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PARLIAMENT OF TASMANIA

REPORT OF THE AUDITOR-GENERAL
No. 11 of 2012-13

Volume 5

Other State entities 30 June 2012 and 31 December 2012

May 2013

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:

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30 May 2013

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President

Dear Mr Speaker

Report of the Auditor-General No. 11 of 2012-13 – Financial Statements of State entities – Volume 5 – Other State entities 30 June 2012 and 31 December 2012

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 years ended 30 June 2012 and 31 December 2012.

Yours sincerely

H M Blake
Auditor-General

FOREWORD

This Report is the fifth and final volume in our series planned for advising Parliament on the outcome of audits for the 2011-12 financial year and the 2012 calendar year. It deals with two local government councils reporting at 30 June 2012 and six other State entities which reported at 31 December 2012. The most significant entity covered by this volume is the University of Tasmania which operated at a deficit of $30.137m before tax and non-operating items for the year ended 31 December 2012.

Inclusion of two councils enabled completion of the tables we prepare annually summarising local government comparative analysis so that these tables now include all 29 councils.

This volume also includes:

- A summary of common audit findings identified during the course of all audits for 2011-12 and 2012 along with commentary on emerging internal control related matters.
- An analysis of health funding and costs incurred by the Department of Health and Human Services in the three years ended 30 June 2012 focussing on acute health services and administration costs. My primary conclusion from this work is that, in order for Parliamentarians and the community to be better informed as to how efficiently health services are delivered; there is a need for annual reports prepared by DHHS and the three Tasmanian Health Organisations to include an appropriate range of audited efficiency indicators and details regarding administration costs incurred.
- An audit practice statement prepared to advise Parliamentarians on how we go about our work.
- Separate chapters dealing with audits dispensed with and how we set audit fees for conducting audits of financial statements.

HM Blake
Auditor-General
30 May 2013

TABLE OF CONTENTS

INTRODUCTION

This Report is Volume 5 of our suite of reports outlining audit outcomes and financial analysis resulting from audits of the financial statements of State entities for the 2011-12 and calendar 2012 periods. This is our final report in this series. It contains:

- An audit summary.
- A chapter detailing the basis upon which we set audit fees for financial statement related audits.
- Details of audits that were dispensed with.
- Audit findings arising from audits in the 30 June 2012 and 31 December 2012 audit cycles.
- Further analysis, including selected performance indicators, of aspects of the financial results of the Department of Health and Human Services for the period 2009-10 to 2011-12.
- An Audit Practice Statement outlining for Parliament how we go about our audit work.
- Analysis of financial information from completed financial statement audits of six Other State entities with a financial year end of 31 December 2012. 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.
- Analysis of financial information from completed financial statement audits of two Local Government Authorities reporting for the financial year ended 30 June 2012.

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.

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 2012 and 31 December 2012 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 11 May 2013.

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

RESOURCES

The total cost of this Report excluding production costs was $33 843.

AUDIT SUMMARY

TIMELINESS AND QUALITY OF FINANCIAL STATEMENTS

Two entities covered by this Report did not submit their financial statements within the statutory deadline of 45 days after the end of the financial year.

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 "Audits Dispensed with".

FINDINGS FROM ALL 30 JUNE AND 31 DECEMBER 2012 AUDITS

We identified in excess of 350 audit matters and made recommendations to 75 State entities during the 2011-12 financial audit cycle. The majority of matters, 53%, were categorised as moderate, posing a moderate business or financial risk to the entity, but which may escalate to high risk status if not addressed promptly. 6% of matters were assessed as high risk. Most of the matters reported to management or those charged with governance have been resolved or management have agreed to undertake corrective actions.

The most common matters raised were in the areas of non-current physical assets, 17%, expenditure and accounts payable, 15%, employee expenses, 15%, and information systems, 11%.

We also noted a number of emerging matters which impacted, or could potentially impact, multiple entities, including valuation of non-current physical assets, electronic funds transfers, risk management, portable and attractive items and other considerations for mobile devices.

DEPARTMENT OF HEALTH AND HUMAN SERVICES – OUTPUT BASED EXPENDITURE

Further analysis of the Department's financial statements over the period 1 July 2009 to 30 June 2012 indicated that total health funding increased by 11.65%, operational health funding increased by 10.50% and movements in expenditure at the output level over this period, for the three outputs selected, were:

- expenditure increased by 10.97%
- recurrent costs per case mix adjusted separation increased by 8.24% whereas outputs, expressed as admitted patients weighted separations, increased by only 2.07%.

Analysis of the Department's administration costs and full time equivalent staffing identified that:

- administration costs totalled $81.730m in 2011-12 and declined by 3.22% over the three-year period
- these costs represented about 5% of total health expenditure in 2009-10 declining to about 4.25% in 2011-12
- total DHHS FTE was 9 851.74 at 30 June 2009 declining by 5.70% to 9 290.48 at 30 June 2012

- administration FTE represented 5.06% of total FTE in 2009-10 declining to 4.59% in 2011-12.

RECOMMENDATIONS

Recommendations in this Chapter are that:

1. Tasmanian State entities be required to annually report relevant and appropriate indicators of their effectiveness and efficiency and that these be audited.
2. DHHS increase the number of efficiency indicators reported such that the value reported equals or closely equals total expenditure incurred on Acute Health Services and on its other output groups.
3. Each of the three Tasmanian Health Organisations similarly report efficiency indicators such that the amount of reported output groups equal or closely equal total expenditure incurred on each output group.
4. DHHS explore why increases in acute health care costs are not matched by improvements in efficiency as measured by the number of admitted patients - weighted separations completed.
5. DHHS and each THO include in future annual reports the amount of administration costs as against direct service delivery costs they incur.

MANAGEMENT RESPONSES

The Department responded to each recommendation as follows:

Recommendation 1 - Comment

The Department supports the annual reporting of relevant and appropriate indicators of effectiveness and efficiency for all Tasmanian State entities, including the Department and Tasmanian Health Organisations. The Department will seek to progressively implement relevant and reliable indicators in future annual reports.

Recommendation 2 – Comment

The Department's Output structure will be restructured in the 2013-14 Budget Papers to more closely reflect the relationship between the Department and the THOs. In this regard, Acute Health Services will not be an Output Group of the Department in 2013-14.

The Acute Health Services Output Group will be delivered by the THOs and, accordingly, reflected in the Output structure of each individual THO. The efficiency indicators relating to this Output Group will also be separately reported by each THO.

Notwithstanding this change to the Department's Output structure, the Department agrees that to the extent it is practicable, it is appropriate for efficiency indicators to reflect the total level of expenditure incurred. The Department will seek to progressively implement relevant and reliable indicators in future annual reports and Budget Papers.

Recommendation 3 – Comment

The Department agrees with the recommendation and will work with THOs to progressively implement relevant and reliable indicators in future annual reports and Budget Papers.

Recommendation 4 – Comment

The Department notes that the analysis in this report has utilised Public Hospital Establishment (PHE) NMDS data when considering the recurrent cost per case mix for adjusted separations.

The Department maintains reservations about using the PHE as a source of expenditure for hospitals, particularly in analysing costs of hospital outputs. The PHE has a number of shortcomings, one of which is that it does not include the Department's corporate and divisional overheads applicable to public hospitals.

The National Hospital Cost Data Collection (NHCDC) is considered a better representation of actual total expenditure and costs of outputs than that contained in the PHE. In light of these concerns, the recommendation may require reconsideration. In any event, the Department will, once the NHCDC cost per weighted separation is available, analyse the data in a manner similar to that conducted by the Auditor-General and if appropriate, analyse the outcomes as recommended.

Recommendation 5 - Comment

As the Auditor-General notes, the ability of the Department and THOs to accurately and reliably report the cost of administration against the direct service delivery costs each incurs is problematic under the new National Health Reform arrangements. Nevertheless, the Department will work with the Auditor-General's Office to identify how this recommendation may be progressed and reported in future annual reports.

The Tasmanian Health Organisations responded as follows:

The THOs agree with recommendations 3 and 5 in principle and will work to ensure that appropriate, consistent indicators of efficiency and measures of administrative costs are developed.

LOCAL GOVERNMENT AUTHORITIES

Kentish Council

Council generated a Net Operating Surplus after net financing revenues of $0.444m in 2011-12 (2010-11, Deficit $0.194m). The improved result was due primarily to the 2010-11 deficit including net flood damage costs of $0.342m, without which a surplus would have eventuated.

Council entered into a strategic alliance agreement in 2008 with Latrobe Council. In March 2010, these two councils agreed to share, for an interim period, the services of a General Manager. In June 2010, a formal resource sharing arrangement was entered into with an intention of extending it to include other employees, as positions became available or opportunities were identified.

A Municipal Alliance Committee, comprising two Councillors from each council and the shared General Manager, was established to identify further opportunities to improve services and manage the arrangement. As local government looks at ways and means for providing cost effective services, resource sharing is one of the strategies that can be used to ensure councils continue to attract and keep quality staff, provide for succession planning and extend service provision that might not be viable on an individual council basis.

King Island Council

Council generated a Net Operating Deficit after net financing revenues of $0.991m in 2011-12 (2010-11, deficit $0.080m). This decline was due to higher depreciation and employee costs. Of concern is that Council budgeted for an Operating Deficit of $0.218m.

Council recorded operating deficits in all four years under review with the trend line indicating growing deficits. This situation will need to be remedied by Council. Nevertheless, Council is in a strong position to meet its current financial obligations mainly due to its strong cash position and low debt.

OTHER STATE ENTITES

Theatre Royal Management Board

The Board continued to be economically dependent on Government grants and subsidies for it to be a going concern. In 2012 the Board recorded a Net Deficit of $0.860m (2011, $0.128m) predominately due to an agreement to transfer ownership of leasehold improvements, $0.703m, in the Theatre back to the Crown, which owns the theatre building.

The Theatre averaged just below a break-even result over the last three years, with the trend line indicating growing deficits. Own source revenue also declined over the same period and showed a downward trend. The continued losses and lower ticket sales resulted in two years of cash deficits, which lead to the overall decline in the Theatre's cash position.

University of Tasmania

The University incurred a deficit before tax and non-operating items of $30.137m ($5.593m deficit in 2011). This result is prior to accounting for investment earnings of $31.744m ($5.335m) and included a one-off provision for restructure costs of $23.250m.

Despite the deficit, the University generated a Comprehensive surplus of $39.422m (2011, $13.506m). The $69.559m improvement compared to the deficit before tax and non-operating items was in the main due to:

- Investment gains of $31.744m ($5.335m)
- Capital grants from the State and Commonwealth governments of $30.381m ($25.202m) and from private funders of $4.000m ($2.000m).

Cash generated from operating activities declined from $26.461m in 2011 to $16.076m this year with the decline mainly due to the deficit before tax and non-operating items referred to earlier.

At 31 December 2012 the University had total assets of $946.375m ($887.559m) with Property, plant and equipment and Non-current investments comprising its major assets at $619.839m ($558.691m) and $227.683m ($198.868m) respectively. Its largest liability was employee provisions which totalled $85.236m at 31 December 2012 ($64.112m) with the increase mainly due to a Restructure provision at balance date of $16.197m.

Other key findings and developments noted in 2012 were:

- an additional $50.215m was spent on the Menzies Research Institute/Health Sciences Collocation project
- further development of the Institute for Marine and Antarctic Studies (IMAS) building adjacent to CSIRO on the Hobart waterfront with $15.666m invested during 2012
- a further $7.625m was spent in 2012 on the Technology One Student Management System

- the University undertook a professional staff review and an academic re-profiling exercise this year. Expressions of interest were invited from all University staff for voluntary separations. The University recorded restructure costs of $23.250m which included a provision for restructure of $16.197m.

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 the table below:

	Net Surplus (Deficit)		**Net Assets**	
	2011-12	**2010-11**	**2011-12**	**2010-11**
30 June 2012 entities	$'000s	$'000s	$'000s	$'000s
Kentish Council	2 503	504	94 008	86 978
King Island Council	(756)	30	69 656	68 994
31 December 2012 entities				
ANZAC Day Trust	3	(1)	4	1
Board of Architects Tasmania	10	11	73	63
Tasmanian Qualifications Authority	25	57	648	623
University of Tasmania*	(30 137)	(5 593)	830 764	791 342
Theatre Royal Management Board	(860)	(128)	1 303	2 163
Solicitors' Trust	182	1 826	9 833	9 651

**Net Deficit (before taxation and non-operating items)*

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 2012 audit of Common Ground Tasmania Ltd, an audit conducted by arrangement pursuant to section 28 of the Audit Act.

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.

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* 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 and 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).

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.

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

Specific audits

Controlled Subsidiaries – Year Ended 30 June 2012 (controlling entity shown in brackets)

- 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 Developments Pty Ltd (Hydro Tasmania)
- HT Wind New Zealand Pty Ltd (Hydro Tasmania)
- Kingborough Waste Services Pty Ltd (Kingborough Council)
- King Island Ports Corporation Pty Ltd (Tasmanian Ports Corporation Pty Ltd)
- 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)
- RBF Property Pty Ltd (Retirement Benefits Fund Board)
- Schools Registration Board (Department of Education)
- Woolnorth Bluff Point Holdings Pty Ltd (Hydro Tasmania)
- Woolnorth Studland Bay Holdings Pty Ltd (Hydro Tasmania)
- 66-80 Collins Street Pty Ltd (Retirement Benefits Fund Board).

Drainage Trusts – Year Ended 30 June 2012

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

Other Boards - Year Ended 30 June 2012

- Brittons Swamp District Water Board
- Tasmanian Timber Promotion Board.

Controlled Subsidiaries – Year Ended 31 December 2012 (controlling entity shown in brackets)

- UTASAT Pty Ltd (University of Tasmania).

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.

TIMELINESS AND QUALITY OF FINANCIAL STATEMENTS

STATUTORY FINANCIAL REPORTING AND AUDITING TIMING REQUIREMENTS

Under Section 17 of the *Audit Act 2008* (the Audit Act) specific dates are set by when accountable authorities of State entities are to provide financial statements to the Auditor-General to formally allow the audit process to commence. The requirement is that financial statements are submitted for audit within 45 days after the end of the financial year.

Our responsibility under section 19 of the Audit Act is to complete our audits within 45 days of receiving financial statements from State entities. In most cases, entities have a 30 June financial year-end making 15 August the statutory date by which financial statements are to be submitted with our deadline 30 September. For entities with a 31 December year-end, the statutory deadline for submitting their financial statements to the Auditor-General is 15 February. The deadline for completing those audits is 31 March.

These dates were set to allow sufficient time for audits to be completed and for accountable authorities to prepare annual reports for tabling in Parliament.

Listed below are entities whose signed financial statements were not received by the statutory deadline of 45 days from the end of the financial year. The list includes all State entities, not just the entities covered by this Report, for the financial years ended 30 June 2012 and 31 December 2012. Dates shown in brackets represent the date signed financial statements were received.

Financial Year End 30 June 2012

- Break O'Day Council (16 August 2012)
- Cradle Coast Authority (3 September 2012)
- Flinders Council (10 September 2012)
- Kentish Council (9 October 2012)*
- King Island Council (16 August 2012)*
- National Trust of Australia (Tasmania) (16 October 2012)
- Nominal Insurer (16 August 2012)
- Northern Tasmanian Development Board (15 September 2012)
- Tasmanian Affordable Housing Limited (26 October 2012)
- Workcover Tasmania (20 August 2012)

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

*Indicates entities covered by this Report

STEPS TAKEN BY AUDIT TO FACILITATE EARLIER FINANCIAL REPORTING

We continue to assist State entities to achieve early financial reporting. This is done in a number of ways including:

- where possible early planning of audits. As part of planning audits discussions are held with management, and where relevant those charged with governance, and agreements reached on financial reporting and auditing timeframes. These agreements are always aimed at completion within statutory reporting deadlines
- preparation of detailed completion timeframes for components of the financial statements
- where financial systems allow, conducting audit testing of selected balances prior to balance date thus minimising work post balance date.

COMPLIANCE WITH FINANCIAL REPORTING STANDARDS

The Audit Act requires all State entities to prepare financial statements in accordance with Australian Accounting Standards. In some cases, in particular for smaller State entities, we accepted preparation of specific purpose financial reports.

QUALITY OF FINANCIAL REPORTING

Section 17 of the Audit Act also provides for the Auditor-General to determine whether the signed financial statements submitted are complete in all material respects. Upon receipt of signed financial statements we immediately review and evaluate them utilising a checklist, to ensure they are complete and presentation complies with Australian Accounting Standards. We also confirm the accuracy of comparatives, cross references, and ensure the statements are arithmetically correct.

FINDINGS FROM 2012 AUDITS

INTRODUCTION

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 2012 and 31 December 2012. In this Chapter we refer to these periods as the 2011-12 financial audit cycle.

AUDIT MATTERS

We identified in excess of 350 audit matters and made recommendations to 75 State entities during the 2011-12 financial audit cycle. We communicate all weaknesses identified during an audit to management at an appropriate level of responsibility. Significant matters are detailed in a written report, which also includes our recommendations for improvements and management responses. The report is then communicated to those charged with governance, for example the Secretary, chairperson of the Board of Directors or Mayor, with a copy sent to the responsible minister. We also report significant matters to Parliament in the Auditor-General's Reports on the Financial Statements of State entities.

We categorise each matter as high, moderate or low risk, depending on its potential impact, as shown in the Table 1 below:

Table 1: Risk categories for audit findings

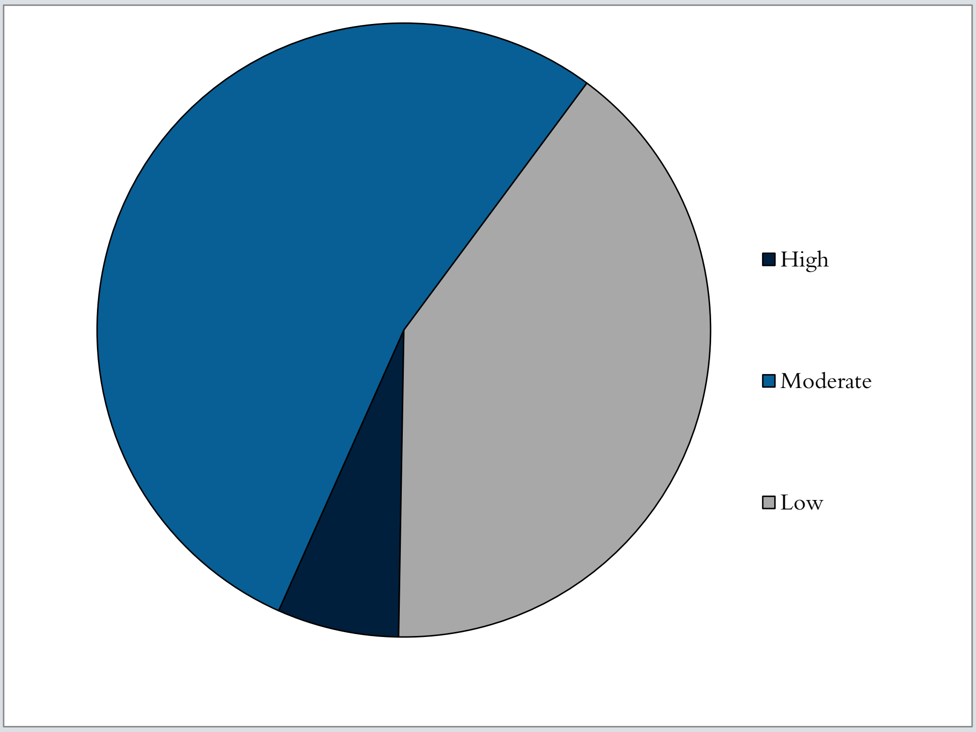
Risk Category	Client Impact
High	- Matters which pose a significant business or financial risk to the entity - Matters that have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency by the entity
Moderate	- Matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed as high priority within the current financial year - Matters that may escalate to high risk if not addressed promptly - Low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed
Low	- Matters that are isolated, non-systemic or procedural in nature - Matters that reflect relatively minor administrative shortcomings and could be addressed in the context of the entity's overall control environment.

Source: Integrated Public Sector Audit Methodology

Matters raised by category of risk

Figure 1 below provides a breakdown of matters raised during the 2011-12 financial audit cycle by the risk categories outlined in Table 1.

Figure 1: Matters Raised by Risk Category



Source: Tasmanian Audit Office

Figure 1 shows that the majority of matters, 53%, were categorised as moderate, posing a moderate business or financial risk to the entity, but which may escalate to high risk status if not addressed promptly. 6% cent of matters were assessed as high risk. High risk matters pose a significant business or financial risk to the entity and could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency by the entity. Such issues included the use of residuals in valuing long-lived infrastructure assets, valuations not being kept up to date, inadequate segregation of duties and weaknesses in internal controls.

Management action

The majority of matters reported to management or those charged with governance are generally resolved or management have agreed to undertake corrective actions. 'Undertaking corrective action' means that the issue has not been satisfactorily resolved at the time the audit is finalised, but management is implementing, or has agreed to implement, our recommendation or an alternative resolution. These issues include such items as internal control weaknesses that cannot be readily rectified. Such items may require further management reviews, procedural modifications or policy changes. In these cases we follow-up those matters in subsequent audits to ensure they have been adequately addressed.

'Resolved' means that management had successfully implemented a corrective action. These issues include such items as readily rectifiable control weaknesses, account miss-classifications, presentation and general financial statement items or issues reported in previous years which had been rectified in the current year.

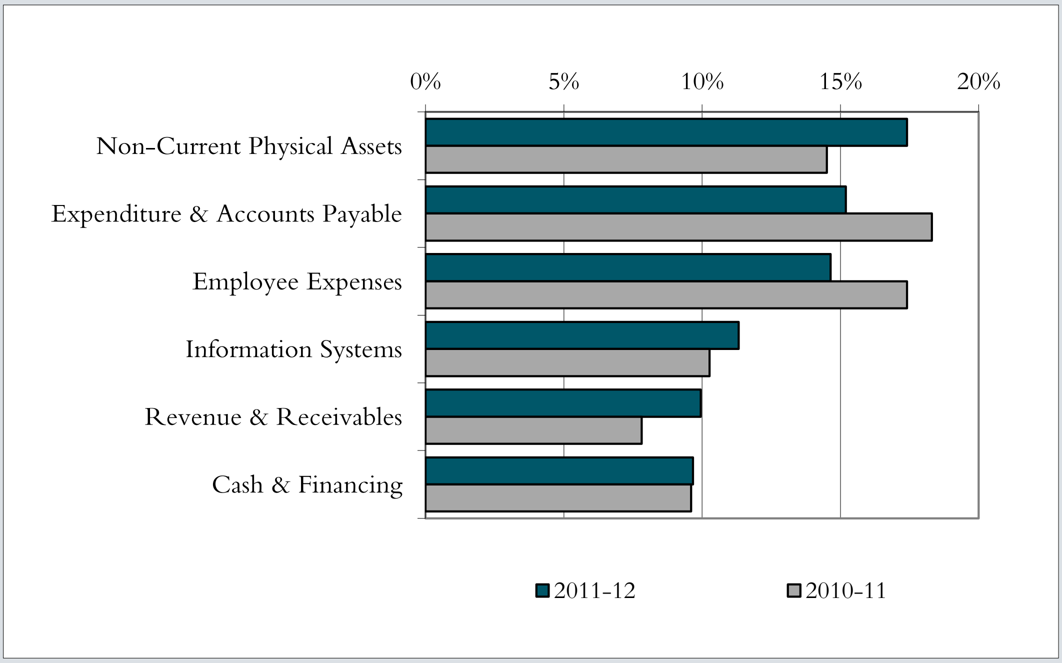
Where management disagree with a finding or in our view, the corrective action proposed by management does not adequately address the matter, we categorise the finding as 'unresolved'. In such a situation, we still report the matter and management response to those charged with governance in the year when it came to our attention. We then adapt our audit plan to address the risk of financial statements being misstated due to the identified weakness.

