Buildings and ground	14 019	11 729
Equipment	2 374	2 702
Total	**16 393**	**14 431**

Consumption ratio for Buildings increased to well above benchmark during the current year - from 50% to 98%. A ratio of 98% indicates that only 2% of the University's buildings have been 'consumed'. The increase was due to an independent valuation of the University's buildings at 31 December 2010 which reassessed the useful life of buildings, effectively increasing those lives thus improving the ratio. In addition, the University used the net method (wrote off the accumulated depreciation to 31 December 2010) in reporting the revaluation outcome in its financial statements.

Average staff costs increased steadily over the four year period. This has mainly been due to EBA increments of 4% per annum and general salary increments within classifications.

Average leave balances increased since 2009 due primarily to the initial recognition in 2010 of academic annual leave reflected in the Academic Staff Agreement. Annual leave accruals had not been recognised for these employees prior to 2010.

Student numbers have been steadily increasing over the four year period, having grown from 14,463 in 2008 to 16,435 in 2011. However, the 2011 result was 485 below the target load of 16,920. The University is highly dependent on student numbers for Commonwealth funds to finance its operations.

RESULTS OF SUBSIDIARY ENTITIES

University of Tasmania Foundation Inc (the Foundation)

The Foundation's purpose is to generate donations and bequest income for the purpose of making scholarship and bursary payments to approved recipients.

Income Statement	**2011**	**2010**	**2009**	**2008**
	$'000s	$'000s	$'000s	$'000s
Revenue				
Donations and Bequests income	5 092	5 806	3 595	2 875
Donation - Medical Sciences Building Campaign	2 500	1	0	0
Other Income	1 832	531	256	201
Investment Income	(333)	1 391	3 521	(2 861)
Total Revenue	**9 091**	**7 729**	**7 372**	**215**
Expenditure				
Scholarships, Bursary and other Payments	1 259	2 304	1 584	1 256
Faculty Scholarships and research	950	313	95	922
Transfer - Medical Sciences Building Campaign	2 000	0	0	0
Other Expenses	2 023	1 701	1 219	1 104
Total Expenditure	**6 232**	**4 318**	**2 898**	**3 282**
Net Surplus (Deficit)	**2 859**	**3 411**	**4 474**	**(3 067)**
Balance Sheet	**2011**	**2010**	**2009**	**2008**
	$'000s	$'000s	$'000s	$'000s
Cash and Investments	**33 797**	**30 938**	**27 528**	**23 053**
Equity	**33 797**	**30 938**	**27 528**	**23 053**

Comment

The Foundation generated operating surpluses in three of the four years under review. During the year the Foundation received a $2.500m donation for the Medical Sciences building and transferred $2.000m of this to the University. The Foundation experienced negative investment returns during 2011 due to adverse investment conditions. Scholarships, bursaries and other payments fluctuate from year to year depending upon fund availability or are not offered every year.

AMC Search Ltd (AMC Search)

AMC Search is a specialised organisation, providing maritime related training and consultancy for a wide range of international and Australian organisations and individuals.

	2011	**2010**	**2009**	**2008**
	$'000s	$'000s	$'000s	$'000s
Total Revenue	8 368	8 236	7 359	7 241
Total Expenses	7 129	7 108	6 619	6 240
Net Surplus	**1 239**	**1 128**	**740**	**1 001**
Total Assets	5 502	5 791	4 544	5 212
Total Liabilities	1 145	1 690	981	1 287
Net Assets	**4 357**	**4 101**	**3 563**	**3 925**
Total Equity	**4 357**	**4 101**	**3 563**	**3 925**

Comment

AMC Search was in a sound financial position at each balance date.

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 entitled the *Auditor-General's Report on the Financial Statements of State entities*, comprising six volumes, satisfies this requirement each year. The volumes are:

- Volume 1 – Analysis of the Treasurer's Annual Financial Report
- Volume 2 – Executive and Legislature, Government Departments and other General Government Sector State entities
- Volume 3 – Government Business Enterprises, State Owned Corporations, and Water Corporations and Superannuation Funds
- Volume 4 – Local Government Authorities
- Volume 5 – Other State entities 30 June 2011 and 31 December 2010
- Volume 6 - Other State entities 30 June 2011 and 31 December 2011.

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.

FORMAT OF THE FINANCIAL ANALYSIS

The following Financial Analysis applies to all Reports of the Auditor-General for 2010-11.

Each entity's financial performance is analysed by discussing the Comprehensive Income Statement, Statement of Financial Position and Statement of Cash Flows supplemented by financial analysis applying the indicators documented in the Financial Performance sections of this Report. The layout of some of these primary statements has been amended from the audited statements to, where appropriate:

- make the statements more relevant to the nature of the entity's business
- highlight the entity's working capital, which is a useful measure of liquidity.