We consider all matters raised with management in the following year as part of a risk assessment when planning an audit. Where issues are corrected, this is noted and not raised again in a subsequent year, although we may perform audit testing to confirm this.

Matters raised by type

To assist us in the identification of trends and management of audit risks, we categorise issues raised according to their type and the system they relate to. Figure 2 depicts issues raised by the most common types or systems during the 2010-11 and 2011-12 financial audit cycles and includes all audit findings – high, moderate and low risk.

Figure 2: Matters by Type



Source: Tasmanian Audit Office

Non-Current Physical Assets (17%)

For non-current physical assets the most common matters raised were in relation to appropriate and timely valuations and the application of residual values to long-lived infrastructure assets. This remains a key area of concern because lack of timely valuations and inaccurate information can lead to wrong decisions with potentially long-term implications.

Expenditure & Accounts Payable (15%)

Matters raised in this area related mainly to:

- the absence of appropriate authorisation of transactions
- missing supporting documentation
- lack of adequate segregation of non-compatible duties
- use of corporate credit cards.

Employee Expenses (15%)

Matters identified in this category highlighted control weaknesses in payroll processing, errors in calculations of leave provisions and excessive leave balances.

Information Systems (11%)

Matters raised centred on deficiencies in policy frameworks governing information systems, such as user access and change management. Other matters raised in this area related mainly to the management of user access and insufficient segregation of duties of administrator or super users. Lack of security, disaster recovery and continuity plans in some entities continued to be of concern.

Revenue and Receivables (10%)

Matters in this area included:

- revenue not recognised in accordance with the applicable reporting framework
- the absence of timely reconciliations between receivables subsidiary ledgers and the general ledger
- lack of processes and/or controls over revenue completeness.

Cash and Financing (10%)

Matters raised in this area related mainly to timely completion of bank reconciliations and the lack of review by a person independent from the preparer.

Matters which impact multiple entities and emerging issues

Matters arising which impacted, or could potentially impact, multiple entities and emerging issues are summarised here.

Valuation of Non-Current Physical Assets

The majority of issues identified in this area related to appropriate and timely valuation of land and buildings. As we have stated in previous reports, it is our view that fair value is the most relevant measurement for long-lived non-current physical assets. Fair value can be determined by reference to market based evidence or in its absence, an income approach or a depreciated replacement cost basis. In any case, entities should ensure that carrying amounts keep pace with prevailing market conditions, cost of construction etc. This can be achieved through periodic assessments by a qualified valuer.

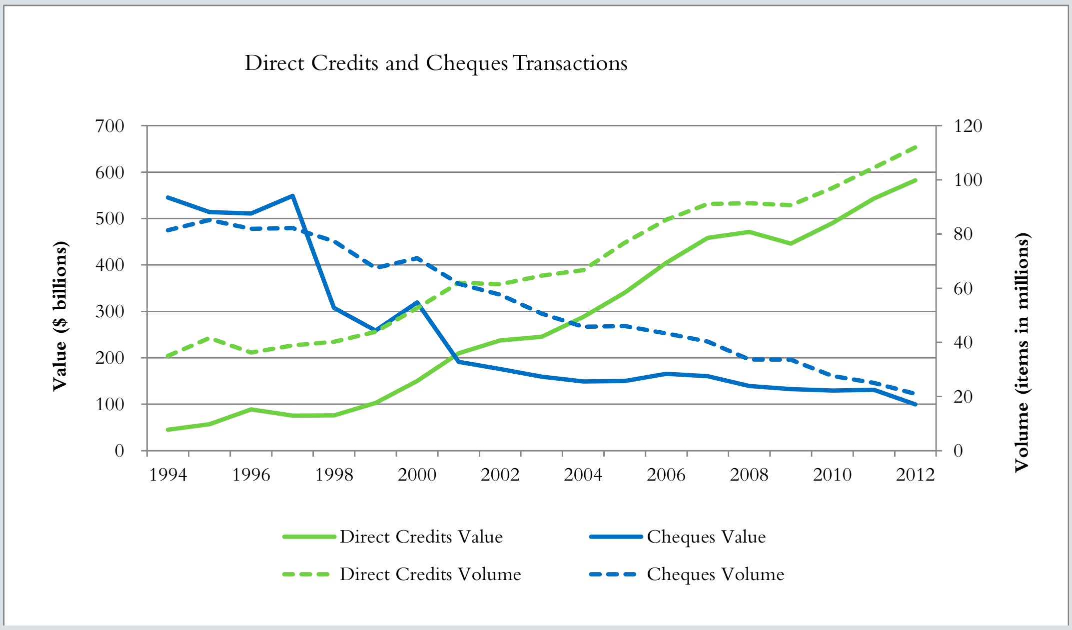
Accounting standards require entities measuring assets at fair value to carry out revaluations with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at reporting date. While it is not practical or cost effective for all entities to revalue assets annually, the application of appropriate indices in intervening periods between formal valuations, can ensure compliance with the requirements of accounting standards. Other ways to manage the cost of valuations include implementation of revaluations on a rolling basis (provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date) or to value sample.

Another issue in this area is the use of residual values for long-lived infrastructure assets. As indicated in Report No. 4 of 2012-13 an independent expert has been appointed to review approaches to road assets valuation and depreciation by local government councils. The outcomes of this review will be reported in a future Report on the Financial Statements of State entities planned for tabling in November 2013. It is anticipated that the principles developed will be relevant to all long-lived infrastructure assets, not just roads.

Electronic Funds Transfers

Electronic payment products have become more common over the last decade. Direct credits have now surpassed cheques as the preferred method of payment both in volume and value, as illustrated in Figure 3.

Figure 3: Direct Credits and Cheques Transactions



Source: Australian Payments Clearing Association

Direct credit is one form of electronic payments. Other types of electronic transfers include Eftpos, BPAY, direct debit, PayPal etc. Direct credit is widely used by businesses to pay suppliers and employees, most commonly via internet banking.

Electronic processing of payments is a multistage process which uses the functionality of a financial system and an internet-based electronic platform of a financial institution. The first step is to generate a bank transfer file in a specific file format which contains creditors' accounts, dollar amounts to be transferred and payment references. The file is then saved before it is uploaded onto the financial institution's internet banking site. There is a risk that the bank transfer file, which is a simple text file (for example in a CSV or Comma-separated Values format), may be altered after it was created in the financial system and before it is uploaded into the banking site, impacting on the integrity of information and potentially leading to fraud.

Options available to mitigate these risks are often limited due to the lack of integration between financial systems used by entities and on-line electronic payments platforms used by banking institutions and the requirement for the file to be in a specific format.

Generally, our recommendations are for individual entities to review their current processes around direct credits to minimise, if not eliminate, the risk of unauthorised changes to electronic transfer files. Some practical suggestions include storing the transfer files on secure drives, limiting access to a small number of selected employees with an appropriate level of seniority and performing spot-checks for accuracy of bank account details before the transfers are processed.

Another although quite separate risk, is unauthorised changes to master files rather than to transfer files. Master files contain information such as names of suppliers and of employees and their bank account details changes to which should only be made by staff with appropriate levels of authority. An important supporting control is the need for changes to master files to be evidenced by exception reports which should be made available to, and reviewed by, an independent officer.

Entities should also ensure that responsibilities for certain operations are adequately segregated. Responsibility for generating payment files, their upload onto the banking site and executing the transfer should be segregated. Where suppliers provide statements of purchases and payments at the end of each month, those statements should be reconciled to the balance in the payables ledger by a person not involved in payments. Similarly, enquiries from suppliers relating to payments should not be handled by personnel involved in payment processing.

Risk Management

We are finding that a number of small to medium size State entities do not have adequate risk management frameworks in place or the frameworks are fragmented and lack cohesion. These entities are exposed to the possibility that there are risks they have not considered and they may not therefore be able to manage them effectively and in a timely manner should the risk materialise. Lack of appropriate risk management increases the possibility that organisations may not be able to achieve their objectives, goals and strategies.

Risk management is an important component of the governance framework in every organisation. A good risk management system should clearly explain the organisation's approach and intention with respect to risk management. It should cover a broad range of risk categories that may impact on an organisation's ability to meet its strategic and operational objectives. Matters to address include significant strategic and business risks, breakdown of key business processes, non-compliance with laws and regulations, fraud and theft and business continuity and disaster preparedness.

While there are many risk management frameworks, the most commonly used sources of guidance on risk management are the:

- Australia/New Zealand Standard on Risk Management (AS/NZS ISO 31000:2009) and accompanying handbooks published by Standards Australia
- Enterprise Risk Management Conceptual Framework (published by the Committee of Sponsoring Organisations of the Treadway Commission (COSO)).

Portable and Attractive Items

There are a growing number of employees who use mobile devices such as smartphones and tablets to create, store and access information anywhere, anytime. The continuously increasing functionality, portability and storage capacity and lowering cost makes these devices an appealing alternative to more conventional electronic equipment.

By definition, mobile devices generally do not meet the asset capitalisation thresholds and, consequently, are expensed in the year of acquisition. This often means that no information is kept about these devises as would be the case with an item which is capitalised and recorded in an asset register. The portable nature and attractiveness for personal use or resale of mobile devices makes them more susceptible to theft or loss. Management and those charged with governance are responsible for safeguarding all assets of an entity. To mitigate the risk of loss or theft of assets management should implement and maintain adequate controls, including setting appropriate asset recognition thresholds and/or maintaining a register of attractive and portable items.

Determining the appropriate asset recognition thresholds for individual asset classes is a matter for management and their professional judgment. Thresholds should be set at levels which allow asset registers to generate relevant, reliable and accurate information for decision-making. Factors to be taken into consideration include, for example, the size of the entity, the nature of its operations, legislative requirements etc. Asset thresholds, which are set too low, may clutter the asset register and increase administration costs. High asset thresholds, on the other hand, may result in lower levels of control over assets acquired for amounts less than the threshold.

Each portable and attractive item should be identified, tagged and recorded in a register to allow the item to be traced. A register should hold information such as the description of the item, its serial and unique tag numbers, cost, acquisition date, warranty details, custodian/user, disposal date and method. Management should also ensure that the existence of items on registers is confirmed annually. This may be by the way of rolling stocktakes conducted throughout the year.

Other Consideration for Mobile Devices

Entities should review, and, where necessary, develop or update internal policies and procedures to reflect the proliferation of smartphones, tablets, and other mobile devices, including employees' own personal devices, in the workplace. The areas that should be considered include:

- use and security of mobile devices
- control and protection of information
- privacy implications when employees use their own personal devices
- records retention, including implications of remote wipe-outs
- deletion of information on disposal
- staff training and awareness
- software and hardware control
- process documentation.

Policies and procedures relating to the use of mobile devices should reflect the risk profile of the entity.

DEPARTMENT OF HEALTH AND HUMAN SERVICES - OUTPUT BASED EXPENDITURE

In this Chapter the Department of Health and Human Services is referred to as either DHHS or the Department. This Chapter should be read in conjunction with the Department's Chapter in Report of the Auditor-General No. 6 of 2012-13.

AT A GLANCE

This Chapter was completed following a request from a third party. It notes that over the period 1 July 2009 to 30 June 2012, total health funding increased by 11.65%, operational health funding increased by 10.50% and movements in DHHS expenditure at the output level over this period, for the three outputs selected, were:

- expenditure increased by 10.97%
- recurrent costs per case mix adjusted separation increased by 8.24% whereas outputs, expressed as admitted patients weighted separations, increased by only 2.07%.

Analysis of DHHS' administration costs and full time equivalent staffing identified that:

- administration costs totalled $81.730m in 2011-12 and declined by 3.22% over the three-year period
- these costs represented about 5% of total health expenditure in 2009-10 declining to about 4.25% in 2011-12
- total DHHS FTE was 9 851.74 at 30 June 2009 declining by 5.70% to 9 290.48 at 30 June 2012
- administration FTE represented 5.06% of total FTE in 2009-10 declining to 4.59% in 2011-12.

Recommendations

Recommendations in this Chapter are that:

1. Tasmanian State entities be required to annually report relevant and appropriate indicators of their effectiveness and efficiency and that these be audited.
2. DHHS increase the number of efficiency indicators reported such that the value reported equals or closely equals total expenditure incurred on Acute Health Services and on its other output groups.
3. Each of the three Tasmanian Health Organisations similarly report efficiency indicators such that the amount of reported output groups equal or closely equal total expenditure incurred on each output group.
4. DHHS explore why increases in acute health care costs are not matched by improvements in efficiency as measured by the number of admitted patients - weighted separations completed.
5. DHHS and each THO include in future annual reports the amount of administration costs as against direct service delivery costs they incur.

With regard to recommendations 1 and 2, reference is made to our Special Report No. 72 in which we recommended that DHHS develop efficiency measures for disability, mental health, alcohol and drug, community nursing, child and family, and ambulance services provided. Based on information reported in DHHS' 2012 annual report, this recommendation has not been adopted.

WHAT PROMPTED PREPARATION OF THIS CHAPTER?

In May 2012 I received a request seeking information about various matters related to health funding. This request resulted in communicating with the Department and the provision of data supporting health related expenditures and funding which are outlined in this Chapter. Other than details about departmental overheads, the information provided here is in the public domain although not necessarily in one place. Not all of the information provided in this Chapter has been subjected to audit.

The information sought, and action taken, was:

1. The extent of Commonwealth health funding received by Tasmania – covered in this Chapter.
2. Detailed information on where health funding has been spent by the State government – also covered in this Chapter. However, the information provided is at an output level, not by institution or function. The establishment of the three Tasmanian Health Organisations (THOs), continuation of separate activities for Ambulance Tasmania, Housing Tasmania and the Department and proposed separate reporting for disability services and mental health, will mean that, in future years, information should be available at institutional, as well as, output levels.
3. The level of efficiency demonstrated by the Health Department in administering the funding – other than to include in this Chapter information about departmental overheads, this question has not, and will not be addressed. However, adoption of the recommendations made in this Chapter will facilitate assessments of efficiency in future.
4. Whether the inherent disadvantages experienced within Tasmania, with a comparatively small, dispersed population, are adequately recognised in the level of Commonwealth health funding received – I will not deal with this question for two reasons. Firstly, the matter raised involves policy considerations about which I should not comment. Secondly, revised Commonwealth/State funding arrangements, which partly resulted in the establishment of the THOs, include the development of activity based pricing arrangements which I understand will take regional and population factors into account. These arrangements will be supported by a new funding model based on a national efficient price for health services determined by the Australian Government Independent Hospital Pricing Authority, which is an independent body. I am advised that these pricing arrangements will take time to be implemented. In any event, the outcome of these arrangements should become transparent in each THO's annual financial statements from now on.

I decided the information sought in matters 1 to 3 should, in the public interest, be made available resulting in the preparation of this Chapter.

PERIOD COVERED

Financial information in this Chapter covers the three year period 1 July 2009 to 30 June 2012.

OUTPUT BASED FUNDING

Output based funding has been the basis for budgets and appropriations in Tasmania since about 1997. This method of funding is a continuation of the move away from cash based funding and reporting, to accrual based reporting and now to a focus on outputs. This shifted the focus from input budgeting, such as a budget for salaries and wages, to outputs and facilitates the question 'what did an entity, in this case Health, achieve or deliver with the funding' rather than the questions 'how much was spent' or 'is spending in line with budget', or 'how much was spent on inputs such as on salaries'.

A critical feature of output based funding is the need, as part of the budget setting process, to establish relevant and appropriate indicators of efficiency, effectiveness and access (or equity) and to set targets to be attained. Similarly, there is a need to acquit performance by reporting achievements utilising budgeted and other indicators. DHHS's 2011-12 annual report includes many useful indicators of its effectiveness as it relates to the outputs included in its budget and financial statements but few indicators of efficiency. Inclusion of appropriate efficiency measures would facilitate assessments relating to questions 3 and 4 above. Because DHHS' annual report deals with effectiveness quite well, the commentary below, in addition to providing some theoretical background, focusses on efficiency.

Report on Government Services

Each year the Productivity Commission issues its Report on Government Services (RoGS). I have used RoGS' definitions here as these relate to outcomes, outputs, equity, effectiveness and efficiency.

Outcomes versus outputs

Outcome indicators provide information on the impact of a service on the status of an individual or a group. In contrast, outputs are the services delivered. This Chapter deal with outputs, not outcomes.

Indicators of equity

Equity indicators in RoGS measure how well a service is meeting the needs of particular groups that have special needs or difficulties in accessing government services. While effectiveness indicators are generally absolute measures of performance, equity indicators focus on any gap in performance between special needs groups and the general population. Equity indicators may reflect:

- equity of access — all Australians are expected to have appropriate access to services
- equity of outcome — all Australians are expected to achieve appropriate outcomes from service use.

Equity of access relates to all Australians having adequate access to services, where the term adequate may mean different rates of access for different groups in the community.

Indicators of effectiveness

Effectiveness indicators measure how well the outputs of a service reflect the stated objectives of that service. The RoGS reporting framework groups effectiveness indicators according to characteristics that are considered important to the service. These characteristics include access, appropriateness and/or quality. Examples from RoGS as these relate to health include:

- emergency waiting times
- waiting times for admitted patient services
- separation rates for selected procedures
- unplanned hospital readmission rates
- accreditation
- adverse events in public hospitals.

Indicators of efficiency and why and how they are relevant to an output based framework

Efficiency reflects how resources (inputs) are used to produce outputs and outcomes, expressed as a ratio of outputs to inputs (technical efficiency), or inputs to outcomes (cost effectiveness). The concept of efficiency has a number of dimensions. Overall economic efficiency requires satisfaction of technical, allocative and dynamic efficiency:

- technical efficiency requires that goods and services be produced at the lowest possible cost
- allocative efficiency requires the production of the set of goods and services that consumers value most, from a given set of resources
- dynamic efficiency means that, over time, consumers are offered new and better products, and existing products at lower cost.

Health related examples from RoGS include:

- cost per case-mix adjusted separation
- relative stay index
- recurrent cost per non-admitted occasion of service

How can performance indicator reports be helpful?

Indicators are useful if they are relevant, meaningful, focussed on outcomes, comparable, comprehensive, understandable, timely and accurate. Satisfying these elements will assist users of key performance indicator reports to make judgments about an entity's, in this case DHHS or a THO, comparative equity, efficiency and effectiveness in providing services.

To be relevant to readers in their assessment of performance, indicators of efficiency need to satisfy all of the elements referred to in the previous paragraph, and, be sufficiently comprehensive so as to be reconcilable to an entity's income statement and/or to its statement of outputs.

Caution

Before illustrating the potential usefulness of efficiency indicators and their interpretation, a word of caution. The indicators used here and found in public reports, are just that – indicators of performance and, despite the existence of output based reporting for many years, there is not general agreement on what the best indicators are or how to compute them. Their reporting is also dependent on the use of reliable systems from which to capture the relevant data. Currently there is no requirement for reported indicators to be audited. Doing so would enhance the relevance, appropriateness and reliability of performance indicators.

Recommendation

1. **That Tasmanian State entities be required to annually report relevant and appropriate indicators of their effectiveness and efficiency <u>and</u> that these be audited.**

Management Comment

Recommendation 1: Comment

The Department supports the annual reporting of relevant and appropriate indicators of effectiveness and efficiency for all Tasmanian State entities, including the Department and Tasmanian Health Organisations. The Department will seek to progressively implement relevant and reliable indicators in future annual reports.

Illustration of the use of efficiency indicators

To illustrate this, I have drawn on output 1 Acute Health Services in DHHS' 2011-12 annual financial statements.

Table 1: Acute Health Services output, relevant indicators and movements

Acute health services - expenses by output

		2012	2011	2010
		$'000	**$'000**	**$'000**
Clinical support services		46 180	44 685	46 169
Medical services		391 352	379 892	355 685
Surgical services		245 598	252 067	234 271
Women's and children's services		113 858	112 240	101 037
Diagnostic and pharmacy services		144 947	141 169	118 753
Ambulance services		59 651	54 423	46 959
Forensic medicine services		2 411	2 180	1 872
Total		**1 003 997**	**986 656**	**904 746**
Percentage increase in costs since 2010		**10.97**	**9.05**	
Efficiency indicators reported by DHHS	**Unit of measure**			
Admitted patients - weighted separations	Number	103 384	102 849	101 286
Recurrent cost per case mix adjusted separation	$	5 925	5 915	5 474
Cost of treating weighted separations	$'000	612 550	608 352	554 440
Percentage of total acute health services	%	61.01	61.66	61.28
Therefore, unexplained costs*	%	38.99	38.34	38.72
Percentage increase in weighted separations since 2010	%	**2.07**	**1.54**	
Percentage increaser in current cost per case mix adjusted separation since 2010	%	**8.24**	**8.06**	

**Unexplained cost is simply the remainder and may not be representative of the cost of many acute care costs such as the treatment of emergency department presentations, outpatient services, teaching training and research or community services.*

Other efficiency Indicators that could be considered

Average cost of public admitted patient treatment episodes in private hospitals
Average cost per contracted palliative care client service
Average cost per client receiving contracted palliative care services
Average cost per ambulance attendance
Average cost per capita of Royal Flying Doctor service
Average cost per day of care for non-acute admitted continuing care
Average cost to support patients who suffer specific chronic illness and those who require continuing care
Average cost per attendance at emergency departments
Average cost per outpatient clinic attendance
Average cost per dental service provided by Oral Care services
Average cost per home-based hospital day of care and occasion of service

Source: TAO

Table 1 indicates to me that:

- Costs associated with acute health services increased by 10.97% in two years (that is since 2009-10) and the average cost per case mix adjusted separation increased similarly – by 8.24%. However, productivity has not kept pace with increasing costs as evidenced by the increase in the number of weighted separations which increased by only 2.07% over the same period.
- The increase in costs in 2011-12 was much lower, increasing by only 1.75% but with the increase in weighted separations again less than this at only a 0.52% increase.
- Reported efficiency indicators only addressed, on average over the three-year period, 61.32% of the total costs associated with this output. This means that readers of the DHHS annual report are unable to assess the efficiency by which the other 38.68%, or approximately $370m, was utilized.
- A number of other efficiency indicators, as illustrated in the bottom half of Table 1, could be reported.

Recommendations

2. **That DHHS increase the number of efficiency indicators reported such that the value reported equals or closely equals total expenditure incurred on Acute Health Services and on its other output groups.**
3. **That each of the three Tasmanian Health Organisations similarly report efficiency indicators such that the amount of reported output groups equal or closely equal total expenditure incurred on each output group.**
4. **That DHHS explore why increases in acute health care costs are not matched by improvements in efficiency as measured by the number of admitted patient - weighted separations completed.**

MANAGEMENT COMMENT

Recommendation 2 – Comment

The Department's Output structure will be restructured in the 2013-14 Budget Papers to more closely reflect the relationship between the Department and the THOs. In this regard, Acute Health Services will not be an Output Group of the Department in 2013-14.