Departments are required to present budget amounts on the face of their primary statements. As a consequence details and commentary in relation to these amounts have been included in this Report.

FINANCIAL ANALYSIS

The following tables illustrate the methods of calculating:

- performance indicators used in the individual financial analysis sections of this Report, together with a number of benchmarks used to measure financial performance

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Financial Performance		
Earnings Before Interest and Tax (EBIT) ($'000s)		Result from Ordinary Activities before Gross Interest Expense and Tax
EBITDA ($'000s)		Result from Ordinary Activities before Gross Interest Expense, Tax, Depreciation and Amortisation
Operating margin	>1.0	Operating Revenue divided by Operating Expenses
Operating surplus (deficit) ($'000s)		Own source revenue percentage
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	5.21%	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 Performance Indicator	Benchmark[1]	Method of Calculation
Financial Management		
Asset consumption ratio	>60%	Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset
Asset renewal funding ratio	90%-100%	Future (planned) asset replacement expenditure divided by future asset replacement expenditure (actual) required
Asset sustainability ratio	>100%	Renewal and upgrade expenditure on existing assets divided by depreciation on existing assets
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	6.9%	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	3:1	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) ($'000s)		Total financial liabilities less liquid assets
Net financial liabilities ratio	0 – (50%)	Total liabilities less liquid assets divided by total operating income

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Returns to Government		
CSO funding ($'000)		Amount of community service obligation funding received from Government
Dividend payout ratio	50%	Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity
Dividends paid or payable ($'000s)		Dividends paid or payable that relate to the year subject to analysis
Effective tax rate	30%	Income Tax paid or payable divided by Result form Ordinary Activities before Tax
Government guarantee fees ($'000)		Amount of guarantee fees paid to owners (usually Government)
Income tax paid ($'000s)		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 ($'000s) or total return to owners		Dividends plus Income Tax and Loan Guarantee fees
Other Information		
Average leave per FTE ($'000s)		Total employee annual and long service leave entitlements divided by Staff Numbers
Average long service leave balance	Not more than 100 days	Actual long service leave provision days due divided by average FTE's
Average recreational leave balance	20 days [3]	Actual annual leave provision days due divided by average FTE's
Average staff costs (2) ($'000s)		Total employee expenses (including capitalised employee costs) divided by Staff Numbers
Employee costs (2) as a % of operating expenses		Total employee costs divided by Total Operating Expenses
Employee costs capitalised ($'000s)		Capitalised employee costs
Employee costs expensed ($'000s)		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

Financial Performance Indicator	Benchmark[1]	Method of Calculation
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
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 entitlements.*

An explanation of most financial performance indicators is provided below:

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 surplus and therefore stronger 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 a council 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 council'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 reinvesting 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 reinvesting 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** – Funds from operations – 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 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** – is the funds paid to the Owners consisting of income tax, dividends and guarantee fees.

OTHER INFORMATION

- **Average leave balance per FTE ($'000s)** – indicates the extent of unused leave at balance date.
- **Average long service leave balance or days long service leave due** – records the average number of days long service leave accumulated per staff member. In general public servants cannot accrue more than 100 days annual leave.
- **Average recreational leave balance or days annual leave due** – records the average number of days annual leave accumulated per staff member. In general public service employees accrue 20 days annual leave per annum.
- **Average staff costs** – measures the average cost of employing staff in the entity for the year.
- **Employee costs as a percentage of operating expenses** - indicates the relative significance of employee costs compared to other operating expenses.
- **Employee costs capitalised ($'000s)** – represents employee costs that have been capitalised rather than expensed.
- **Employee costs expensed ($'000s)** – represents the level of employee costs expensed, ie. included in the 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 (FTEs).

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 - AUDIT STATUS

Entity	Financial Statement deadline	Signed Financial Statements Received	Re-signed/ Amended Financial Statements Received	Clear opinion issued	Audit opinion signed	< 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
30 JUNE 2011 AUDITS											
Break O'Day Council	15 August 2011	8 November 2011		✓	19 December 2011						✓
Kentish Council	15 August 2011	15 August 2011	30 November 2011	✓	2 December 2011						✓
King Island Council	15 August 2011	3 October 2011	22 November 2011	✓	22 November 2011						✓
Tasman Council	15 August 2011	18 August 2011	24 November 2011	✓	24 November 2011						✓
31 DECEMBER 2011 AUDITS											
Anzac Day Trust	15 February 2012	21 February 2012		✓	15 March 2012	✓					
Board of Architects of Tasmania	15 February 2012	26 March 2012		✓	11 May 2012						✓
Property Agents Trust	15 February 2012	15 February 2012		✓	28 March 2012				✓		
The Solicitors' Trust	15 February 2012	23 February 2012		✓	5 April 2012				✓		
Tasmanian Qualifications Authority	15 February 2012	27 February 2012		✓	2 March 2012		✓				
Theatre Royal Management Board	15 February 2012	15 February 2012		✓	28 February 2012		✓				
University of Tasmania	15 February 2012	14 February 2012		✓	15 February 2012	✓					