The Acute Health Services Output Group will be delivered by the THOs and, accordingly, reflected in the Output structure of each individual THO. The efficiency indicators relating to this Output Group will also be separately reported by each THO.

Notwithstanding this change to the Department's Output structure, the Department agrees that to the extent it is practicable, it is appropriate for efficiency indicators to reflect the total level of expenditure incurred. The Department will seek to progressively implement relevant and reliable indicators in future annual reports and Budget Papers.

Recommendation 3 – Comment

The Department agrees with the recommendation and will work with THOs to progressively implement relevant and reliable indicators in future annual reports and Budget Papers.

Recommendation 4 – Comment

The Department notes that the analysis in this report has utilised Public Hospital Establishment (PHE) NMDS data when considering the recurrent cost per case mix for adjusted separations.

The Department maintains reservations about using the PHE as a source of expenditure for hospitals, particularly in analysing costs of hospital outputs. The PHE has a number of shortcomings, one of which is that it does not include the Department's corporate and divisional overheads applicable to public hospitals.

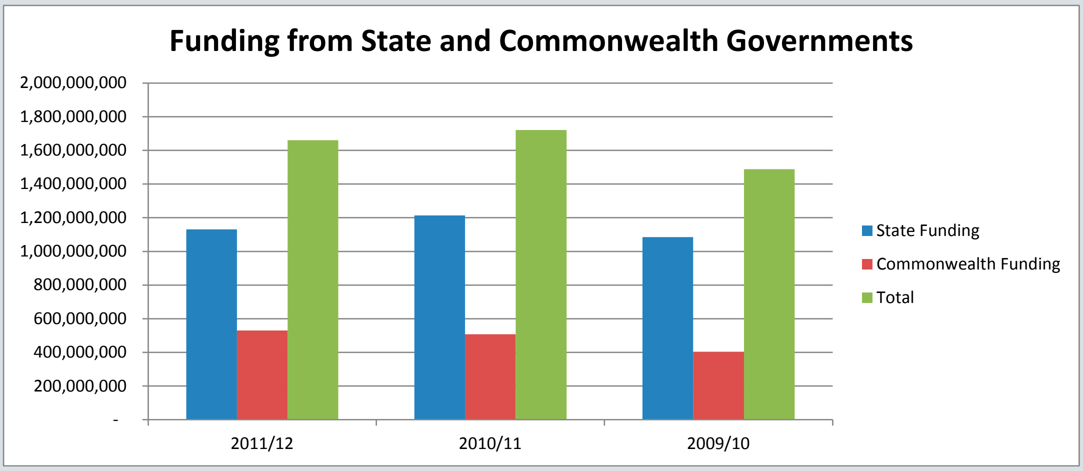
The National Hospital Cost Data Collection (NHCDC) is considered a better representation of actual total expenditure and costs of outputs than that contained in the PHE. In light of these concerns, the recommendation may require reconsideration. In any event, the Department will, once the NHCDC cost per weighted separation is available, analyse the data in a manner similar to that conducted by the Auditor-General and if appropriate, analyse the outcomes as recommended.

OVERVIEW OF HEALTH FUNDING

This section responds to the first question put to me – what was the extent of Commonwealth funding for Tasmania?

Figure 1 below summarises Health funding sources and total Health funding over the past three years

Figure 1: Health funding, recurrent (including specific purpose) and capital



Source: DHHS

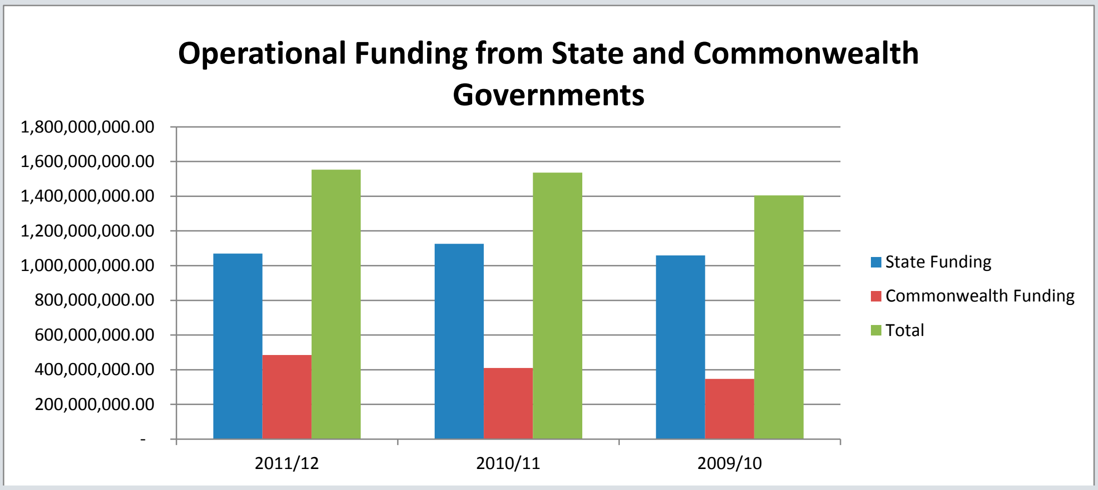
Figure 1 was prepared from funding information provided which indicates that:

- Commonwealth funding increased from $402.414m in 2009-10 to $530.113m in 2011-12, an increase of 31.73%
- State funding increased from $1 085.253m in 2009-10 to $1 130.856m in 2011-12, an increase of 4.20%
- Total funding increased by 11.65%
- The Commonwealth's share was higher in percentage terms partly because this period included funding associated with:
  - construction of additional community housing
  - completion of the first stage of the Royal Hobart Hospital redevelopment and commencement of construction of the Intensive care Unit and the Women's and Children's Hospital

- capital projects and indexation adjustments at Mersey Hospital
- capital projects at Launceston General Hospital in particular its emergency department and car parking facilities.

Figure 2 below details operational funding provided over the same three-year period.

Figure 2: Operational funding



Source: DHHS

Figure 2 was prepared from funding information which indicates that:

- Commonwealth funding increased from $347.277m in 2009-10 to $484.274m in 2011-12, an increase of 39.45%
- State funding increased from $1 058.418m in 2009-10 to $1 068.977m in 2011-12, an increase of 1.0%
- Total funding increased by 10.50%
- The Commonwealth share was higher in percentage terms for reasons provided under figure 1.

WHERE HEALTH FUNDING IS SPENT

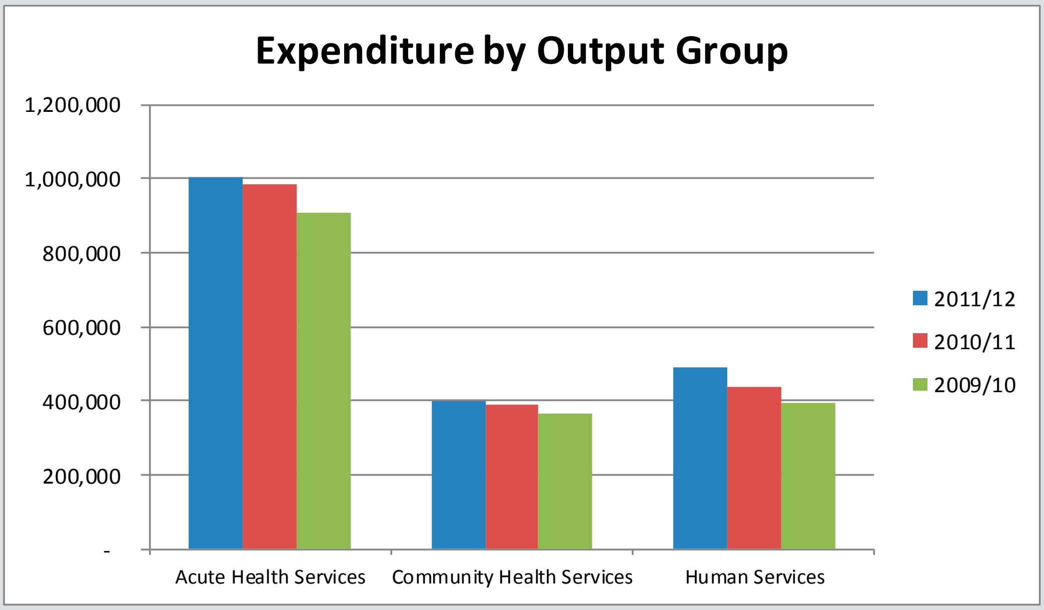
This section responds to the second question put to me. That is, detailed information on where health funding has been spent by the State government.

Under the DHHS output model, operational expenditure is incurred on six outputs groups with a range of outputs in each group. The output groups are:

- Acute health services
- Community health services
- Human services and
- The Independent children's review (Commissioner for Children) and operational expenditure on the capital investment program and the special capital investment fund, which for reasons of materiality are not dealt with here. The total spent on these three output groups was $18.134m in 2011-12, $14.686m in 2010-11 and $16.660m in 2009-10.

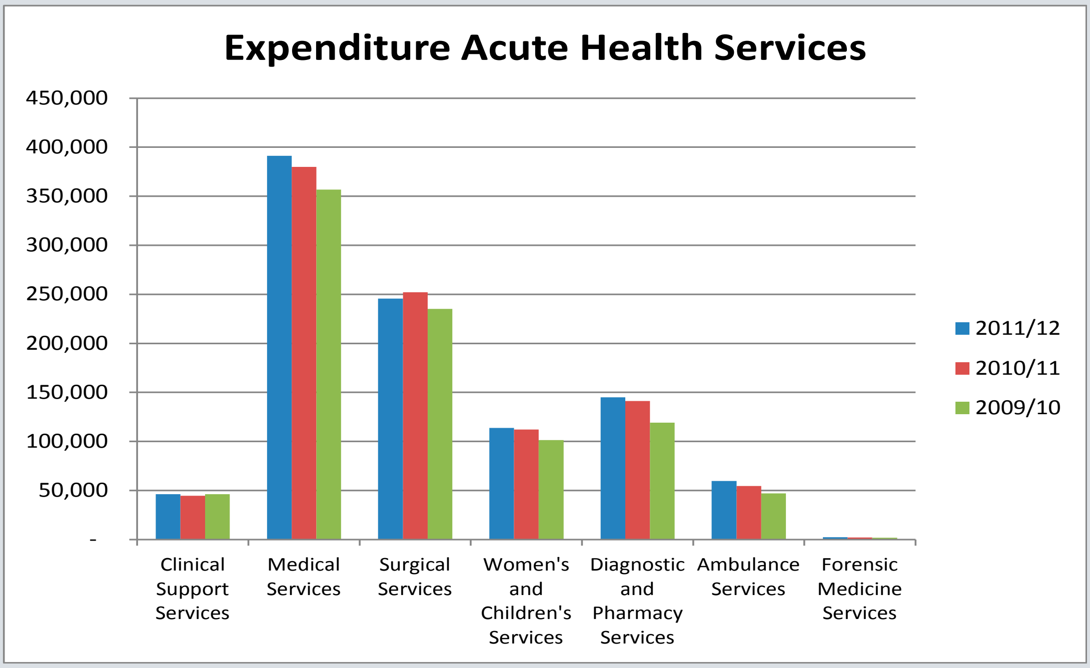
The four figures below detail expenditure at the output group level, for the first three outputs only, and at the output level within each group.

Figure 3: Expenditure at the output group level over the period 2009-10 to 2011-12



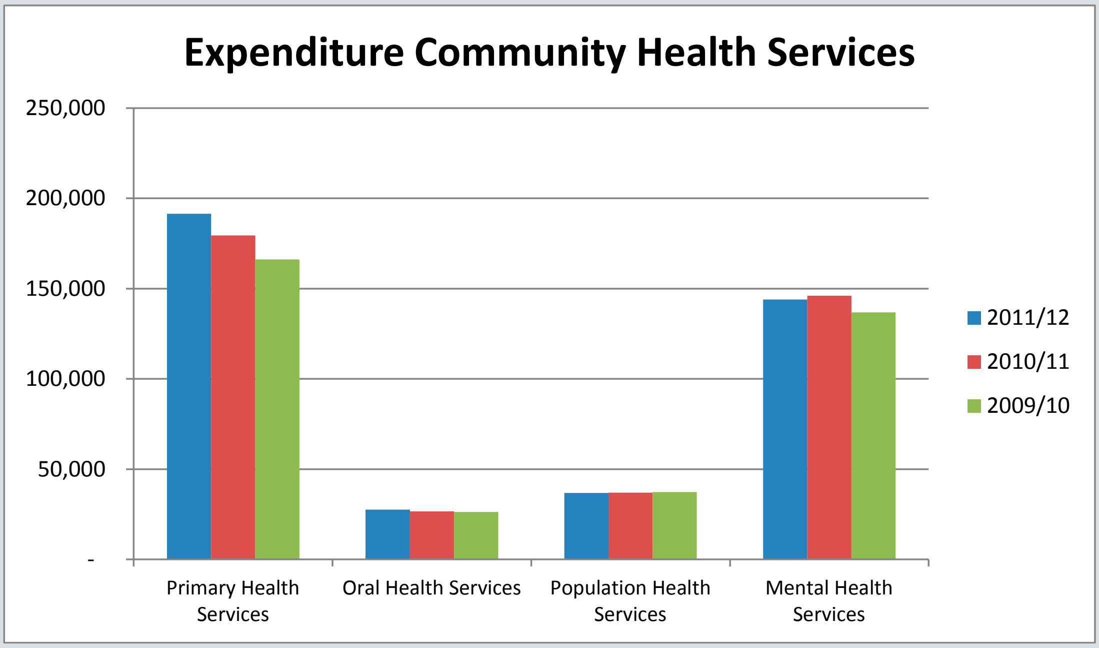
Source: TAO

Figure 4: Expenditure at the output level for the acute health services output group



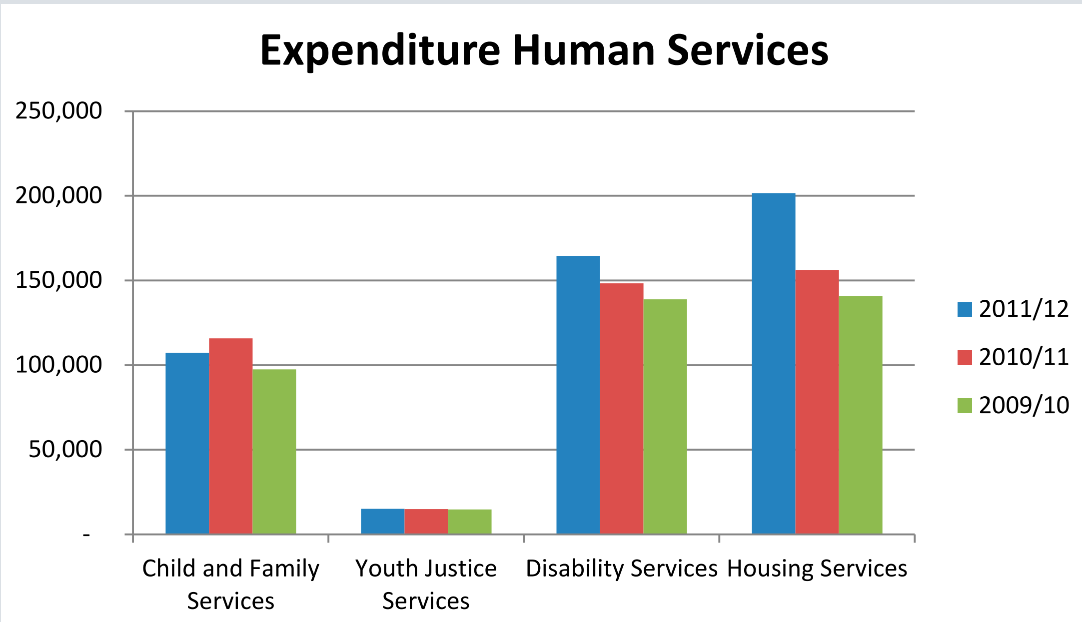
Source: TAO

Figure 5: Expenditure at the output level for the community health services output group



Source: TAO

Figure 6: Expenditure at the output level for the human services output group



Source: TAO

Evident from figures 3 to 6 is that:

- Acute health services is the dominant area of expenditure more than doubling expenditure on Community health and Human services
- the rate of expenditure increase on Acute health services slowed, following a significant increase in 2010-11, due to the implementation of budget savings strategies in 2011-12. A number of factors, not necessarily productivity related, caused the higher costs in 2010-11 including higher superannuation contributions

- expenditure on Human services continues to increase mainly in Housing
- expenditure on Medical and Surgical services dominate the Acute health services output with Medical services costs continuing to increase whereas expenditure on Surgical services declined in 2011-12, it being the only area of expenditure to do so over this three year period
- in the Community health services output, investment in Primary health increased each year whereas in the other three categories expenditure remained flat or, in the case of Mental health, declined
- in Human services, expenditure on Housing and Disability services increased but declined in the area of Child and family services.

IS HEALTH EXPENDITURE EFFICIENT?

The third question asked of me whether or not DHHS demonstrates efficiency in administering its funding. To an extent I endeavoured to answer this question by use of efficiency indicators earlier in this Chapter. However, that work was not conclusive because too few efficiency indicators are reported by DHHS and none separately capture administration within DHHS and/or at the THOs. Also, the efficiency indicators that I considered were all 'hospital' based rather than assessing administrative efficiency.

However, I sought information from DHHS regarding:

1. The administration component of its costs. I was seeking was an estimation of the administration costs incurred by the departmental head office and which were not directly output (service delivery) related. Unaudited information provided to me is set out in Table 2 and Figure 7
2. Full time equivalent (FTE) staffing levels. I was seeking an estimation of administration staffing as against other staffing and, specifically, administration staff relevant to item 1.

Administration costs

Table 2 below details administration costs as provided.

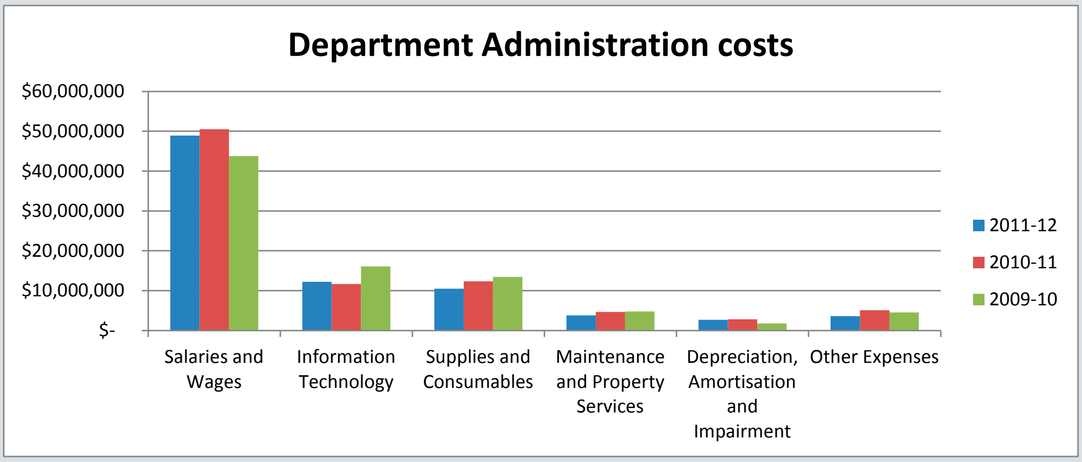
Table 2: Administration costs in the 2009-10 to 2011-12 financial years

	2011-12	**2010-11**	**2009-10**
Salaries and Wages	$48 896 671	$50 520 811	$43 775 445
Information Technology	$12 234 746	$11 688 722	$16 101 887
Supplies and Consumables	$10 484 189	$12 368 671	$13 441 810
Maintenance and Property Services	$3 825 368	$4 681 525	$4 767 451
Depreciation, Amortisation and Impairment	$2 664 588	$2 800 612	$1 752 122
Other Expenses	$3 612 604	$5 106 540	$4 512 331
Total	**$81 718 166**	**$87 166 881**	**$84 351 046**

Source: DHHS

Table 2 is expressed graphically in Figure 7.

Figure 7: Administration costs in the 2009-10 to 2011-12 financial years



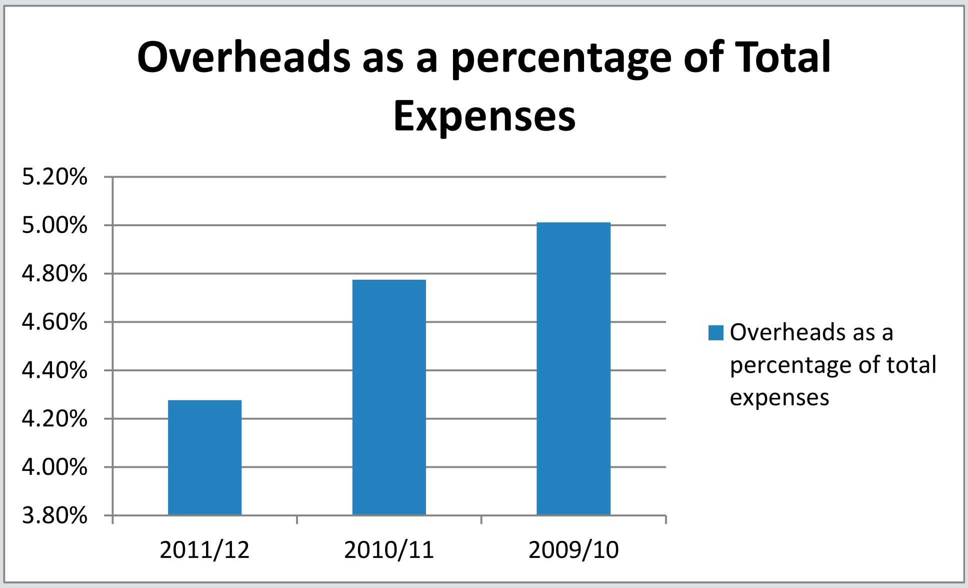
Source: TAO

Clear from Figure 7, and as expected, Staff related costs are the most significant representing 60% of total administration costs. This increased from 52% in 2009-10 and averaged 56.6% over the period

Information technology costs averaged 15.8% of the total over the period and supplies and consumables 14.3%.

Figure 8 below expresses DHHS' administration expenses as a percentage of total health expenditure in each of the three years ended 30 June 2012.

Figure 8: Administration costs as a percentage of total DHHS



Source: TAO

Figure 8 indicates that while total administration costs increased from $81.718m to $84.351m (refer Table 2), 3.22%, over the three years, in relative terms administration costs declined as total expenditure on health increased. The decline was from about 5% to about 4.25% of total operating expenditure. I have not audited these numbers and under the new health funding arrangements it may become even more difficult to separate administration from direct service delivery costs. This is because each THO will incur administration costs as will DHHS both through its shared services arrangements (with effect from 1 July 2012 DHHS provides a range of accounting, information technology, human resources and other support functions to the THOs) and in managing its own service delivery and administrative activities.

In any event, I think it incumbent on DHHS and the three THOs to minimise administration costs and to report what these are in future annual reports.

Recommendation

5. **That DHHS and each THO include in future annual reports the amount of administration costs as against direct service delivery costs they incur.**

MANAGEMENT COMMENT

Recommendation 5 - Comment

As the Auditor-General notes, the ability of the Department and THOs to accurately and reliably report the cost of administration against the direct service delivery costs each incurs is problematic under the new National Health Reform arrangements. Nevertheless, the Department will work with the Auditor-General's Office to identify how this recommendation may be progressed and reported in future annual reports.

Full time equivalent staffing levels

Because staffing costs represented the greatest share of Administration expenditure, details of FTE associated with the costs detailed in Table 2 were obtained and are summarised in Table 3.

Table 3: Administrative FTE compared to total FTE

DHHS Full time equivalent staff levels			
Numbers			
	2009-10	**2010-11**	**1011-12**
Administration staff	498.62	523.77	426.03
Other staff	9 353.12	9 360.86	8 864.45
Total	**9 851.74**	**9 884.63**	**9 290.48**
Percentages			
	2009-10	**2010-11**	**2011-12**
Administration staff	5.06	5.30	4.59
Other staff	94.94	94.70	95.41
Total	**100.00**	**100.00**	**100.00**

Source: DHHS and TAO

Table 3 indicates that:

- Administration staffing represented, on average over the three-year period, 4.98% of total FTE.
- This percentage declined over the period, such that by 30 June 2012, 72.59 fewer FTE were employed in administration. This represented a decline of 14.6%.
- At the same time, the number of Other staff declined by 488.67 FTE or 5.22%.

What functions do DHHS administrative staff fulfil?

I am often asked the question – what does the health bureaucracy actually do? Information provided to me indicates that this includes:

- Centralised administrative support functions to all health activities including budget development, finance, information management, human resources and internal audit. In addition, and as expected, each THO, Housing Tasmania and Ambulance Tasmania have their own finance functions.
- Payroll services for a workforce of around 13,000 (headcount) most of which are time-sheet based and subject to complex industrial arrangement.
- Policy development and coordination at a whole of health level including housing and ambulance services.
- Ministerial and Commonwealth support and liaison.
- Managing funding of approximately $300m per annum provided to Non-Government. Organisations under contracts for the delivery of health services.
- From a THO perspective, they also incur a range of administration costs necessarily having their own human resource, information technology and finance functions as well managing their capital works programs.

MANAGEMENT COMMENT

The Department manages a wide range of functions and activities that require the support of professional managers and administrators. Without the support of these dedicated staff, health services could not be delivered in Tasmania.

The Department's 2011-12 Annual Report provides a comprehensive explanation of the types of diverse activities undertaken across the Department and the important role provided by the support functions of the Department (Our Organisation, pages 6 to 15).

RESPONSE BY TASMANIAN HEALTH ORGANISATIONS

The THOs agree with recommendations 3 and 5 in principle and will work to ensure that appropriate, consistent indicators of efficiency and measures of administrative costs are developed.

AUDIT PRACTICE STATEMENT

INTRODUCTION / WHO IS THE AUDITOR-GENERAL?

The Auditor-General is an independent officer, established under the *Audit Act 2008* (Audit Act) to conduct, and report on, attest, performance and other audits and investigations in the Tasmanian public sector. The Auditor-General has complete discretion in the performance of his/her duties, and is not subject to control or direction by either Parliament or the government.

The Audit Act governs the powers and functions of the Auditor-General, providing the legal basis for his/her access to all government information and the freedom to report findings arising from audits or investigations to Parliament.

WHY WE AUDIT

In the Westminster system of government, all authority for government activity ultimately stems from Parliament. State entities, as defined in the Audit Act, are therefore accountable to Parliament for their use of public resources and the powers conferred on them by Parliament. The primary outcome of the audit function is independent assurance regarding the use of public resources and powers by State entities. This links directly with the Tasmanian Audit Office's (the Office) purpose which is to:

> *Provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public Sector.*

In providing this function the Office provides reasonable, but not absolute, independent assurance. Reasonable assurance aims at reducing the risk of an individual engagement to an acceptably low level that an inappropriate conclusion or opinion may be expressed.

THE AUDITOR-GENERAL'S OFFICE

The Office assists the Auditor-General to provide an independent view of the financial and operational performance of all State entities also referred to in this statement as clients.

OUR CLIENTS

Our primary client is the Parliament, secondary clients are Tasmanian State Entities and ultimately the people of Tasmania. In its widest context the Office serves the public interest.

WHAT DO WE AUDIT?

The Auditor-General is statutorily responsible for the attest audit of the annual financial statements of approximately 170 State entities which include government departments, government business enterprises, state and council owned companies, public sector superannuation funds, universities, local government councils and their joint authorities, statutory authorities and their subsidiaries. The Auditor-General is also responsible for the audit of the Treasurer's Annual Financial Report and the Public Accounts Statements.

In addition to financial statement audits, the Auditor-General also has the authority to perform audits by arrangement and conducts approximately 100 grant acquittal audits annually.

The Audit Act also provides the Auditor-General with the discretionary authority to undertake:

- performance audits examining the efficiency, effectiveness and economy of a State entity, a number of State entities, or a part of a State entity or a subsidiary of a State entity
- examinations or investigations into any matter relating to the accounts of the Treasurer, a State entity or a subsidiary of a State entity
- examinations or investigations into any matter relating to public money, other money or to public property or other property
- compliance audits examining the compliance by a State entity, or a subsidiary of a State entity, with written laws or its own internal policies
- audits or reviews of the Employer functions under the *State Service Act 2000.*

PRINCIPLES AND ELEMENTS ESSENTIAL TO AUDITING

Although different types of audits are undertaken by the Auditor-General, they share general principles and elements. The Australian Audit and Assurance Standards Board's Framework for Assurance Engagements provides guidance on elements of an assurance engagement, the first of which is relevant to a discussion about independence – an assurance engagement (including financial and performance audits) must involve a three party relationship being an assurance practitioner, a responsible party, and intended user. In the public sector context these parties are the Auditor-General, the State entity being audited and the Parliament.

Compliance with these principles will assure users of reports prepared by an auditor that he/she is:

- ethical
- independent from any influence, including influence by his/her client
- competent.

Elements essential to auditing and of ethics to comply with include:

Independence

The cornerstone of auditing is independence. Accordingly, auditors must avoid situations where their objectivity could be compromised or where bias could influence their judgement. In the public sector, auditors must be independent from executive government. This independence is enshrined in the Audit Act, which gives the Auditor-General complete discretion when deciding whether to conduct an audit, how to carry it out and how to prioritise any particular matters.

Ethical behaviour

Auditors must behave ethically. Relevant ethical requirements include the fundamental principles of professional ethics including:

1. Integrity
2. Objectivity
3. Professional competence and duty of care
4. Confidentiality
5. Professional behaviour.

Quality control

A system of quality control is required to be established and is required to include the following elements:

1. Leadership responsibilities for quality within the Office
2. Relevant ethical requirements
3. Acceptance and continuance of client relationships and specific engagements
4. Human resources
5. Engagement performance
6. Monitoring.

Evidence

Audits rely on sufficient and appropriate evidence to form conclusions. Audit staff gather information and evidence from a wide range of sources, including client records, data analysis, interviews with relevant officials, on occasions interviews with members of the public and surveys.

Standards

The Audit Act requires the Auditor-General to have regard to Australian Auditing and Assurance Standards when conducting audits or investigations. The Office has introduced methodologies aimed at ensuring compliance with these standards. They cover planning, communication, conduct, evidence, quality assurance, delegations and reporting aspects of an audit.

Access to information

The Audit Act provides the Auditor-General and staff with wide-ranging powers to access information needed during the course of an audit, irrespective of any restrictions on disclosure imposed by other legislation. This includes statutory secrecy provisions and Cabinet or commercial-in-confidence information. The Auditor-General can search the premises of a public sector entity and compel individuals to provide information. Balancing these powers, the Auditor-General and staff are required to maintain the confidentiality of any information gathered in an audit.

Accountability

With independence and wide-ranging powers comes the responsibility to undertake audits efficiently, effectively, in compliance with legislation and to high standards. A number of internal and external quality and accountability mechanisms are in place to ensure the Auditor-General and his/her Office are accountable. These include reviews of audits and reports by peers and experts, self-assessment of the Office and its audit processes against a framework developed by the Australasian Council of Auditors-General (ACAG) and independently run surveys of Parliamentarians and clients. In addition, the Office:

- must prepare annual financial statements in accordance with Australian Accounting Standards and have these audited by an auditor appointed by the Governor
- must prepare an annual report in accordance with the *State Service Act 2000* and table this in the Parliament
- is, under section 44 of the Audit Act, subject to an independent performance audit every five years the outcomes of which are submitted to the Public Accounts Committee.

Communication

Effective, regular and timely communication with clients is a vital part of the audit process. Entry interviews are held to clarify audit scope and decide communication protocols. Significant findings and emerging issues are shared with clients throughout the audit. Heads of clients and those with special interests are invited to provide comments for inclusion in any final audit report.

Professional Judgment

Professional judgment is a process used to reach a well-reasoned conclusion that is based on the relevant facts and circumstances available at the time. It is critical to efficient and effective planning, performing, and concluding an audit. We use professional judgment to objectively focus on the most important aspects of an audit; to determine the nature, timing, and extent of audit procedures; and to appropriately challenge the accounting, reporting, and other conclusions reached and assertions made by management.

Professional scepticism

In planning and performing audits, auditors exercise professional judgment and maintain an attitude of professional scepticism, recognising that circumstances may exist which cause a financial report or information examined when conducting performance or other audits to be materially misstated.

In undertaking audits in the public sector, consideration is had to matters of public interest and the framework in place for the use of public resources. The Audit Act also provides additional powers enhancing this probity aspect by providing the Auditor-General the mandate to "follow the dollar" should it be deemed necessary.

REPORTING TO PARLIAMENT

Reports to Parliament highlight issues regarded as important to Parliament and often generate considerable Parliamentary and community debate. Reports may include any information or recommendations related to an audit, but must set out the reasons for opinions and conclusions reached. Those charged with governance and other interested parties, are afforded natural justice and procedural fairness as reports are finalised by allowing them to comment on draft versions of the report and for their comments to be included in the final version. On the day a report is tabled a presentation is usually held to brief Parliamentarians.

In addition to reporting to Parliament, the Auditor-General where he or she deems appropriate, may release reports to the Public Accounts Committee or to the Joint Committee on Integrity. Also, should the Auditor-General conclude that it would be against the public interest to disclose sensitive information in a report, the Audit Act provides alternative guidance, including the option not to report.

Outcomes from financial audits

Under Division 2 of the Audit Act, the Auditor General is required to report to Parliament at least once annually on the results of attest audits that in his or her opinion are of such significance as to require reporting. These reports may include:

- matters of significance arising from audits of financial statements or
- information following completion of any compliance or performance audits.

Outcomes from performance audits, examinations or reviews

Under Division 2 of the Audit Act, the Auditor-General may submit completed reports to both Houses of Parliament, or the Public Accounts Committee, or the Joint Committee, or not at all.

TYPES OF AUDITS

Financial Audits

Financial audits provide independent assurance to Parliament and the public that the information contained in financial reports of State entities is presented fairly, in accordance with Australian Accounting Standards and applicable legislation.

Whilst not a legislative requirement, when conducting annual financial audits, we give regard to whether there has been any waste of public resources or any lack of probity or prudence in the management or application of public resources.

Methodology

Financial audits are conducted in accordance with Australian auditing standards using a risk-based audit methodology developed in partnership with other Australian public sector audit offices. Under this methodology, an audit strategy is developed for each client, based on an assessment of existing management controls and organisational and environmental risks. This methodology guides auditors through the financial audit process. The methodology was specifically designed for the management of audits in the Australian public sector and can include:

- reviewing the probity and propriety of matters associated with the management of public resources
- assessing compliance with relevant acts, regulations, Government policies and other prescribed requirements
- reporting to Parliament on matters arising from audits.

Performance audits

A performance audit evaluates whether an organisation or government program is achieving its objectives effectively, economically and efficiently, and in compliance with relevant legislation. Performance audits extend beyond the examination of the financial affairs and transactions of a State entity encompassing wider management issues considered to be of significance to the community.

The Audit Act provides the Auditor-General with the authority to undertake:

- performance audits examining the efficiency, effectiveness and economy of a State entity, a number of State entities, or a part of a State entity or a subsidiary of a State entity
- compliance audits examining the compliance by a State entity, with written laws or its own internal policies.

Audit Activity – Examinations and investigations

The Audit Act provides the Auditor-General with the authority to undertake:

- examinations or investigations into any matter relating to the accounting and financial management of the Treasurer, a State entity or a subsidiary of a State entity
- examinations or investigations into any matter relating to public money, other money or to public property or other property.

Examinations and investigations can be assigned by the Auditor-General to either of the Financial or Performance audit units. The authority to investigate any matter relating to public money or property provides the mandate for the Auditor-General to "follow the dollar" and access the financial records of private entities in receipt of public monies or property. While the provision of services may be at arm's length, this does not diminish accountability for good, efficient service delivery.

Methodology

All audits are conducted using the Office's internally developed performance audit manual which complies with relevant Australian auditing standards.

Topic selection

The Auditor-General considers many potential performance audit topics annually, with a focus on service delivery and the effective use of resources. A selection of these topics is included in an Annual Plan of Work, outlining the proposed work program of the Office for the coming year. The Office uses a series of steps and principles to help the Auditor-General determine which performance audits to undertake, including consultation with the Public Accounts Committee. Factors taken into account when choosing topics include:

- potential benefits
- financial materiality
- risk to service delivery
- extent of previous audit and review coverage.

State Service Audits

The Audit Act provides the Auditor-General with the authority to examine the performance and exercise of the Employer's functions and powers under the *State Service Act 2000*. This provision was introduced on 4 February 2013 and provides the Auditor-General with the discretionary mandate to respond to requests from the Employer and/or to initiate audits or investigations.

The Auditor-General has decided to initiate audits or reviews of relevant aspects of the annual report to be prepared by the Employer under section 19 of the *State Service Act 2000* and has develop a program of audits or investigations of relevant areas of public sector employment, administration or practice.

Inquiries from the public

Members of the public sometimes write to the Auditor-General requesting areas for investigation and audit, often regarding specific actions taken by public sector agencies. While these requests can be crucial 'early warnings' of issues related to the performance, probity and compliance of the sector, these matters do not always lead directly to performance audits or investigations as they may not meet the Auditor-General's criteria of materiality and risk.

Nevertheless, the Office tries to assist persons who have written to the Office by finding the right channel for their concerns. Specific requests about public sector agencies are directed initially to the agency concerned, and sometimes referred to other accountability authorities that may be better placed to deal with the matter.

In some cases audits are initiated.

Matters referred for audit or investigation by Parliamentarians or by other integrity entities

The Audit Act also includes provisions whereby at the request of certain other parties, the Auditor-General may, at his or her discretion, carry out an audit or investigate any matter. The Treasurer, Public Accounts Committee, Ombudsman, Employer, Integrity Commission or an Integrity Tribunal of the Integrity Commission, can all refer matters for consideration. Any resultant audit or investigation is carried out in accordance with the Audit Act.

Collaborative audits

The Auditor-General may carry out an audit on behalf of or in collaboration with the Auditor-General of the Commonwealth or another State or a Territory if the Auditor-General reasonably believes the Commonwealth or that other State or Territory has an interest in the audit.

Following up audits

Follow-up audits on specific performance audits are considered as part of the annual performance audit program. These audits focus on the more significant projects, recommendations, assess the overall impact of the audit and are undertaken in coordination with any proposed Public Accounts Committee follow-ups.

MUTUAL OBLIGATIONS

Understanding the needs, expectations and priorities of State entities is important and the Office works in a constructive and consultative manner with these entities to identify areas where improvements can be made in public administration and service delivery. The success of an audit in achieving positive outcomes relies, in large part, on the degree to which entities and the Office meet their mutual obligations.

Key obligations are discussed below.

What We Will Do

Knowledge of the business

We will have, or obtain, sufficient knowledge of each client to enable us to identify and understand issues that impact on the performance of the financial statements, program or activity being audited.

No surprises

We work on a 'no surprises' basis with respect to audit findings so that clients are provided opportunities to discuss these findings, and to improve processes where this is warranted. We do this by engaging in ongoing dialogue during an audit. This dialogue also contributes to reports that are accurate, evidenced based, balanced and fair.

Confidentiality of information

All audit and related information is 'in-confidence' and we are bound by the Audit Act not to disclose information obtained to any other party, except as part of the Office's normal reporting arrangements. Sensitive information that is not in the public interest will not be included in public reports.

Security

We take reasonable steps to ensure that all information provided is stored securely and is only used for audit purposes.

What do Clients Need to Do

Full and free access

Each client is required to provide us with full and free access at all reasonable times to any premises, documents or other property we may wish to examine and make copies of or take extracts from.

Reasonable facilities

Each client is also expected to provide us with reasonable facilities to aid the conduct of an audit. This will generally include a secure office, computer terminal, telephone with external access and access to printing and photocopying facilities.

Feedback

Any feedback to inform the audit or concerns that the Office is not meeting its obligations should be raised with relevant senior staff of the Office, so the issue can be resolved promptly. Each client will also be provided with an opportunity to provide independent feedback on the conduct of audits through the Office's client surveys.

DEFINITIONS

Acquittal audit – an audit that certifies to the true and fair presentation of a report on financial transactions relating to a grant.

Attest audit – an audit of financial statements of an entity culminating in the issue of an independent auditor's reports outlining their compliance with relevant legislation and accounting standards.

Compliance audits - audits aimed at assessing compliance by State entities with laws, regulations or internal policies.

Direct audit – a performance audit engagement on any matter assigned by the Auditor-General to examine, investigate, inspect, review and report. These audits often express more than just an opinion. These audits describes conditions within the audited entity, draws conclusions about those conditions, and makes recommendations designed to improve the administration of the program or activity examined. These audits may consider the operations of an entity in total, the operations of a particular program within an entity, or they may look at a particular activity across a range of similar entities with the aim of identifying and reporting best practice.

Economy - the acquisition of the appropriate quality and quantity of financial, human, physical and information resources at the appropriate times and at the lowest cost.

Efficiency - the use of financial, human, physical and information resources such that output is maximised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.

Effectiveness - the achievement of the objectives or other intended effects of activities.

Employer – means the Minister administering the *State Service Act 2000.*

Examination – a review of any matter assessing the efficiency, effectiveness, economy or compliance with written laws or regulations.

Follow-the-Dollar – the Audit Act provides a mandate for the Auditor-General to investigate any matter relating to public money or property. This includes access to financial records of any entity, public or private. The "follow the dollar" mandate aims to ensure accountability for good and efficient usage of all public sector resources.

Investigation – a review of any matter relating to the accounts of a State entity or a review of any matter relating to public money or other money or to public property or other property.

Performance Audit – (Also referred to as a Direct Audit), an audit of all or a part of an entity or entities' activities to assess economy and/or efficiency and/or effectiveness.

Probity – means integrity, uprightness and honesty. It involves applying and complying with public sector values and duties such as impartiality, accountability and transparency. In auditing the probity role is one of both advising and auditing. Ensuring probity in public sector activities is part of every public official's duty to adopt processes, practices and behaviour that enhances and promotes public sector values and interests.

Reporting Framework – the underlying concepts for the preparation and presentation of financial information for external users. For the vast majority of State entities this includes compliance with relevant legislation and Australian Accounting Standards. 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 as a starting point in the preparation of proper accounts and records we consider a basic accounting framework for SPFR should apply as a minimum 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.*

OTHER STATE ENTITIES
31 DECEMBER 2012

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 specifies 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.

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 31 DECEMBER 2012 FINANCIAL STATEMENTS

Signed financial statements were received on 6 February 2013, and an unqualified audit report was issued on 19 February 2013.

The audit was completed satisfactorily with no major items outstanding.

SUMMARY OF FINANCIAL RESULTS

	2012	**2011**
	$'000s	$'000s
Opening Cash Balance	**1**	**2**
Total Receipts	25	22
Total Payments	22	23
Excess of Receipts over Payments	3	(1)
Closing Cash Balance	**4**	**1**

Comment

The increase in the Closing Cash Balance of $0.003m was due to higher Grant Revenue from the Department of Premier and Cabinet not all of which was spent. Payments mainly comprised grants to Legacy Clubs, $0.016m, and Returned Services League, $0.005m.

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 2012 FINANCIAL STATEMENTS

Signed financial statements were received on 14 February 2013, and an unqualified audit report was issued on 18 March 2013.

The audit was completed satisfactorily with no major items outstanding.

SUMMARY OF FINANCIAL RESULTS

	2012	**2011**
	$'000s	$'000s
Total Revenue	37	44
Total Expenses	27	33
Net Surplus	**10**	**11**
Total Assets	96	90
Total Liabilities	23	27
Net Assets	**73**	**63**
Total Equity	**73**	**63**

Comment

The Board's Net Surplus remained consistent in 2012. Revenue decreased by $0.007m, mainly due to a drop in applicants and associated examination fees, however this was largely offset by a decrease of $0.006 in Expenses, resulting from lower applicant and examination costs.

Net Assets increased from $0.063m to $0.073m at 31 December 2012, being the Net Surplus for the year. Total Assets comprised cash on hand and cash invested in short-term bank deposits.

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. These 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 ($5.500m as at 31 December 2012). 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 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 Responsible Minister is the Attorney-General

AUDIT OF THE 31 DECEMBER 2012 FINANCIAL STATEMENTS

Signed financial statements were received on 14 February 2013, with an unqualified audit report issued on 28 March 2013.

The audit was completed satisfactorily with no matters outstanding.

STATEMENT OF COMPREHENSIVE INCOME

	2012	2011
	$'000	$'000
Income	3 273	4 068
Expenditure	115	139
Net Surplus from Operations	**3 158**	**3 929**
Movement in provisions	(443)	149
Net Surplus after Non-Operating Items	**2 715**	**4 078**
Distributions:		
Legal Profession Board	809	811
Leagal Aid Commission	780	802
Law Society of Tasmania	255	0
Sentencing Advisory Council	20	250
Women's Legal Service	196	81
Launceston Community Legal Centre	1	167
Environmental Defenders Office Tasmania	143	6
Tasmanian Association Commuity Legal Services	109	32
Unions Tasmania	100	0
Other grants	121	102
Total Distributions	2534	2251
Net Surplus after Distributions	**182**	**1 826**

Comments

The Trust achieved a Net Surplus from Operations of $3.158m which was $0.771m, lower than in 2011. This was mainly due to a $0.795m decrease in interest revenue received or accrued and was in line with declining interest rates.

The Net Surplus after Non-Operating Items decreased by $1.363m from the prior year, principally due to an increase in the provision for costs and provision for guarantee fund claims in respect of Piggott Wood and Baker.

The Trust made $2.534m (2011, $2.251m) in distributions in 2012 to the various organisations listed above.