APPENDIX 3 - ACRONYMS AND ABBREVIATIONS

AASB	Australian Accounting Standards Board
ACAG	Australasian Council of Auditors General
ARC	Australian Research Council
ASIC	Australian Securities and Investment Commission
BRF	Better Roads Fund
CIP	Capital Investment Program
CP	Consultation Paper
DEEWR	Department of Education, Employment and Workplace Relations
DP	Discussion Paper
EBA	Enterprise Bargaining Agreement
ED	Exposure Draft
EFTSL	Equivalent full-time student load
ESIF	Economic and Social Infrastructure Fund
FTE	Full-time equivalent
GAAP	Gaps in Generally Accepted Accounting Practices
GFS	Government Financial Statistics
GGS	General Government Sector
GPFRs	General Purpose Financial Reports
HCF	Hospitals Capital Fund
HF	Housing Fund
IASB	International Accounting Standards Board
IELTS	International English Language Testing System
IFRSs	International Financial Reporting Standards
IMAS	Institute for Marine and Antarctic Studies
IMOS	Integrated Marine Observing System
IPSASs	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ITC	Invitation to Comment
ITF	Infrastructure Tasmania Fund
KMP	Key management personnel
NFP	Not-for-profit
PPE	Property, plant and equipment
RHH	Royal Hobart Hospital
RSL	Returned and Services League
SCIF	Special Capital Investment Fund
SLIMS	Student Lifecycle Information Management and Services
TCE	Tasmanian Certificate of Education
TI's	Treasurer's Instructions
TREN	Tasmanian Research & Education Network
TUU	Tasmanian University Union
URHF	Urban Renewal and Heritage Fund
WIF	Water Infrastructure Fund
WIP	Work in Progress

APPENDIX 4 - RECENT REPORTS

TABLED	TITLE
March 2012 No.8 of 2011-12	The assessment of land-use planning applications
December 2011 No.7 of 2011-12	Auditor General's Report on the Financial Statements of State entities – Volume 5 – Other State entities 30 June 2011 and 31 December 2010
November 2011 No.6 of 2011-12	Auditor General's Report on the Financial Statements of State entities – Volume 4 – Local Government Authorities 2010-11
November 2011 No.5 of 2011-12	Auditor General's Report on the Financial Statements of State entities – Volume 3 – Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds 2010-11
November 2011 No.4 of 2011-12	Auditor General's Report on the Financial Statements of State entities – Volume 2 – Executive and Legislature, Government Departments and other General Government Sector entities 2010-11
November 2011 No.3 of 2011-12	Auditor General's Report on the Financial Statements of State entities – Volume 1 – Analysis of the Treasurer's Annual Financial Report 2010-11
September 2011 No.2 of 2011–12	Children in out of home care
September 2011 No.1 of 2011–12	Tourism Tasmania: is it effective?
July 2011	Special Report No. 100 Financial and economic performance of Forestry Tasmania
June 2011	Special Report No. 99 Bushfire management
June 2011	Special Report No. 98 Premier's Sundry Grants Program and Urban Renewal and Heritage Fund
May 2011	Other State Entities 30 June 2010 and 31 December 2010, including University of Tasmania
May 2011	Special Report No. 97 Follow up of Special Reports 69-73
April 2011	Special Report No. 96 Appointment of the Commissioner for Children
February 2011	Special Report No. 95 Fraud control
November 2010	Analysis of Treasurer's Annual Financial Report
November 2010	Executive and Legislature, Government Department and other General Government State Sector Entities
November 2010	Government Business Enterprises, State Owned Companies and Superannuation Funds
November 2010	Special Report No. 94 Election promise: five per cent price cap on electricity prices
November 2010	Special Report No. 93 Investigations 2004-2010

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Tasmanian Audit Office

Level 4, Executive Building, 15 Murray Street, Hobart, Tasmania, 7000
Postal Address GPO Box 851, Hobart, Tasmania, 7001
Phone: 03 6226 0100 | Fax: 03 6226 0199
Email: admin@audit.tas.gov.au
Web: www.audit.tas.gov.au

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 are available from the Tasmanian Audit Office, Hobart. This report and other recent reports published by the Office can be accessed via the Office's home page. For further information please contact the Office.

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.

Tasmanian Audit Office

Photo courtesy of Theatre Royal Hobart

Phone	(03) 6226 0100	**Address**	Level 4, Executive Building
Fax	(03) 6226 0199		15 Murray Street, Hobart
email	admin@audit.tas.gov.au	**Postal Address**	GPO Box 851, Hobart 7001
Web	www.audit.tas.gov.au	**Office Hours**	9am to 5pm Monday to Friday