STATEMENT OF FINANCIAL POSITION

	2012	2011
	$'000	$'000
Cash	9 969	9 239
Accounts receivable	1 104	1 169
Accrued interest on investment & deposit accounts	481	635
Other assets	3	7
Total Assets	**11 557**	**11 049**
Payables	21	45
Provision for costs	357	263
Provision for Guarantee Fund claims	1 346	1 091
Total Liabilities	**1 724**	**1 398**
Net Assets	**9 833**	**9 651**

Comments

Total Assets comprised predominantly Cash, $9.969m (2011, $9.239m) and accounts receivable (liquidator's reimbursements), $1.104m ($1.169m). Liabilities were principally the Provision against guaranteed claims, $1.346m, ($1.091m). The Trustees decreased the estimates for accounts receivable mainly due to payment of a final dividend in John Avery's bankruptcy during 2012. The Trustees also increased the estimated compensation for outstanding claimants on the Piggott Wood and Baker Guarantee Fund provisions.

At balance date the Trust administered $27.153m, ($22.457m) of Statutory Deposits. The balance is dependent upon the level of activity and funds held in trust by 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 2012 FINANCIAL STATEMENTS

Signed financial statements were received on 14 February 2013 and an unqualified audit report was issued on 12 March 2013.

The audit was completed satisfactorily with no major matters outstanding.

SUMMARY OF FINANCIAL RESULTS

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

	2012	**2011**
	$'000s	$'000s
Opening Trust Fund Balance	**623**	**566**
Total Receipts	3 638	3 675
Total Payments	3 613	3 618
Excess of Receipts over Payments	**25**	**57**
Closing Trust Fund Balance	**648**	**623**

Comment

The Authority's main source of income was attributed appropriation receipts, $3.541m, (2011, $3.582m), received from the Department of Education.

Significant payments included,

- salaries and wages, $2.210m (2011, $2.256m). The Authority employed an average of 17.8 full-time equivalents (FTE) in 2012, (18.42 FTE). The fall in FTE correlates with the drop in salaries and wages
- rent, $0.247m ($0.221m)
- travel and transport, $0.186m ($0.185m)
- printing costs relating to general activities, including marking of external exams, $0.140m ($0.131m)

- conferences, seminars and meetings, $0.119m ($0.061m). The increase in 2012 was primarily due to the Australian Curriculum, Assessment and Reporting Authority (ACARA) review being conducted by the Authority. This review was partially funded by ACARA grants totalling $0.039m.

The Authority's trust fund balance increased steadily in recent years to $0.648m at 31 December 2012. These funds, which are held on behalf of the Authority within the Department of Education, are held to assist 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 the Arts.

AUDIT OF THE 31 DECEMBER 2012 FINANCIAL STATEMENTS

Signed financial statements were received on 15 February 2013 and an unqualified audit report was issued on the same day.

Note 17 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.

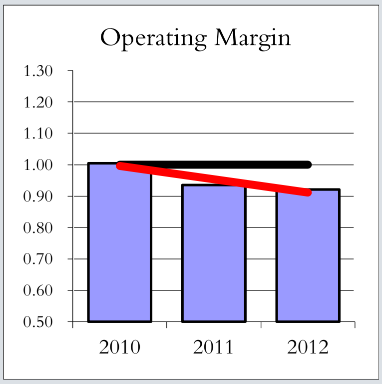
The audit was completed satisfactorily with no major issues outstanding.

FINANCIAL RESULTS

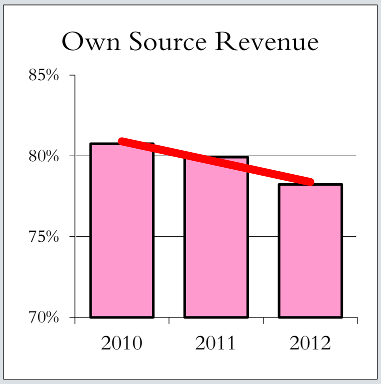
The Theatre continued to be economically dependent on Government grants and subsidies for it to be a going concern. In 2012 the Theatre recorded a Net Deficit of $0.860m (2011, $0.128m) predominately due to an agreement to transfer ownership of leasehold improvements, $0.703m, in the Theatre building back to the Crown, which owns this building.

The Theatre averaged just below a break-even result over the last three years, with the trend line indicating growing deficits. Own source revenue also declined over the same period and showed a downward trend. The continued losses and lower ticket sales resulted in two years of cash deficits, which lead to the overall decline in the Theatre's cash position.

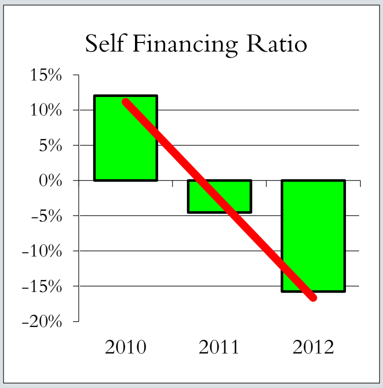
The following graphs summarise key ratios highlighting important aspects of the Theatre's financial performance over the past three years. In general, the ratios indicate:



Operating margin showed a downward trend over the three years under review, and dropped below the benchmark of 1 in 2011 and 2012. Over the three year period the Theatre averaged just below a break-even result, 0.98, which reflected its not-for-profit status.



Own source revenue ratio showed the Theatre generated on average over the three years 80% of operating revenue from its own sources, mainly ticket sales and hire income. Very minor fluctuations between years reflected funding for one-off projects.



Self-financing ratio indicates the extent to which the Theatre is able to fund its operations and programs from operating cash. The ratio declined over the three year period in line with the decline in cash generated from operations. The negative cash from operations has led to decreased investments held, as withdrawals have been made to cover payments.

Taken together, the three graphs highlight that the Theatre's reliance on external funding averaged 20% despite which small deficits and negative cash flow from operations were incurred. This indicates that, to minimise reliance on government and assure its going concern status, the Theatre needs to maximise internally generated revenues including ticket sales.

STATEMENT OF COMPREHENSIVE INCOME

	2012	2011
	$000's	$000's
Operating revenue	1 430	1 473
Entrepreneurial ventures	84	68
Grants and contributions	308	298
Donations	6	4
Total Revenue	**1 828**	**1 843**
Salaries and operating expenses	1 909	1 852
Depreciation	76	119
Total Expenses	**1 985**	**1 971**
Net Operating Surplus/(Deficit) before	**(157)**	**(128)**
Transfer of Property to the Crown	(703)	0
Net Surplus/(Deficit)	**(860)**	**(128)**
Comprehensive Surplus/(Deficit)	**(860)**	**(128)**

Comment

In 2012 the Theatre recorded a Net Operating Deficit before Transfer of Property of $0.157m compared to $0.128m in 2011.

After the Transfer of Property to the Crown, $0.703m, the Theatre recorded at Net Deficit of $0.860m. This transfer related to an agreement to transfer ownership of leasehold improvements in the Theatre back to the Crown, who owns the theatre building. The transfer impacted the Depreciation charge and was the predominant reason for the lower Depreciation expense of $0.043m.

STATEMENT OF FINANCIAL POSITION

	2012	2011
	$000's	$000's
Cash	191	237
Investments	1 221	1 537
Receivables	136	308
Other	100	59
Total Current Assets	**1 648**	**2 141**
Capital WIP	70	6
Equipment	13	14
Leasehold improvements	140	908
Total Non-Current Assets	**223**	**928**
Payables	417	772
Provisions - employee benefits	64	54
Total Current Liabilities	**481**	**826**
Provisions - employee benefits	87	80
Total Non-Current Liabilities	**87**	**80**
Net Assets	**1 303**	**2 163**
Accumulated Surpluses	1 303	2 163
Total Equity	**1 303**	**2 163**

Comment

Equity decreased by the Comprehensive Deficit of $0.860m to $1.303m at 31 December 2012. The corresponding decrease in Net Assets was reflected in:

- lower Cash, $0.046m, for reasons provided in the Statement of Cash Flows section of this Chapter
- decreased Investments, $0.316m, as funds were required for operations
- lower Receivables, $0.172m, due to timing of debtors at year end, predominately the Arts Tasmania grant of $0.121m outstanding at year end in 2011
- increased Other assets, $0.041m, mainly due to higher prepayments for settlement fees
- lower Non-current assets, $0.705m, mainly reflecting the transfer of assets to the Crown
- decreased Payables, $0.355m, predominately due to there being no Taste of Tasmania contract this year.

STATEMENT OF CASH FLOWS

	2012	2011
	$000's	$000's
Government grants	307	295
Receipts from customers	1 200	1 204
Payments to suppliers and employees	(1 885)	(1 665)
Interest received	90	82
Cash from operations	**(288)**	**(84)**
Withdrawals from investments	316	0
Payments for fixed assets	(74)	0
Payments for leasehold improvements	0	(7)
Deposits to investments	0	(59)
Cash from (used in) investing activities	**242**	**(66)**
Net increase (decrease) in cash	**(46)**	**(150)**
Cash at the beginning of the year	237	387
Cash at end of the year	**191**	**237**

Comment

The Theatre's overall cash position declined by $0.046m to $0.191m at 31 December 2012. Withdrawals from Investments, $0.316m, were used to assist funding operations, $0.288m, and Payments for fixed assets, $0.074m.

The increase in Cash used in operations, $0.196m, was predominately due to the significant 2011 Payables balances that were paid off during 2012. Other movements in operating cash flow reflect comments made in the Statement of Comprehensive Income section of this Chapter.

FINANCIAL ANALYSIS

	Bench Mark	2012	2011	2010	2009
Financial Performance					
Result from operations ($'000s) (before property transfer))		(157)	(128)	10	549
Operating margin ⋆	>1.0	0.92	0.94	1.01	1.56
Underlying result ratio		(47.0%)	(6.9%)	0.5%	35.9%
Self financing ratio ⋆		(15.8%)	(4.6%)	12.0%	14.3%
Own source revenue (%) ⋆		78.2%	79.9%	80.7%	81.1%
Financial Management					
Current ratio	>1.0	3.42	2.59	2.94	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.

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

UNIVERSITY OF TASMANIA

AT A GLANCE

On a consolidated basis, and after a one-off provision of restructure costs of $23.250m, the University incurred a deficit before tax and non-operating items of $30.137m ($5.593m deficit in 2011). This result is prior to accounting for investment earnings of $31.744m ($5.335m).

Despite the deficit, the University generated a Comprehensive surplus of $39.422m (2011, $13.506m). The $69.559m improvement compared to the deficit before tax and non-operating items was in the main due to:

- Investment gains of $31.744m ($5.335m)
- Capital grants from the State and Commonwealth governments of $30.381m ($25.202m) and from private funders of $4.000m ($2.000m).

Commonwealth grants and HECS funding accounted for 72.25% of the University's operational funding (that is, before capital funding and investment gains) compared to 72.5% in 2011.

Before bringing to account the financial impact on total expenditure of Restructure costs totalling $23.250m incurred this year, salary related costs represented 57.6% of total expenditure, a small decline on 2011 when salary related costs were 57.8% of total expenditure.

Investment returns were the highest in the four years under review at $31.744m which represented a return on average long-term funds invested of 13.35%.

In line with the Comprehensive surplus for the year, the University's net assets increased by $39.422m to $830.764m at 31 December 2012.

Property, plant and equipment continue to represent the majority of total assets, comprising 65.5% of total assets in 2012 (2011, 63.0%). The increase primarily arose from $85.106m invested in these assets in 2012. Land and buildings represented 76% of total Property, plant and equipment (73%). At 31 December 2012, based on a revaluation conducted in 2010, the University's buildings were, on average 21 years old. Buildings are, again on average, depreciated over 40 years meaning that at 31 December 2012, 52% of buildings had been 'consumed' resulting in a consumption ratio of 48%.

The building sustainability ratio, which measures the University's investment in existing buildings compared to depreciation on those buildings, declined to 80% in 2012, below our benchmark (TAO) of 100%. However, on average over the past three years the ratio was 139%.

Cash, short and long term investments were also significant, representing 27.4% of total assets in 2012 (2011, 31.3%). Despite the strong investment performance, this balance reduced in relative size because funds were drawn down to fund asset construction – mainly buildings and intangibles.

The University continued to invest in information technology platforms with $11.289m invested such that by 31 December 2012 Intangibles totalled $28.888m of which $14.161m was capital work in progress.

The largest liability was employee provisions primarily comprising annual leave, long-service leave, defined benefit superannuation and the restructure provision. These represented 74% of total liabilities (2011, 67%) with the increase in the main being due to inclusion of the restructure provision at 31 December 2012 of $16.197m.

Cash generated from operating activities declined from $26.461m in 2011 to $16.076m this year. This high decrease was mainly due to the deficit before tax and non-operating items referred to earlier.

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 2012 it had net assets of $599 (2011, $638)
- TasTherapeutics Pty Ltd an inactive company originally set uPfor the commercialisation of research activity.

The Commonwealth Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE) 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 2012. 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 2012 FINANCIAL STATEMENTS

The financial statements were signed on 14 February 2013 and received by us on this date. An unqualified audit report was issued on 15 February 2013.

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.

KEY FINDINGS AND DEVELOPMENTS

Major developments at the University this year included:

- Further development of the Menzies Research Institute/Health Sciences Collocation project referred to as Menzies stage 2. An additional $50.215m was spent on the project during 2012 and the new building in Bathurst Street, Hobart was capitalised for $59.908m. In 2012, the University received $15.000m from the Tasmanian Government, $14.700m from the Federal Government and spent $0.630m from internal sources.
- Further development of the Institute for Marine and Antarctic Studies (IMAS) building adjacent to CSIRO on the Hobart waterfront with $15.666m invested during 2012. Targeted completion is early 2014. The University received funding of $45.000m for this project in previous years.
- Continued development of the Technology One Student Management System (SLIMS project) which had a budget of $22.000m at 31 December 2012. A further $7.625m was spent in 2012 using internal resources and the total amount in work in progress at 31 December was $13.728m.
- These various capital projects are being funded from a mix of State, Commonwealth and internal sources. During 2012 the Commonwealth contributed $15.381m (2011, $25.202m) in capital funding and the State $15.000m ($3.500m).

- Research funds increased by $7.107m primarily due to $5.200m from various private funders for new research projects in 2012.
- The University undertook a professional staff review and an academic re-profiling exercise this year. An accounting firm was engaged to assist and expressions of interest were invited from all University staff for voluntary separations. The University recorded restructure costs of $23.250m which included a provision for restructure of $16.197m.
- Movements in staff numbers, including those who left just prior to 31 December 2012, expressed as FTE's, were:
    - non-academic staff declined by 48
    - academic remained relatively consistent.
- During the year the Commonwealth recovered $2.870m ($4.231m) relating to prior year enrolment reconciliations due to the University not reaching its student load target in those years.
- Cash generated from operating activities dropped to $16.076m, a decline of $10.385m compared to the previous year. The decline was mainly caused by the deficit before tax and non-operating items.
- Net investment returns totalled $31.744m, predominantly from the University's long-term investment portfolio. This was $26.409m more than 2011, with the return on the long-term investment portfolio being a strong 13.35%. Details of these movements are shown in the following table:

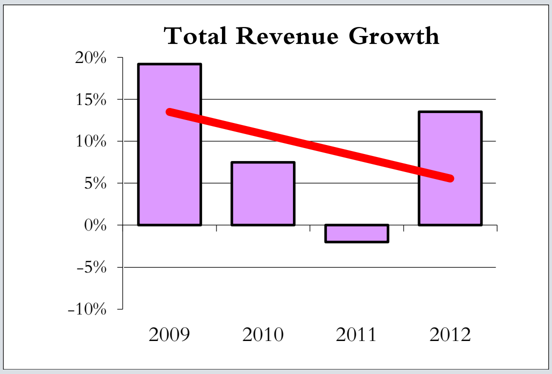
	2012	**2011**	**2010**	**2009**
	$'000s	$'000s	$'000s	$'000s
Investment revenue and income				
Interest	5 247	7 331	4 820	6 054
Dividends	10 411	18 870	9 441	7 452
Realised gains / (losses)	5 808	(10 566)	(10 151)	789
Unrealised gains / (losses)	10 278	(10 300)	10 225	13 359
Total	**31 744**	**5 335**	**14 335**	**27 654**

FINANCIAL RESULTS

The University incurred a deficit before tax and non-operating items of $30.137m (2011, $5.593m deficit) but a Comprehensive surplus of $39.422m ($13.506m). The higher deficit was mainly attributable to one-off restructure costs of $23.250m in the current year. Additionally, a return of prior year payments totalling gross $2.870m ($4.231m) was made to the Commonwealth this year.

At 31 December the University's net assets totalled $830.764m, an increase of $39.422m on 2011 being the Comprehensive surplus for the year.

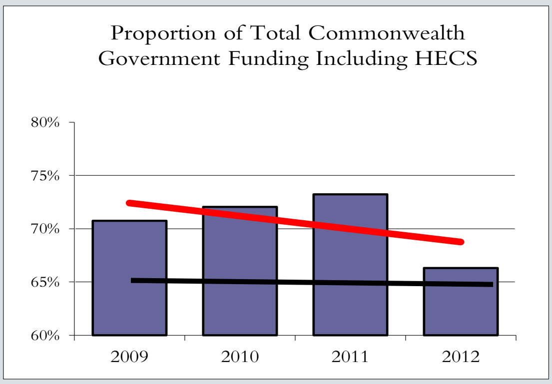
The following graphs summarise key ratios highlighting important aspects of the University's financial performance over the past four years. Where applicable, in each graph the benchmark is represented by the black line with the red line being the actual performance trend line and, where relevant, formulae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



Total Revenue growth, expressed in percentage terms, was high in 2009 and again in 2012 when investment gains were particularly high compared to the other two years under review. The decline in 2011 was mainly due to:

- lower Australian Government financial assistance for capital funding in 2011 of $25.202m (2010, $55.832m)
- lower Investment revenue due to adverse investment conditions
- total student enrolment growth in 2011 was 1.1% (7%).

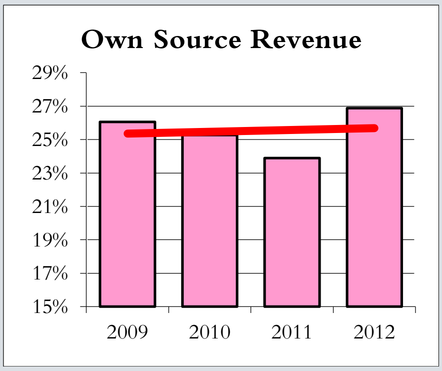
The improvement in revenue growth of 15% in 2012 was mainly due to higher Investment returns, $31.744m, and capital grants of $34.381m.



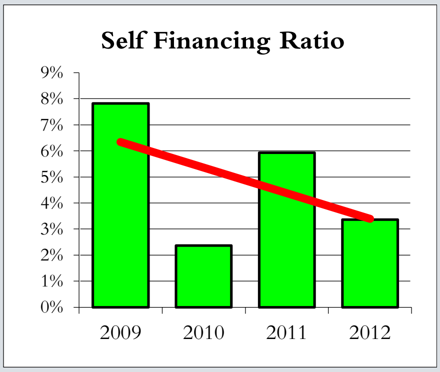
This graph includes investment gains, capital and research funding. The University's reliance on Commonwealth Government funding increased over the 2009 to 2011 period but declined in 2012 primarily due to strong investments gains and contributions from the State government this year.

The DIISRTE benchmark is for less than 65% reliance on the Commonwealth.

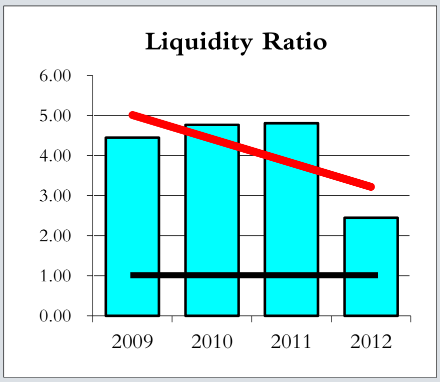
The Operating margin approximated the benchmark (TAO) of one in 2009 and 2010 but declined in 2011 and 2012 consistent with the deficits before taxation and other non-operating adjustments in these two years. Excluding the restructure costs, the margin for 2012 would be 0.99.



Own source revenue, based on non-capital revenue but including investment returns and State government operating receipts, as a percentage of total non-capital revenue, increased in 2012 due primarily to investment returns of $31.744m. This improvement is consistent with the trend identified in the ratio showing the proportion on Commonwealth funding including HECS.



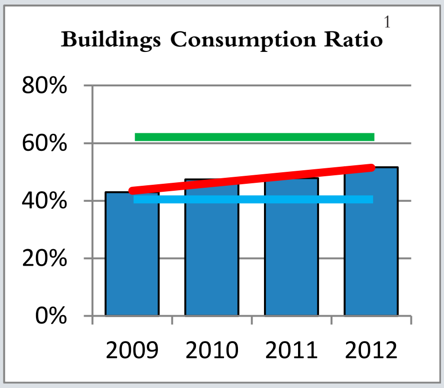
The Self-financing ratio is derived from net operating cash flows divided by operating revenues. The decline in 2010 and 2012 was mainly due to lower Cash generated from operating activities in these two years. The decline in 2012 was $10.385m and was mainly caused by the deficit before tax and non-operating items. Note that operating cash flows does not include investment earnings as these relate to long-term investments.



When calculating this ratio, employee provisions other than the restructure provision and revenue received in advance have been excluded from liabilities.

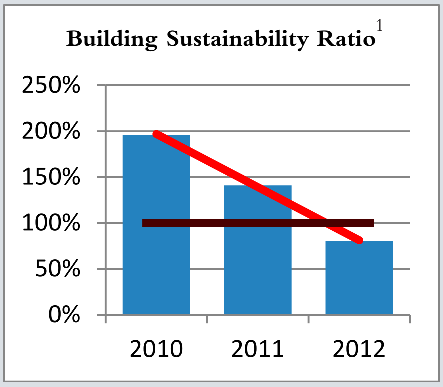
While ratio declined in 2012, the Liquidity ratio was above the benchmark in all four years indicating the University was able to meet short-term commitments. The ratio was also above the DIISRTE benchmark of 'greater than one', resulting in the University being in a low risk category for this measure. The reduction in 2012 was primarily due to:

- lower Cash and short term deposits due to capital works programs and restructure costs
- higher Current liabilities caused by the restructure provision.



This ratio represents the University's utilisation of its building assets. It indicates the extent to which buildings have been consumed as indicated by accumulated depreciation compared to the gross revaluation amount plus additions since the most recent revaluation. Data above the green line benchmark (TAO) indicated a low risk rating, below the blue line a high risk rating and between the two lines a moderate risk rating.

A ratio of 52% in the current year indicates that at 31 December 2012, 48% of the University's buildings had been 'consumed'. The ratio is within our benchmark (TAO) of between 40% and 60% and is improving mainly due to high levels of investment in new buildings in the 2010-12 period. Overall, at 31 December 2012, the University's building assets had sufficient capacity to continue to provide services.



The building sustainability ratio, which measures the University's investment in existing buildings compared to depreciation on those buildings, declined to 80% in 2012, below our benchmark (TAO) of 100%. However, on average over the past three years the ratio was 139%.

Conclusions about building sustainability and consumption need to be considered together and in light of an entity's on-going maintenance programs details of which are included in the following table:

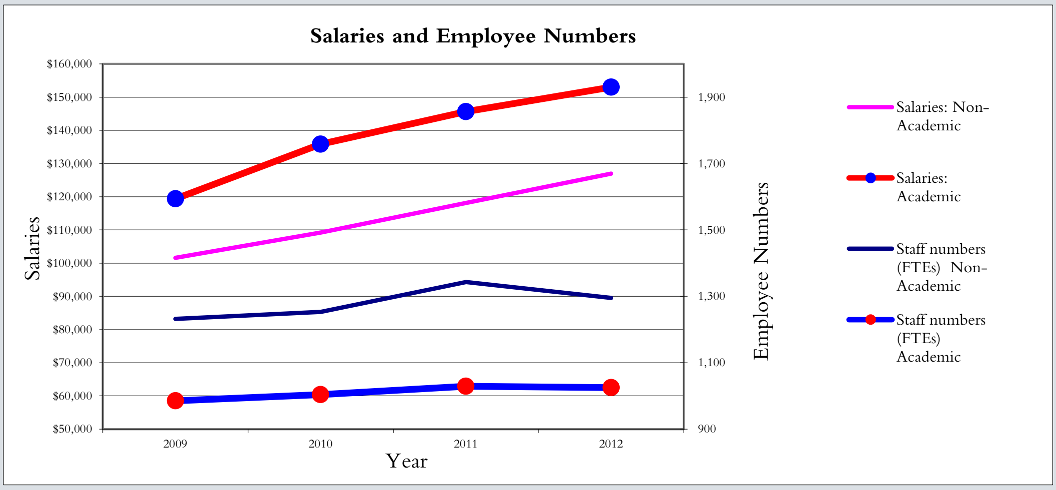
	2012	**2011**	**2010**	**2009**
	$'000s	$'000s	$'000s	$'000s
Repairs and maintenance				
Buildings and ground	13 859	14 019	11 729	N/A
Equipment	2 547	2 374	2 702	N/A
Total	**16 406**	**16 393**	**14 431**	**N/A**

[1] *For reasoning behind the use of these three ratios, formulae and benchmarks refer to page 114*

The following three graphs summarise remuneration costs, employee numbers and student numbers.

Reasons for fluctuations are:

- Higher total salary costs in 2012 were primarily due to increases in:
  - academic salary related costs of 6.77% (2011, 6.11%) to $152.992m
  - non-academic salary related costs of 9.61% (8.48%) to $126.920m.
- Impacts on salary costs included:
  - Enterprise Bargaining Agreements (EBA) increments of 4%, effective 1 July 2012
  - incremental progressions for employees within their salary classifications.



Non-academic staff numbers for 2012 reduced by 48 FTE and for academic by 4 FTE primarily due to the restructure program.

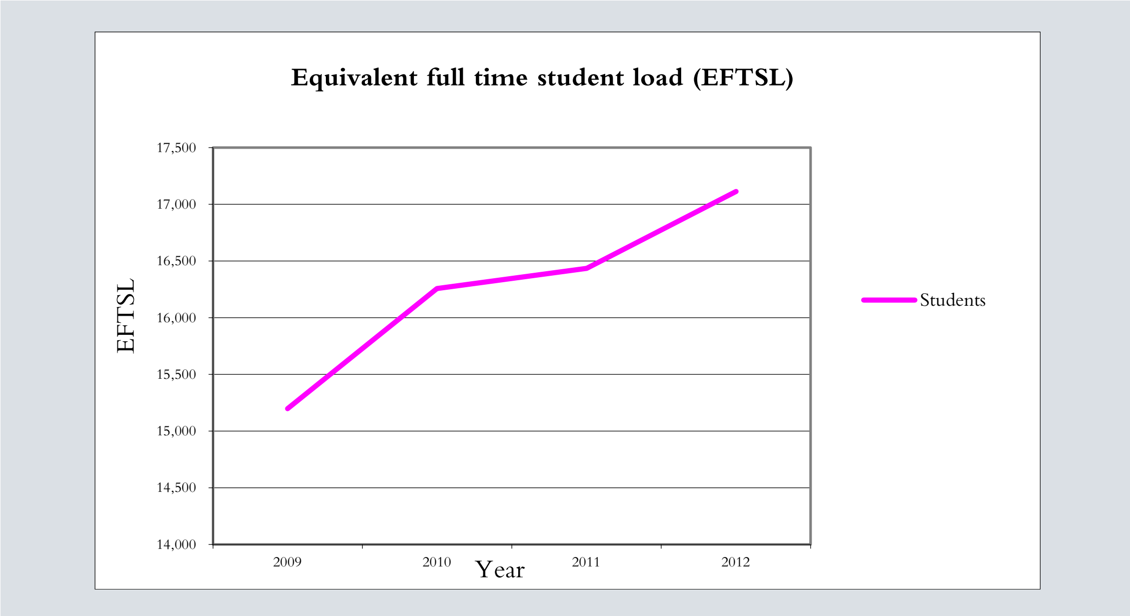
Academic salary costs increased over the four year period. The higher salary costs were due primarily to:

- EBA increments of 4%, effective 1 July each year
- inclusion of annual leave for academic staff for the first time, $2.542m (2011, $4.923m)
- incremental progressions for employees within their salary classifications

- higher superannuation contributions due to higher salaries.

Non-academic salary costs increased in line with the increase in FTE with the higher salary costs over the period primarily relating to:

- EBA increments of 4%, effective 1 July each year
- incremental progressions for employees within their salary classifications
- higher superannuation contributions due to higher salaries.



Total student numbers increased steadily over the four year period. The University continues to target student growth. However, the 2012 result was 387 below target due mainly to a decline of 286 EFTSL in off-shore markets. The increase of 679 students in 2012, or 4.1%, was higher than 2011 (increase of 178 students or 1.1%) and was driven by a 7% increase in domestic student load and a 4% increase in on-shore overseas students.

STATEMENT OF COMPREHENSIVE INCOME

	2012	2011	2010	2009
	$'000s	$'000s	$'000s	$'000s
State government grants	16 110	14 078	12 946	12 481
Commonwealth grants	278 374	262 662	235 454	237 092
Higher Education Contributions scheme	67 716	60 743	59 268	58 277
User charges and fees	64 577	60 132	54 168	53 380
Other operating revenue	50 224	48 966	54 403	36 951
Deferred Government superannuation contributions	2 021	(356)	90	(2 859)
Total Revenue	**479 022**	**446 225**	**416 329**	**395 322**
Academic salary costs	152 992	144 178	130 933	119 363
Non-academic salary costs	126 920	117 001	109 227	101 557
Depreciation and amortisation	22 316	20 256	19 828	17 777
Repairs and maintenance	16 406	16 393	14 431	18 010
Research sub-contractors	31 810	27 378	29 341	21 664
Scholarships and prizes	21 458	20 671	21 467	22 299
Consultancy and advisory services	18 327	15 401	13 508	13 137
Other operating expenses	93 659	90 896	78 022	83 559
Restructure costs	23 250	0	0	0
Actuarial reassessment of Commonwealth funded superannuation liability	2 021	(356)	90	(2 859)
Total Expenses	**509 159**	**451 818**	**416 847**	**394 507**
Net surplus (deficit) before taxation and non-operating adjustments	**(30 137)**	**(5 593)**	**(518)**	**815**
Income Tax Expense (Benefit)	0	0	2	(2)
Net surplus (deficit) after taxation, before non-operating adjustments	**(30 137)**	**(5 593)**	**(520)**	**817**
Investment gains - including dividends and interest received	31 744	5 335	14 335	27 654
Capital grants received from the State, Commonwealth and Industry	34 381	27 202	55 832	23 400
Current year movement in restricted funds	3 434	(814)	(5 711)	6 292
Take uPof leave provision adjustments	0	(2 542)	(4 923)	0
Surplus for the year	**39 422**	**23 588**	**59 013**	**58 163**
Gain (loss) on revaluation of land, buildings and leasehold improvements	0	(10 082)	39 191	0
Gain (loss) on revaluation of art	0	0	757	0
Total comprehensive income	**39 422**	**13 506**	**98 961**	**58 163**

Comment

The Net deficit before taxation and non-operating adjustments was $30.137m, an increase of $24.544m on the previous year. The higher operating deficit was significantly impacted by the University's Restructure costs of $23.250m which were one-off in nature and higher total salaries of $18.733m.

The restructure program commenced in 2012. Costs incurred to date of $23.250m comprised $7.053m incurred in the current year plus a $16.197m provision for costs anticipated to be spent in 2013 and 2014.

Academic salary costs were $8.814m higher and Non-Academic salary costs rose by $9.919m, primarily due to:

- Enterprise Bargaining Agreements (EBA) increments of 4%, effective 1 July 2012
- incremental progressions for employees within their salary classifications.

The Surplus for the year improved by $25.916m (from $13.506m to $39.422m) mainly due to stronger investment performance which was $26.409m higher than 2011. The return on the long-term investment portfolio was 13.35% (2011, 1.0%). The investment portfolio performed well from a capital growth perspective, with realised and unrealised gains being $16.086m (loss $20.866m).

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010	2009
	$'000s	$'000s	$'000s	$'000s
Cash and short term investments	31 369	78 825	77 569	68 478
Receivables	22 087	18 881	12 834	11 339
Investments	0	0	(63)	0
Inventories	920	967	737	582
Other	5 062	3 904	10 577	3 250
Total Current Assets	**59 438**	**102 577**	**101 654**	**83 649**
Payables	16 209	14 084	13 273	13 118
Provisions	52 261	36 423	29 835	23 653
Other	14 166	18 021	14 510	13 864
Total Current Liabilities	**82 636**	**68 528**	**57 618**	**50 635**
Net Working Capital	**(23 198)**	**34 049**	**44 036**	**33 014**
Investments	227 683	198 868	211 371	184 261
Property, plant and equipment	619 839	558 691	530 174	475 090
Receivables	10 527	8 521	10 426	10 513
Intangibles	28 888	18 902	9 194	3 110
Total Non-Current Assets	**886 937**	**784 982**	**761 165**	**672 974**
Provisions	32 975	27 689	27 365	27 113
Total Non-Current Liabilities	**32 975**	**27 689**	**27 365**	**27 113**
Net Assets	**830 764**	**791 342**	**777 836**	**678 875**
Restricted Funds	138 208	123 032	99 870	102 171
Reserves	269 395	269 395	279 477	239 529
Retained surpluses	423 161	398 915	398 489	337 175
Total Equity	**830 764**	**791 342**	**777 836**	**678 875**

Comment

Consistent with the Comprehensive result discussed earlier in this Chapter, the University's Total Equity increased by $39.422m (2011, $13.506m).

The corresponding increase in Net Assets at 31 December 2012 was primarily made uPof:

- lower Cash and short term investments of $47.456m due to the extensive capital works program and restructure costs of $7.053m paid this year. Capital works were primarily funded by the State and Federal Government, $45.000m was received for IMAS in previous years and $15.000m from the State Government in 2012
- higher receivables of $3.206m primarily due to a $4.000m receivable in the Foundation, from a private philanthropist, for the Menzies development
- total Provisions, including superannuation, leave liabilities and restructure costs, increased by $21.124m. The main reason for this increase was the current and non-current restructure costs of $16.197m, previously mentioned
- net working capital deteriorated to a negative $23.198m at 31 December 2012, down from positive $34.049m in the prior year. This was primarily due to the reduction in Cash and short term investments and increase in current Provisions
- Investments held improved by $28.815m, with a portfolio return of 13.35% in the current year

- Property, plant and equipment increased by $61.148m due to net additions and improvements at cost, $83.831m, less annual depreciation charges of $21.026m and disposals of $1.657m. Major additions in 2012 included:
    - additions to Menzies stage 2, $50.215m
    - IMAS (Princess Wharf) additions to WIP, $15.666m
    - Plant and equipment, $6.886m.
- Intangibles increased by $9.986m. Major components were:
    - SLIMS project – additions to WIP of $7.625m
    - Learning Management System – additions to WIP of $2.374m
    - Amortisation offset of $1.290m.

STATEMENT OF CASH FLOWS

	2012	2011	2010	2009
	$'000s	$'000s	$'000s	$'000s
State government grants	34 221	19 336	14 241	14 269
Commonwealth grants and funding	317 835	311 200	285 636	287 075
Receipts from customers	143 927	133 126	130 433	126 397
Payments to suppliers and employees	(483 493)	(438 764)	(423 784)	(398 989)
Dividends and interest received	3 586	1 563	3 320	2 646
Cash from operations	**16 076**	**26 461**	**9 846**	**31 398**
Investment earnings	9 015	22 503	10 875	10 763
Commonwealth Capital grant funding	15 381	21 702	55 832	18 000
State Capital grant funding	15 000	3 500	0	5 400
Other Capital Funding	4 000	2 000	0	0
Net proceeds on disposal from (payments for) investments	(12 729)	(8 426)	(29 031)	14 418
Payments for property, plant and equipment and intangibles	(95 092)	(69 196)	(41 077)	(57 834)
Proceeds from sale of property, plant and equipment	1 414	649	1 425	995
Other investing cash flows	(521)	2 063	1 221	(1 634)
Cash (used in) investing activities	**(63 532)**	**(25 205)**	**(755)**	**(9 892)**
Net increase (decrease) in cash	**(47 456)**	**1 256**	**9 091**	**21 506**
Cash at the beginning of the year	78 825	77 569	68 478	46 972
Cash at end of the year	**31 369**	**78 825**	**77 569**	**68 478**

Comment

The Net decrease in cash for the year was $47.456m, caused by Cash from operations of $16.076m being insufficient to fund net Cash used in investing activities of $63.532m.

In many organisations, cash generated from operating activities (positive $16.076m) is higher than the deficit before tax and non-operating items of $30.137m which is the case at the University. There are a number of reasons why these two numbers differ which is best explained by the following reconciliation:

	2012	2011
	$'000	$'000
Deficit before tax and non-operating adjustments	(30 137)	(5 593)
Adjust for non-cash related transactions:		
Depreciation	22 316	20 256
Increase in employee related provisions	21 124	6 912
Increase in receivables	(5 212)	(1 870)
Increase in payables	2 125	6 854
Investment gains*	3 586	1 563
Other adjustments	2 274	(1 661)
Cash generated from operating activities	**16 076**	**26 461**

**Adjusted to the extent that investment gains are recorded as operating cash flows but not as operating revenues*

Receipts from customers increased by $10.801m primarily due to higher contract research revenue, $7.107m, and higher student fees and charges, resulting partly from growth in student numbers of $4.445m.

State Capital grant funding, $15.000m, in 2012 was the Government's contribution to Menzies stage 2.

Cash at year end, $31.369m, consisted of cash on hand, $2.572m and Short-term deposits and bills, $28.797m. Short-term deposits and bills consist of term deposits with major Australian financial institutions.

FINANCIAL ANALYSIS

	Bench Mark	2012	2011	2010	2009
Financial Performance					
Total Revenue Growth*	>5	13.87%	(1.59%)	7.47%	19.16%
Proportion of Total Commonwealth Govt Funding*	<65	66.31%	73.23%	72.06%	70.74%
Result from operations before tax & non-operating adjustments ($'000s)		(30 137)	(5 593)	(518)	815
Operating margin*	>1.0	0.94	0.99	1.00	1.00
State grants as a % of operating income		3.4%	3.2%	3.1%	3.1%
HECS as a % of operating income		14%	14%	14%	15%
Self financing ratio*		3.4%	5.9%	2.4%	7.8%
Own source revenue (%)*		27%	24%	25%	26%
Financial Management					
Liquidity ratio*	>1.0	2.44	4.81	4.77	4.45
Debt collection	30 days	43	40	31	27
Creditor turnover	30 days	33	30	30	30
Capital Management Buildings					
Building assets sustainability ratio*	100%	80%	141%	196%	N/A
Building assets investment ratio	>100%	864%	478%	312%	N/A
Building assets Consumption ratio*	>60%	52%	48%	47%	43%
Other Information					
Salaries and related expenditure as a % of operating income	50 - 70%	59%	58%	58%	55%
Academic staff numbers (FTE's)		1 025	1 029	1 004	985
Non-academic staff numbers (FTE's)		1 295	1 343	1 253	1 232
Total staff numbers (FTEs) (excluding casual staff)		2 320	2 372	2 257	2 217
Average staff costs ($'000s)		117	110	106	100
Average leave balance per FTE ($'000s)		21	19	16	13
Student Numbers**					
Research Higher Degree		566	574	607	649
Domestic - HECS		12 552	11 716	11 623	10 785
Fee Paying Domestic		229	187	193	229
Fee Paying Overseas		2 585	2 490	2 362	2 220
Off-shore		1 182	1 468	1 472	1 313
Total		**17 114**	**16 435**	**16 257**	**15 196**

* *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.

Asset investment ratio, which reports investment in existing and new assets compared to the total depreciation charge for the year, was well above the benchmark (TAO) for all three years under review. This was primarily due to substantial investment in Menzies stage 2 and IMAS.

Academic staff numbers increased by 21 FTE's to 1 050 FTE's during the year, however, 25 FTE's left just prior to 31 December 2012 leaving 1025 FTE's. 1 050 FTE's was used to calculate the average staff costs so the average staff costs were not distorted. Similarly, Non-academic staff increased by 8 FTE's, however 56 FTE's left prior to 31 December 2012 leaving a total of 1 295 FTE's.

Average staff costs increased steadily over the four year period. This was mainly 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 were not recognised for these employees prior to 2010.

Student numbers increased steadily over the four year period, having grown from 15 196 in 2009 to 17 114 in 2012. However, the 2012 result was 387 below the target load of 17 581.

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 scholarshiPand bursary payments to approved recipients.

	2012	2011	2010	2009
	$'000s	$'000s	$'000s	$'000s
Income Statement				
Revenue				
Donations and Bequests income	3 033	5 092	5 806	3 595
Donation – Medical Sciences Building Campaign	5 153	2 500	1	0
Other Income	1 472	1 832	531	256
Investment Income	4 000	(333)	1 391	3 521
Total Revenue	**13 658**	**9 091**	**7 729**	**7 372**
Expenditure				
Scholarships, Bursary and other Payments	1 332	1 259	2 304	1 584
Faculty Scholarships and research	678	950	313	95
Transfer – Medical Sciences Building Campaign	4 000	2 000	0	0
Other Expenses	1 807	2 023	1 701	1 219
Total Expenditure	**7 817**	**6 232**	**4 318**	**2 898**
Net Surplus	**5 841**	**2 859**	**3 411**	**4 474**
Balance Sheet				
Cash and Investments	**39 637**	**33 797**	**30 938**	**27 528**
Equity	**39 637**	**33 797**	**30 938**	**27 528**

Comment

The Foundation generated operating surpluses in all four years under review.

During the year it received a donation of $5.153m for the Medical Sciences building, $4.000m of which was due at 31 December and received in January 2013. This $4.000m was payable to the University at balance date. The remaining $1.153m will be remitted to the University on the completion of the project.

The Foundation achieved positive investment returns during 2012 due to improved 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 company limited by guarantee, created to provide maritime related training and consultancy for a wide range of international and Australian organisations and individuals.

	2012	2011	2010	2009
	$'000s	$'000s	$'000s	$'000s
Total Revenue	7 816	8 368	8 236	7 359
Total Expenses	6 908	7 129	7 107	6 619
Net Surplus	**908**	**1 239**	**1 129**	**740**
Total Assets	5 781	5 502	5 791	4 601
Total Liabilities	1 508	1 145	1 690	1 037
Net Assets	**4 273**	**4 357**	**4 101**	**3 564**
Opening Total Equity	**4 357**	**4 101**	**3 564**	**3 925**
Net Surplus	908	1 239	1 129	740
Asset revaluation Reserve	0	(5)	0	0
Contributions to UTAS	(992)	(978)	(592)	(1 101)
Closing Total Equity	**4 273**	**4 357**	**4 101**	**3 564**
Contributions to UTAS	**992**	**978**	**592**	**651**

Comment

AMC Search recorded a Net Surplus of $0.908m in 2012, a decrease of $0.331m from 2011. The decrease was attributable to:

- lower Total Revenue of $0.552m due to port corporation reducing expenditure on non-essential training in comparison to the prior three-year period. In addition, the Company's charter vessel used for surveying was unsuccessful in tendering for projects in 2012, offset by
- a corresponding decline in Total Expenses, specifically consultancy fees and technical staff salaries.

AMC Search receives a significant amount of its revenue from the Department of Defence for specialised Pacific Patrol Boat training programs. Negotiations are continuing on renewing this contract for a further four-year period.

AMC Search was in a sound financial position at each balance date, with net assets well above liabilities. Total Assets rose by $0.279m in 2012 with an increase of $0.513m in cash assisted by a $0.283m reduction in trade receivables. Higher Total Liabilities were due to training fees received in advance, higher trade payables and employee benefit provisions increasing by $0.363m.

Movements in Total Equity consist primarily of the Company's Net Surplus offset by Contributions to the University. It is the Board's intention to remit the majority of its profit to the University, with the balance held to assist in funding future capital expenditure requirements. Over the four-year period under review, AMC Search paid $3.663m in contributions.

COUNCILS 30 JUNE 2012

INTRODUCTION

This section of the Report deals with the outcomes from the completion of financial statement audits of Local Government Authorities reporting for the financial year ended 30 June 2012. At the time of preparing our *Report No. 6 of 2012-13, Volume 4 Local Government Authorities 2010-11* (Volume 4), audits of two 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 27 Tasmanian councils. These tables have been updated to incorporate the remaining two 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.

KENTISH COUNCIL

AUDIT OF THE 2011-12 FINANCIAL STATEMENTS

Initial signed financial statements were received on 9 October 2012. Amended financial statements were received on 15 November 2012, with an unqualified audit opinion issued on 16 November 2012.

KEY FINDINGS AND DEVELOPMENTS

Submission Financial Statements

Section 17 (1) of the *Audit Act 2008*, requires financial statements to be submitted to the Auditor-General within 45 days of the end of each financial year.

Council will need to review its year-end reporting processes to ensure it complies with this requirement in future.

Resource Sharing Arrangements

Council entered into a strategic alliance agreement in 2008 with Latrobe Council. In March 2010, these councils agreed to share, for an interim period, the services of a General Manager. In June 2010, a formal resource sharing arrangement was entered into with an intention of extending it to include other employees, as positions became available or opportunities were identified.

A Municipal Alliance Committee, comprising two Councillors from each Council and the shared General Manager, was established to identify further opportunities to improve services and manage the arrangement. As local government looks at ways and means for providing cost effective services, resource sharing is one of the strategies that can be used to ensure councils continue to attract and keep quality staff, provide succession planning and extend service provision that might not be viable on an individual council basis.

At 30 June 2012 Kentish and Latrobe Councils had three regular and two occasional (2011, one regular) resource shared positions.

FINANCIAL RESULTS

Council generated a Net Operating Surplus, after net financing revenue, of $0.444m in 2011-12 (2010-11, deficit $0.194m). The improved result was due primarily to the 2010-11 deficit including net flood damage costs of $0.342m, without which a surplus would have eventuated.

Council's Net Surplus, after capital grants and grants in advance, increased by $1.999m to $2.503m (2010-11, $0.504m) primarily due to the improved Net Operating Surplus, higher Capital grants, $0.503m and the impact of additional Financial assistance grants in advance, $0.642m. Council achieved a Comprehensive Surplus of $7.030m ($12.685m). The Comprehensive Surplus included the net impact of asset revaluations, $4.514m.

Council's Net Assets increased to $94.008m, up from $86.978m the previous year. As at 30 June 2012 Council had Net Working Capital of $5.556m, up from $4.761m in 2011. The increase was due mainly to higher Cash balances, offset by lower Receivables and increased Payables.

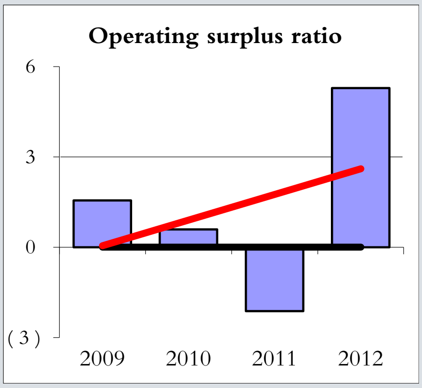
Assessment of financial sustainability

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

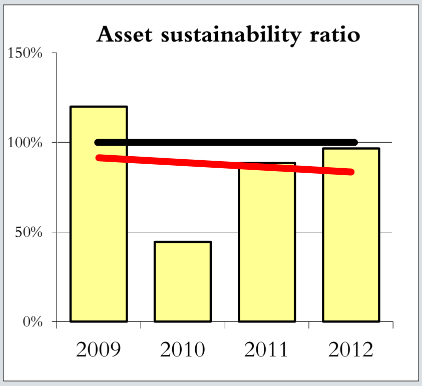
Relevant financial sustainability ratios

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.

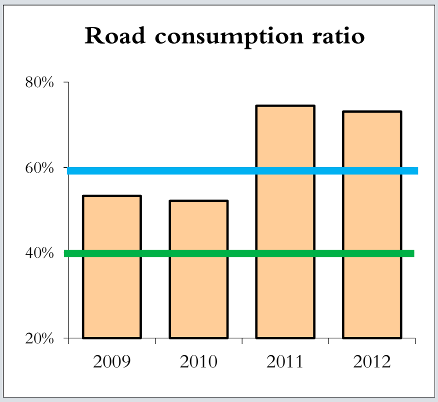
In general, the ratios indicate:



Council recorded an operating surplus in 2011-12 compared with a deficit in the prior year. The 2010-11 result was negatively impacted by net flood damage costs without which a positive ratio would have eventuated. Over the four year period, Council averaged a positive ratio of 1.33, which indicates it generated sufficient revenue to meet its operating requirements including depreciation.

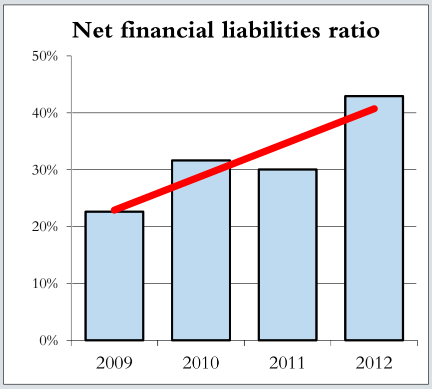


The Asset sustainability ratio was below benchmark in three of the four years under review and averaged 87% over the four year period. The ratio indicated, subject to levels of maintenance expenditure, that Council was under investing in existing assets, although not significantly.



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 2012 Council had used (consumed) approximately 27% 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 that date. The revaluation, undertaken by an external engineer, reviewed useful lives and residual values resulting in an adjustment to the accumulated depreciation balance. The valuation at 30 June 2011 resulted in a similar outcome 12 months later. Overall, at 30 June 2012, 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. Council's positive ratios indicate a strong liquidity position, it being able to meet 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 management plan and a financial plan adopted in July 2012 which extends to 2015-16, but both require improved financial data.

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 three of the past four years with the operating ratio trending upwards.

The Asset sustainability ratio indicates Council's expenditure on existing assets varied over the period and averaged 87%, 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 2012 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 meets irregularly and 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's financial management plans extend to 2015-16. 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 2012 Council was at high sustainability risk from a governance perspective but a moderate risk from an asset management perspective and low risk from operating and net financial liabilities perspectives.

Management comments on this assessment of its financial sustainability

Management generally agrees with the above assessment of sustainability risk from an asset management, operating and net financial liabilities perspective.

It is understood that major contributing factors in the assessment of the sustainability risk from a governance perspective as high are the absence of an internal audit function and the absence of an effective Audit Committee. Council is yet to be convinced that the cost of internal audit and an Audit Committee is warranted for a small council. Council will continue to explore options for strengthening its governance arrangements, including the possibility of reducing costs through resource-sharing arrangements.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12 Estimate* $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s	2009-10 Actual $'000s
Rates	4 250	4 317	4 154	4 081
Fees and charges	302	337	362	312
Grants **	2 414	2 644	2 705	2 399
Other revenue	408	817	1 650	463
Total Revenue	**7 374**	**8 115**	**8 871**	**7 255**
Employee costs	2 183	2 033	1 992	1 978
Depreciation	1 983	2 035	1 934	1 743
Other expenses	3 156	3 766	5 295	3 550
Total Expenses	**7 322**	**7 834**	**9 221**	**7 271**
Net Operating Surplus (Deficit) before	**52**	**281**	**(350)**	**(16)**
Finance costs	(125)	(117)	(124)	(141)
Interest revenue	228	280	280	201
Net Operating Surplus (Deficit)	**155**	**444**	**(194)**	**44**
Capital grants	2 068	1 161	658	1 342
Financial assistance grant received in advance **	0	1 257	615	575
Offset Financial assistance grant in advance **	0	(615)	(575)	(519)
Capital contributions received for new or upgraded assets	270	256	0	0
Net Surplus (Deficit)	**2 493**	**2 503**	**504**	**1 442**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	4 514	15 850	4 853
Share of associate revaluation increment	0	7	55	0
Fair value initial adjustment Cradle Mountain Water	0	0	0	(2 597)
Fair value adjustment arising from change in allocation order	0	0	(3 573)	0
Current year fair value adjustment Cradle Mountain Water	0	6	29	0
Total Comprehensive Income Items	**0**	**4 527**	**12 361**	**2 256**
Comprehensive Surplus (Deficit)	**2 493**	**7 030**	**12 865**	**3 698**

** 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 allows the above table to balance with Council's own Statement of Comprehensive Income

Comment

In 2011-12 Council recorded a Net Operating Surplus before net financing revenues of $0.281m, compared to a deficit of $0.350m in the prior year. The improved result was primarily due to:

- lower Other expenses of $1.529m, with the 2010-11 total including flood damage costs totalling $1.595m, partially offset by

- a decrease in 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 in 2011.

After accounting for Interest revenue and Finance costs, Council recorded a Net Operating Surplus of $0.444m (2010-11, Deficit $0.194m). This highlights the benefit of interest revenue to Council, with it averaging $0.238m per annum over the past four years.

After accounting for Capital grants, the net impact of higher Financial assistance grants in advance, $0.642m and Capital contributions, Council recorded a Net Surplus of $2.503m for 2011-12, an increase of $1.999m from the $0.504m surplus in 2010-11. Capital grants for 2011-12 included $0.814m for the construction of the Kentish Health Care Centre.

Other Comprehensive Income totalled $4.527m (2010-11, $12.361m) and primarily comprised of fair value revaluation increments on Council's stormwater, land and building assets of $4.514m.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010
	$'000s	$'000s	$'000s
Cash and financial assets	6 554	4 422	4 609
Receivables	471	1 115	272
Other	206	211	223
Total Current Assets	**7 231**	**5 748**	**5 104**
Payables	1 234	551	245
Borrowings	70	70	67
Provisions - employee benefits	259	258	239
Other	112	108	124
Total Current Liabilities	**1 675**	**987**	**675**
Net Working Capital	**5 556**	**4 761**	**4 429**
Property, plant and equipment	83 528	77 417	61 452
Investments in associates	462	401	336
Investment in water corporation	6 207	6 201	9 745
Total Non-Current Assets	**90 197**	**84 019**	**71 533**
Borrowings	1 644	1 714	1 781
Provisions - employee benefits	101	88	68
Total Non-Current Liabilities	**1 745**	**1 802**	**1 849**
Net Assets	**94 008**	**86 978**	**74 113**
Reserves	68 585	64 058	47 960
Accumulated surpluses	25 423	22 920	26 153
Total Equity	**94 008**	**86 978**	**74 113**

Comment

As detailed in the section of this Chapter, Total Equity increased by $7.030m. Net assets increased in 2011-12 by the same amount to $94.008m. Major line item movements included:

- higher Cash of $2.132m which is discussed further in the Cash Flow Statement section of this Chapter
- lower Receivables of $0.644m, due to significant outstanding debt for flood funding of $0.664m at 30 June 2011 being paid during 2011-12
- higher Payables of $0.683m due primarily to capital creditors outstanding at 30 June 2012 for road resurfacing and Stage 2 refurbishment of the Kentish Health Care Centre
- increased Property, plant and equipment of $6.111m primarily due to:
    - asset revaluation increments of $4.514m
    - additions of $3.820m, offset by
    - depreciation expense of $2.035m.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s
Receipts from customers	6 680	5 924	4 795
Cash flows from government	3 286	2 753	2 678
Payments to suppliers and employees	(6 425)	(7 414)	(6 284)
Interest received	260	280	136
Finance costs	(117)	(143)	(156)
Cash from operations	**3 684**	**1 400**	**1 169**
Capital grants and contributions	1 161	658	1 464
Payments for property, plant and equipment	(2 906)	(2 379)	(2 597)
Proceeds from sale of property, plant and equipment	173	198	26
Cash from (used in) investing activities	**(1 491)**	**(1 523)**	**(1 101)**
Repayment of borrowings	(70)	(64)	(94)
Increase in bonds and deposits (net)	9	0	0
Cash from (used in) financing activities	**(61)**	**(64)**	**(94)**
Net increase (decrease) in cash	**2 132**	**(187)**	**(26)**
Cash at the beginning of the year	4 422	4 609	4 903
Less cash transferred to Cradle Mountain Water	0	0	(268)
Cash at end of the year	**6 554**	**4 422**	**4 609**

Comment

Council's cash balance at 30 June 2012, $6.554m, comprised cash at bank, on hand and short-term deposits. At 30 June 2012, Council reported that $4.935m (2010-11, $3.480m) of its cash balance was being held for specific purposes, including cash backed reserves and unexpended grant funds.

Council's cash position increased by $2.132m during 2011-12 with Cash from operations of $3.684m, Capital grants and contributions of $1.161m and Proceeds from sale of property, plant and equipment of $0.173m, being more than sufficient to fund Payments for property, plant and equipment of $2.906m and the Repayment of borrowings, $0.070m.

Movements in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $2.284m to $3.684m which included:

- Council's Operating Surplus of $0.444m adjusted for depreciation of $2.035m, a non cash item, providing $2.479m in operating cash inflows
- the net impact of Financial assistance grants in advance, $0.642m recorded as Cash from operations but excluded from the net operating deficit
- the positive impact of lower Receivables, $0.644m.

Payments for property, plant and equipment of $2.906m largely comprised capital expenditure for infrastructure assets which included:

- renewal of Lamberts Road Bridge over the Mersey River $0.491m
- Railton Streetscape project $0.770m
- renewal of Old Paradise Road Bridge over the Dasher River $0.294m
- commencement of stage 2 of the Kentish Health Care Centre $0.438m.

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10	2008-09
Financial ratios					
Profitability					
Operating surplus (deficit) ($'000s)		444	(194)	44	127
Operating surplus ratio *	>0	5.29	(2.12)	0.59	1.55
Asset management					
Asset sustainability ratio*	100%	97%	89%	45%	120%
Asset renewal funding ratio* **	90%-100%	n/a	n/a	n/a	n/a
Road asset consumption ratio *	>60%	73.1%	74.4%	52.2%	53.4%
Liquidity					
Net financial assets (liabilities) ($'000s)		3 605	2 748	2 357	1 847
Net financial liabilities ratio * ***	0%-(50%)	42.9%	30.0%	31.6%	22.6%
Operational efficiency					
Liquidity ratio	2:1	4.96	7.60	11.19	6.42
Current ratio	1:1	4.32	5.82	7.56	5.44
Interest coverage		30.49	8.79	6.49	17.19
Asset investment ratio	>100%	143%	123%	149%	147%
Self financing ratio		43.9%	15.3%	15.7%	39.3%
Own source revenue		68.5%	70.4%	67.8%	73.3%
Debt collection	30 days	29	23	23	8
Creditor turnover	30 days	68	26	15	23
Rates per capita ($)		684	661	650	774
Rates to operating revenue		51.4%	45.4%	54.7%	58.0%
Rates per rateable property ($)		1 216	1 172	1 122	1 345
Operating cost to rateable property ($)		2 239	2 637	2 037	2 284
Employee costs expensed ($'000s)		2 033	1 992	1 978	1 962
Employee costs capitalised ($'000s)		55	-	-	-
Total employee costs ($'000s)		**2 088**	**1 992**	**1 978**	**1 962**
Employee costs as a % of operating expenses		26%	21%	27%	24%
Staff numbers (FTEs)		31	29	30	30
Average staff costs ($'000s)		68	69	66	65
Average leave balance per FTE ($'000s)		12	12	10	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 -and(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 surplus, 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 2011-12 it was reliant on grant funding to the extent of 31.5% (2010-11, 29.6%).

Creditor turnover ratio was higher than benchmark in 2011-12 due to capital creditors outstanding at 30 June 2012 for road spray resurfacing and Stage 2 refurbishment of the Kentish Health Care Centre.

Council's rate statistics are trending upwards and correspond with rate increases over the period under review. Rate statistics and ratios all decreased in 2009-10 primarily due to water and sewerage rates not being raised. Over the period of review there was a consistent margin between Operating cost to rateable property and Rates per rateable property, except for 2010-11 which was impacted by Other revenue and expenses including flood damage relief funding and costs.

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%, 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 2011-12 FINANCIAL STATEMENTS

Initial signed financial statements were received on 16 August 2012, which was one day past the statutory deadline. Amended final signed statements were received on 29 November 2012, and an unqualified audit report was issued on the same day. The audit was not completed within the time required by section 19 of the *Audit Act 2008* due to a request for Council to delay the final audit.

Other than the late submission of the financial statements and issuance of our audit report, the audit was completed satisfactorily with no items outstanding.

FINANCIAL RESULTS

Council generated a Net Operating Deficit after net financing revenue of $0.991m in 2011-12 (2010-11, deficit $0.080m). This decline was due to higher depreciation and employee costs. Of concern is that Council budgeted for an operating deficit of $0.218m.

Council achieved a Net Deficit after capital grants of $0.756m (Net Surplus $0.030m) and a Comprehensive Surplus of $0.661m ($8.635m). The Comprehensive Surplus included an upward revaluation of fixed assets, $1.412m.

Consistent with the Comprehensive surplus of $0.661m, Council's Net Assets increased to $69.656m, uPfrom $68.994m on the previous year. As at 30 June 2012 Council's Net Working Capital was $3.917m, uPfrom $2.584m mainly due to higher cash holdings.

Overall, Council recorded operating deficits in all four years under review with the trend line indicating growing deficits. This situation will need to be remedied by Council. Nevertheless, Council is in a strong position to meet its current financial obligations mainly due to its strong cash position and low debt.

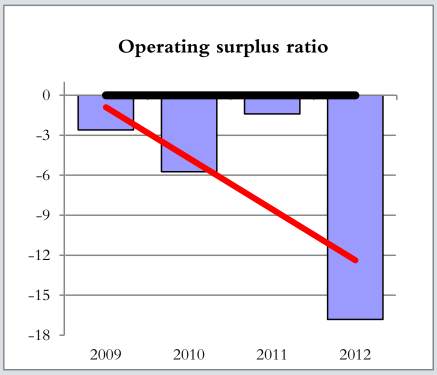
Assessment of financial sustainability

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

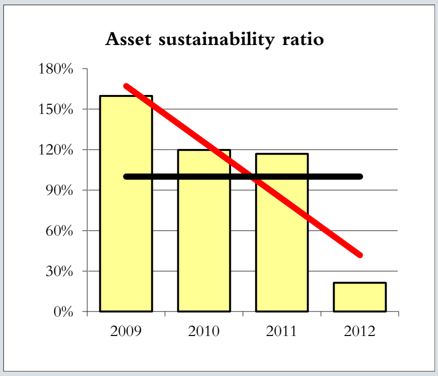
Relevant financial sustainability ratios

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.

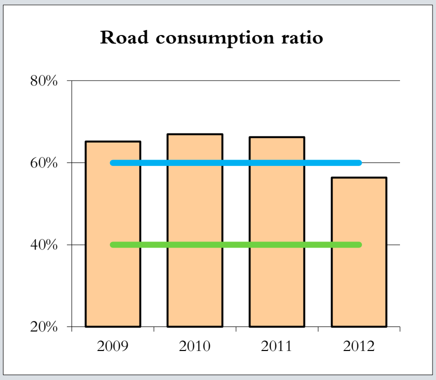
In general, the ratios indicate:



Council's operating surplus ratios reflect operating deficits in all four years under review with the trend heading in the wrong direction. 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.

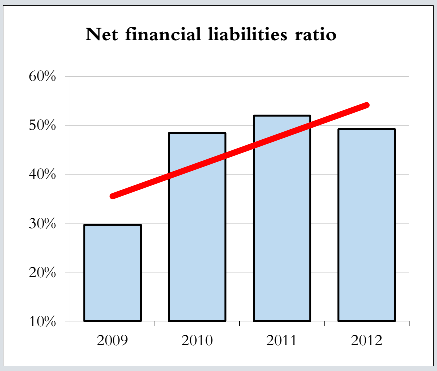


Asset sustainability ratio was above the benchmark in three of the four years under review. The average ratio for the four year period was 104% indicating that over this period Council was adequately investing in existing assets.



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 2012 Council had used (consumed) approximately 44% of the service potential of its road infrastructure assets. This was a droPfrom the past three years and indicates a moderate financial sustainability risk in that year. However, over the period under review Council was mainly in the low risk range.



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 existing commitments.

Governance

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

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

This indicates high risk from a governance perspective.

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 growing deficits.

Asset sustainability ratios indicated Council's expenditure on existing assets averaged 104% over the period, above the 100% benchmark. Council Road asset consumption ratio reduced to 56% in 2012, slightly below the benchmark of 60% but averaged above 60% over the period. This indicates Council's roads have 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 2012, 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 operating surprus ratio

The Auditor General notes that this challenge is widespread across many Tasmanian councils. The AG observes in last year's annual report that only 5 out of 25 councils in Tasmanian, on average over a five year period are investing sufficiently to cover depreciation. This demonstrates that making provision for depreciation of essential community infrastructure is a challenge for the majority of Councils, and a particular challenge for smaller Councils with limited ways to raise revenue. If depreciation is excluded from this graph, it can be seen that King Island Council has improved its operating position over the past three years, by reducing costs and increasing productivity in cost areas under its management. Growth in external costs and depreciation rates are outside management control and pose ongoing challenges.

In future, Council's ability to raise revenue must be directed at either growing its economy or seeking greater support from the State and Commonwealth. Alternatively, depreciation rates must be adjusted to reflect the community's ability to fund repairs and maintenance at a sustainable level.

Management comments on this assessment of its financial sustainability

The AG notes in its 2011-12 Annual Report to parliament that the three issues raised with King Island Council, also apply to a considerable number of other Tasmanian Councils. The audit and comments of King Island's sustainability ratios should be qualified to reflect the issues exist more broadly across Tasmania and Australia generally. That these three matters are affecting many councils suggests they are symptomatic of the broader economy, the increasing cost of maintain infrastructure, and the limited ability of smaller councils to increase new untied revenue.

That these challenges are faced by a large number of councils across Australia, suggests that solutions to the three items raised will be difficult to resolve at a local level and should stimulate a response at State and Commonwealth level on possible solutions. Council's comment on each of the three items is shown below:

Excluding depreciation, Council has turned around what has for many years has been an operating deficit. In the year 2012-13, council adopted its first operating surplus in many years. At the time of writing, Council has delivered all of its capital works program; also for the first time in many years, and is forecast to exceed its surplus forecasts. Depreciation is beyond management control, and can only be addressed with the receipt of increased funding. Statutory compliance costs, along with external charges such as fuel, freight and water service charges (between 10-15% next financial year). Councils rate yield is low and the increasing gap in operational funds is becoming more difficult to address.

Given that Council achieved a low risk for asset management and net financial management ratios, Council argues that fully funded depreciation by any level of government is unachievable, particularly when Council is heavily reliant on rate and grants income. We note that approximately 50% of Tasmanian Councils have recorded deficits with a negative operating surplus ratio.

The Local Government Association of Tasmania commissioned a report in 2005/06 into the Financial Sustainability of Local Government in Tasmania (Access Economics Pty Ltd A Review of the Financial Sustainability of Local Government in Tasmania, March 2007) which found that 55% of councils had a negative operating surplus ratio.

This is clearly an ongoing issue for local government in Tasmania given that there has been minimal change in 6 years.

King Island Council strongly believes that it is financially viable and is committed to developing new revenue streams.

In relation to governance, Council disputes the high risk rating. Council has good levels of liquidity and provides a high level of investment into its assets. The depreciation rate is realistically not achievable and Council suggest it should be adjusted to a level that is sustainable. The suggestions that Council should invest more resources into compliance AND achieve an operating surplus are at cross purposes.

More specifically:

- Audit Committee – Council has considered this in the past and deems itself too small to warrant an audit committee, when it is also subject to external audits including financial and risk management audits. We note that only 29% of Tasmanian Councils have an audit committee.
- Long-term financial plan – this is currently under development.

STATEMENT OF COMPREHENSIVE INCOME

	2011-12 Estimate* $'000s	2011-12 Actual $'000s	2010-11 Actual $'000s	2009-10 Actual $'000s
Rates	1 638	1 749	1 658	1 581
Fees and charges	1 489	1 685	1 579	1 503
Grants **	1 464	2 079	2 171	2 036
Other revenue	52	202	101	102
Total Revenue	**4 643**	**5 715**	**5 509**	**5 222**
Employee costs	2 311	2 395	2 117	1 751
Depreciation	1 280	1 758	1 269	1 231
Other expenses	1 386	2 683	2 333	2 600
Total Expenses	**4 977**	**6 836**	**5 719**	**5 582**
Net Operating Deficit before	**(334)**	**(1 121)**	**(210)**	**(360)**
Interest revenue	167	182	188	110
Finance costs	(51)	(52)	(58)	(56)
Net Operating Deficit	**(218)**	**(991)**	**(80)**	**(306)**
Capital grants	224	0	269	694
Repayment of Grants	0	0	(170)	0
Net loss on disposal of property, plant & equipment	0	(101)	(4)	0
Financial assistance grants received in advance	0	646	310	295
Offset Financial assistance grant in advance **	0	(310)	(295)	(267)
Net Deficit	**6**	**(756)**	**30**	**416**
Other Comprehensive Income				
Fair value revaluation of non-current assets	0	1 412	8 421	752
Net asset revaluation increments/(decrements)	0	0	0	(94)
Fair value adjustment on available for sale assets	0	5	21	0
Change in fair value of investment in Cradle Coast Water	0	0	163	1 927
Total comprehensive income items	**0**	**1 417**	**8 605**	**2 585**
Total Comprehensive Surplus (Deficit)	**6**	**661**	**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 Statement of Comprehensive Income

Comment

In 2011-12 Council recorded a Net Operating Deficit before net financing revenues of $1.121m compared to a deficit of $0.210m in the prior year. The worse result was due to a combination of the following factors:

- greater Employee costs, $0.278m, arising from a wage increase of 3%, a slight increase in full time equivalent employees and higher workers compensation and leave expenses
- higher Depreciation, $0.489m, mainly due to an increase in the Aerodrome depreciation charge of $0.324m due to a significant revaluation increment in the prior period, and Plant and Equipment, $0.161, as a result of adjusted useful lives and residual values
- higher Other expenses, by $0.350m, mainly due to a change in internal costing related to internal plant charges.

After accounting for Interest revenue and Finance costs the Net Operating Deficit was $0.991m (2010-11, deficit $0.080m).

Council recorded a Net Deficit of $0.756m (Net Surplus $0.030m). The $0.235m improvement from the Operating Surplus was due to:

- receipt of an advance Financial Assistance Grant of $0.646m in June 2012 from the 2012-13 allocation ($0.310m). The advance payment in 2011-12 was for half of next year's allocation, compared to a one quarter paid in advance in 2010-11
- Net loss on disposal of property, plant and equipment, $0.101m.

Council recorded a Comprehensive Surplus for 2011-12 of $0.661m. This included the Net Deficit, $0.756m, Fair value revaluation increment of non-current assets, $1.412m and Fair value adjustment on available for sale assets, $0.005m.

STATEMENT OF FINANCIAL POSITION

	2012	2011	2010
	$'000s	$'000s	$'000s
Cash and financial assets	1 565	419	967
Receivables	488	508	377
Investments	2 795	2 507	2 601
Inventories	144	157	159
Other	35	0	91
Total Current Assets	**5 027**	**3 591**	**4 195**
Payables	237	223	206
Borrowings	157	138	142
Other	317	301	307
Provisions - employee benefits	399	345	459
Total Current Liabilities	**1 110**	**1 007**	**1 114**
Net Working Capital	**3 917**	**2 584**	**3 081**
Property, plant and equipment	62 003	62 421	53 580
Investment in Cradle Mountain Water	4 573	4 568	4 385
Total Non-Current Assets	**66 576**	**66 989**	**57 965**
Borrowings	754	555	659
Provisions - employee benefits	78	24	27
Other	6	0	0
Total Non-Current Liabilities	**838**	**579**	**686**
Net Assets	**69 655**	**68 994**	**60 360**
Reserves	46 051	43 918	36 198
Accumulated surpluses	23 604	25 076	24 162
Total Equity	**69 655**	**68 994**	**60 360**

Comment

For the reasons outlined in the Statement of Comprehensive Income section of this Chapter, Total Equity increased by $0.661m.

Net Assets increased by the same amount to $69.656m. Major line item movements included:

- higher Cash and financial assets, $1.146m, discussed further in the Statement of Cash Flows section of this Chapter
- increased Investments, $0.288m, mainly as a result of the higher Financial Assistance Grant received
- higher total Borrowings, $0.218m, predominately due to a loan drawn down to purchase a Traxcavator
- greater total Employee provision, $0.108m, due to increase in long service, annual and sick leave provisions. This reflected greater leave balances held, and changes to the discount factor used to calculate the present value of the Long Service Leave provision
- lower Property, plant and equipment, $0.418m, mainly due to additions, $0.635m, and the revaluation increment, $1.412m, more than offset by depreciation of $1.758m and the written down value of disposals of $0.706m.

STATEMENT OF CASH FLOWS

	2011-12	2010-11	2009-10
	$'000s	$'000s	$'000s
Receipts from customers	3 558	3 281	3 366
Cash flows from government	2 595	2 286	2 116
Payments to suppliers and employees	(5 066)	(4 684)	(3 927)
Interest received	187	189	110
Finance Costs	(52)	(58)	(56)
Cash from operations	**1 222**	**1 014**	**1 609**
Capital grants and contributions	0	269	738
Capital grants repaid	0	(170)	0
Dividends	0	51	23
Proceeds from investments	44	94	0
Payments for investments	(288)	0	(321)
Payments for property, plant and equipment	(634)	(1 788)	(1 704)
Proceeds from sale of property, plant and equipment	605	96	103
Cash used in investing activities	**(273)**	**(1 448)**	**(1 161)**
Payments from trust funds	(21)	(6)	(8)
Proceeds from borrowings	218	0	0
Repayment of borrowings	0	(108)	(311)
Cash from financing activities	**197**	**(114)**	**(319)**
Net decrease in cash	**1 146**	**(548)**	**129**
Cash at the beginning of the year	419	967	838
Cash at end of the year	**1 565**	**419**	**967**

Comment

At 30 June 2012, Council held cash of $1.565m, comprised of cash at bank and on hand, $1.461m, and cash invested on call, $0.104m.

Council's cash position increased by $1.146m during 2011-12. Cash from operations, $1.222m, Proceeds from sale of property, plant and equipment, $0.605m, and Proceeds from borrowings, $0.218m, were used to fund Payments for property, plant and equipment, which mainly comprised infrastructure, road works and plant and equipment, totalling $0.634m, and Payments for investments, $0.288m.

Movement in operating cash flows reflect comments made in previous sections of this Chapter. In summary, Cash from operations increased by $0.208m to $1.222m which included:

- Council's operating deficit of $0.991m adjusted for depreciation of $1.758m, a non cash item, providing $0.767m in operating cash inflows
- net higher Financial assistant grants of $0.336m

FINANCIAL ANALYSIS

	Bench Mark	2011-12	2010-11	2009-10	2008-09
Financial ratios					
Profitability					
Net Operating deficit ($'000s)		(991)	(80)	(306)	(142)
Operating surplus ratio *	> 0	(16.81)	(1.40)	(5.74)	(2.60)
Asset management					
Asset sustainability ratio*	>100%	21%	117%	120%	160%
Asset renewal funding ratio* **	90%-100%	NA	NA	NA	NA
Road asset consumption ratio *	>60%	56.4%	66.3%	67.0%	65.2%
Liability Management					
Net financial assets (liabilities) ($'000s)		2 900	2 958	2 580	1 622
Net financial liabilities ratio * ***	0-(50%)	49.2%	51.9%	48.4%	29.7%
Operational efficiency					
Liquidity ratio	2:1	6.86	5.19	6.02	6.24
Current ratio	1:1	4.53	3.57	3.77	3.61
Interest Coverage	3:1	22.50	16.48	27.73	25.73
Asset investment ratio	>100%	36%	141%	138%	160%
Self financing ratio		20.7%	17.8%	30.2%	28.9%
Own source revenue		64.7%	61.9%	61.8%	70.5%
Debt collection	30 days	52	57	45	40
Creditor turnover	30 days	22	16	15	12
Rates per capita ($)		1 063	998	944	1 197
Rates to operating revenue		29.7%	29.1%	29.7%	36.9%
Rates per rateable property ($)		1 118	1 034	989	1 263
Operating cost to rateable property ($)		4 404	3 602	3 528	3 513
Employee costs expensed ($'000s)		2 395	2 117	1 751	1 846
Employee costs capitalised ($'000s)		96	213	235	188
Total employee costs ($'000s)		**2 491**	**2 330**	**1 986**	**2 034**
Employee costs as a % of operating expenses		35%	37%	31%	33%
Staff numbers (FTEs)		34	32	34	33
Average staff costs ($'000s)		73	74	58	61
Average leave balance per FTE ($'000s)		14	12	14	18

* *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.

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 on average. The lower investment in the current period reflects conclusion of extra work performed in previous periods.

Self-financing ratio improved from 2010-11 but fluctuated over the review period reflecting movements in Operating revenue.

Own source revenue was consistent over the past three years. There was a significant decrease compared to 2008-09 as a result of the transfer of water and sewerage services. This reflects that Council has become more dependent on grant funding over the period of review.

The Debt collection ratio was worse than benchmark for all years under review. The main reason for this year is due to two large outstanding balances at year end.

Rates per capita, Rates to operating revenue and Rates per rateable property were consistent from 2009-10 with the variance to 2008-09 due to water and sewerage rates still being included. The Operating cost per rateable property increased by $0.802m in 2011-12 directly as a result of the higher Operating expenditure discussed in Statement of Comprehensive Income section of this Chapter.

The ratios for Employee costs were consistent over the period under review.

LOCAL GOVERNMENT COMPARITIVE ANALYSIS

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 2012. At the time of preparing our *Report No. 4 of 2012-13, Volume 4 Local Government Authorities 2012-13* (Volume 4), audits of two 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 27 Tasmanian councils. These tables have been updated to incorporate the remaining two 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.

INDICATORS OF FINANCIAL SUSTAINABILITY

A generally accepted definition of financial sustainability is whether local government councils have sufficient current and prospective financial capacity to meet their current and prospective financial requirements. Therefore, to be sustainable, councils needs to have sufficient capacity to be able to manage future financial risks without having to radically adjust their current revenue or expenditure policies.

The ratios applied to assess financial sustainability were selected because they provide a set of inter-related indicators enabling self and comparative assessment. Because these ratios provide a method to analyse past results they can be helpful as indicators in forecasting and identifying trends. Therefore, councils can use ratios such as those applied here to assess their own current and future financial performance and position.

These ratios also facilitate comparative assessment between councils and can be used to assess both short-term and long-term financial sustainability. The various ratios and observations reported below are only indicators of performance or of financial position. They should not be considered in isolation. We note also that other financial sustainability ratios exist which may have relevance but which are not included.

Despite these cautions, taken together these ratios can indicate low, moderate or high financial sustainability risk. The indicators used in this Report are:

- Operating surplus ratio
- Asset sustainability ratio
- Asset renewal funding ratio
- Road asset consumption ratio
- Net financial liabilities ratio
- Governance arrangements, particularly audit committees and long-term asset and financial management plans.

In assessing financial sustainability we have tended to consider these ratios in three groups:

- operating performance
- asset management
- liquidity and the extent to which net liabilities can be serviced by operating income.

Governance arrangements were assessed separately although long-term asset and financial management plans were also assessed as part of asset management.

The following table provides a description of the indicator, how it is calculated and, where applicable, a generally accepted benchmark result.

Indicator	Formula	Benchmark	Description
Operating surplus ratio	Net operating surplus / Total operating revenue	Greater than 0 - break even operating result	A positive result indicates a surplus, the larger the surplus the stronger the result 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. Net result and underlying revenue are obtained from the Statement of Comprehensive Income and are adjusted for one-off material items, asset disposal and fair value adjustments, amounts received specifically for new or upgraded assets, physical resources received free of change (such as developer contributions, operating results from discontinued operations and operating grants received in advance (such as FAGs grants), financial assistance grants received in the wrong financial period, developer contributions and any other material one-off (non-recurring) items of revenue or expenditure.
Asset sustainability ratio	Renewal and upgrade expenditure on existing assets / Depreciation on existing assets	At least 100%	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. Expenditure included on the numerator must be expenditure that was 'capitalised', not expensed, on assets that will require future maintenance and depreciation . 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.
Asset renewal funding ratio	Future (planned) asset replacement expenditure / Future asset replacement expenditure (actual) required	At least 90%	Measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue or expense or debt consequences, or a reduction in service levels. This is a most useful measure relying the existence of long-term financial (or separate asset) management plans. Where these may exist, unless they have been independently assured, they will not be used (however, we subsequently decided to accept plans as provided).
Asset consumption ratio - roads	Depreciated replacement cost / Current replacement cost	>60%	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 assets. Depending on the nature of the entity's assets, this ratio could be calculated in total and by asset class, for example roads, bridges and stormwater assets.
Net financial liabilities ratio	Total liabilities less liquid assets / Total operating revenue	Net financial liabilities between zero to negative 50% of operating income. Positive ratio indicates liquid assets in excess of total liabilities.	The significance of net amount owed compared with the period's income. Indicates the extent to which net financial liabilities could be met by operating income. Where the value is falling over time, it indicates that the entity's capacity to meet its financial obligations from operating income is strengthening. Reasons for an increase in the net financial liabilities ratio will sometimes also result in an entity incurring higher net operating costs (eg from additional maintenance and depreciation costs associated with acquiring new assets). This will detract from the entity's overall operating result. A Council with a healthy operating surplus could quite appropriately decide to allow its net financial liabilities ratio to increase in order to provide additional services to its community through the acquisition of additional assets without detracting from its financial sustainability.

On the following pages we apply these ratios to the consolidated financial position of the twenty seven councils included in this Report, over a six year period and then comparatively averaging the performance to all councils. With the exception of the asset renewal funding ratio, all data used in calculating the ratios and preparing the various graphs were sourced from audited council financial statements. Also, within the graphs, where relevant, a blue line represents the actual ratio each year and a red line the benchmark for the period under review. Where we were able to assess the asset renewal funding ratio, this was based on long-term asset and financial management plans provided but not audited.

As noted we have expanded our sustainability assessment of councils to incorporate information on governance arrangement in councils. In conjunction with operating performance, asset management and liquidity and the extent to which net liabilities can be serviced by operating income, we consider governance further facilitates our comparative assessment between councils. The results of our review are detailed in a Governance section of this Chapter.

In making our assessment of financial sustainability, we adopted the following criteria:

	Low	Moderate	High
Financial sustainability operating perspective	Average operating surplus over the past four year	Average operating deficits < 10% of operating revenue over the past four year	Average operating deficits >10% of operating revenue over the past four year
Financial sustainability asset management perspective	Asset sustainability ratio >100% and average road consumption ratio > 40%	Asset sustainability ratio between 50% and 100% and average road consumption ratio > 40%	Asset sustainability ratio < 50% and average road consumption ratio < 40%
Financial sustainability net financial liabilities perspective	Net financial liabilities ratio > than (50%)	Net financial liabilities ratio between (50%) and (100%)	Net financial liabilities ratio > 100%
Financial sustainability governance perspective	Audit Committee with an active internal audit function and both long-term asset and financial management plans.	Audit committee or finance committee with no internal audit function and/ or both long-term asset and financial management plans.	No audit committee or either a long-term asset management plan or financial management plan, or no plans at all.

LOCAL GOVERNMENT COMPARATIVE ANALYSIS
Demographics - 2011-12

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	52,824	377	140.1	23,618	62.6	0.4
Glenorchy	45,471	120	378.9	20,900	174.2	0.5
Hobart	50,393	78	647.7	23,534	302.5	0.5
Launceston	67,190	1,411	47.6	30,299	21.5	0.5
Brighton	15,675	171	91.7	6,854	40.1	0.4
Burnie	20,208	610	33.1	9,541	15.6	0.5
Central Coast	22,334	931	24.0	10,518	11.3	0.5
Derwent Valley	9,904	4,104	2.4	4,992	1.2	0.5
Devonport	25,657	111	231.1	11,897	107.2	0.5
Huon Valley	15,841	5,498	2.9	10,200	1.9	0.6
Kingborough	34,691	1,094	31.7	16,095	14.7	0.5
Meander Valley	19,637	3,320	5.9	9,559	2.9	0.5
Northern Midlands	12,688	5,126	2.5	6,903	1.3	0.5
Sorell	13,397	583	23.0	8,534	14.6	0.6
Waratah-Wynyard	14,327	3,526	4.1	7,494	2.1	0.5
West Tamar	22,787	690	33.0	10,943	15.9	0.5
Break O'Day	6,441	3,521	1.8	6,342	1.8	1.0
Central Highlands	2,348	7,976	0.3	3,674	0.5	1.6
Circular Head	8,379	4,891	1.7	4,778	1.0	0.6
Dorset	7,106	3,223	2.2	5,137	1.6	0.7
Flinders	804	1,994	0.4	1,163	0.6	1.4
George Town	6,906	653	10.6	4,373	6.7	0.6
Glamorgan Spring Bay	4,407	2,522	1.7	5,554	2.2	1.3
Latrobe	10,199	600	17.0	5,596	9.3	0.5
Kentish	6,312	1,155	5.5	3,551	3.1	0.6
King Island	1,646	1,091	1.5	1,564	1.4	1.0
Southern Midlands	6,258	2,611	2.4	3,537	1.4	0.6
Tasman	2,457	659	3.7	3,364	5.1	1.4
West Coast	4,908	9,575	0.5	4,661	0.5	0.9
Total	**511,195**	**68,221**	**7.5**	**265,175**		
Average per Council	**17,627**	**2,352**	**60.3**	**9,144**	**28.4**	**0.7**
Total 2010-11	**507,643**	**68,363**	**7.4**	**265,641**		
Average per Council 2010-11	**17,505**	**2,357**	**60.0**	**9,160**	**28.5**	**0.7**

Average Population per square kilometre for Tasmania	7.49
Average Rateable properties per square kilometre	3.89
Average Rateable properties per Head of Population	0.52

Source

Population figures derived from Australian Bureau of Statistics - Regional Population Growth, Australia 2010-11.
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 - 2011-12

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	14,999	212	71	4.0	29.2	28.7	**3,608**	**17,019**
Glenorchy	21,348	269	79	5.9	40.0	37.7	**5,537**	**20,584**
Hobart	49,924	615	81	12.2	50.1	49.8	**12,886**	**20,953**
Launceston	32,400	432	75	6.4	37.7	37.0	**6,851**	**15,859**
Brighton	3,090	53	58	3.4	26.1	28.0	**830**	**15,660**
Burnie	14,985	189	79	9.4	41.5	40.4	**2,150**	**11,376**
Central Coast	10,061	141	71	6.3	44.6	45.7	**2,368**	**16,794**
Derwent Valley	3,488	48	73	4.8	32.9	33.5	**1,878**	**39,125**
Devonport	12,621	167	76	6.5	37.4	36.5	**2,605**	**15,599**
Huon Valley	10,074	131	77	8.3	48.4	50.3	**1,429**	**10,908**
Kingborough	11,347	180	63	5.2	36.8	33.2	**1,976**	**10,978**
Meander Valley	5,754	76	76	3.9	32.0	34.7	**1,323**	**17,408**
Northern Midlands	4,633	65	71	5.1	32.0	28.5	**1,399**	**21,523**
Sorell	5,467	82	67	6.1	36.7	38.0	**1,014**	**12,366**
Waratah-Wynyard	5,161	81	64	5.7	34.4	33.4	**1,313**	**16,210**
West Tamar	7,106	91	78	4.0	34.2	36.4	**1,863**	**20,473**
Break O'Day	4,758	51	93	7.9	34.7	28.1	**551**	**10,804**
Central Highlands	1,828	29	63	12.4	30.0	23.9	**652**	**22,483**
Circular Head	4,219	52	81	6.2	32.9	31.8	**867**	**16,673**
Dorset	4,362	60	73	8.4	35.7	36.0	**1,064**	**17,733**
Flinders	1,601	18	89	22.4	33.6	31.4	**300**	**16,667**
George Town	3,542	45	79	6.5	38.2	39.8	**649**	**14,422**
Glamorgan Spring Bay	3,450	49	70	11.1	33.6	35.0	**726**	**14,816**
Latrobe	3,036	45	67	4.4	30.9	31.8	**726**	**16,133**
Kentish	2,088	31	68	4.9	24.9	26.3	**360**	**11,715**
King Island	2,491	34	73	20.7	42.2	35.6	**477**	**14,029**
Southern Midlands	3,377	43	79	6.9	38.0	33.1	**1,078**	**25,070**
Tasman	1,170	20	59	8.1	21.5	23.6	**121**	**6,050**
West Coast	3,844	56	69	11.4	35.2	37.1	**614**	**10,964**
Total	**252 224**	**3 365**					57 215	
Average per Council	**8 697**	**116**	**73**	**7.9**	**35.4**	**34.7**	1 973	16 565
Total 2010-11	**237 845**	**3 323**					**52 448**	
Average per Council 2010-11	**8 202**	**115**	**70**	**7.8**	**35.1**	**34.8**	**1 809**	**15 314**

* *Staff costs include capitalised salaries and wages*

LOCAL GOVERNMENT COMPARATIVE ANALYSIS
Income Statements - 2011-12

Council	Operating Revenue [1]	Non-Operating Revenue [1]	Total Revenue	Operating Expenditure	Non-Operating Expenditure [2]	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	51,302	5,461	56,763	52,237	703	52,940	(935)	3,823	6.7	5,343
Glenorchy	53,420	26,868	80,288	56,630	300	56,930	(3,210)	23,358	29.1	37,521
Hobart	99,689	9,898	109,587	100,278	1,959	102,237	(589)	7,350	6.7	46,713
Launceston	85,837	17,984	103,821	87,484	-	87,484	(1,647)	16,337	15.7	33,317
Brighton	11,838	4,608	16,446	11,049	-	11,049	789	5,397	32.8	25,916
Burnie	36,073	7,440	43,513	37,080	2,171	39,251	(1,007)	4,262	9.8	13,912
Central Coast	22,564	5,291	27,855	21,996	-	21,996	568	5,859	21.0	28,523
Derwent Valley	10,591	511	11,102	10,415	-	10,415	176	687	6.2	2,679
Devonport	33,781	5,058	38,839	34,538	-	34,538	(757)	4,301	11.1	16,805
Huon Valley	20,818	7,161	27,979	20,040	-	20,040	778	7,939	28.4	14,742
Kingborough	30,862	3,758	34,620	34,148	-	34,148	(3,286)	472	1.4	(18,778)
Meander Valley	18,009	2,453	20,462	16,591	-	16,591	1,418	3,871	18.9	2,987
Northern Midlands	14,457	3,418	17,875	16,240	-	16,240	(1,783)	1,635	9.1	13,704
Sorell	14,887	2,206	17,093	14,372	88	14,460	515	2,633	15.4	6,901
Waratah-Wynyard	15,006	2,349	17,355	15,438	40	15,478	(432)	1,877	10.8	14,573
West Tamar	20,783	3,992	24,775	19,536	-	19,536	1,247	5,239	21.1	16,313
Break O'Day	13,724	919	14,643	16,948	-	16,948	(3,224)	(2,305)	(15.7)	6,372
Central Highlands	6,100	1,009	7,109	7,634	-	7,634	(1,534)	(525)	(7.4)	18,427
Circular Head	12,822	3,184	16,006	13,275	-	13,275	(453)	2,731	17.1	4,598
Dorset	12,207	1,365	13,572	12,127	-	12,127	80	1,445	10.6	11,503
Flinders	4,771	601	5,372	5,095	230	5,325	(324)	47	0.9	35,844
George Town	9,278	1,163	10,441	8,892	-	8,892	386	1,549	14.8	9,662
Glamorgan Spring Bay	10,280	632	10,912	9,847	-	9,847	433	1,065	9.8	2,533
Latrobe	9,840	887	10,727	9,536	-	9,536	304	1,191	11.1	5,223
Kentish	8,395	2,059	10,454	7,951	-	7,951	444	2,503	23.9	7,030
King Island	5,897	336	6,233	6,989	-	6,989	991	(756)	(12.1)	661
Southern Midlands	8,892	1,258	10,150	10,207	-	10,207	(1,315)	(57)	(0.6)	495
Tasman	5,446	1,367	6,813	4,964	-	4,964	482	1,849	27.1	30,744
West Coast	10,919	1,702	12,621	10,370	-	10,370	549	2,251	17.8	1,704
Total	**658 488**	**124 938**	**783 426**	**671 907**	**5 491**	**677 398**	**(13 419)**	**106 028**		**395 967**
Average per Council	**22 706**	**4 308**	**27 015**	**23 169**	**189**	**23 359**	**(463)**	**3 656**	**11.8**	**13 654**
Total 2009-10	**629 451**	**92 654**	**722 105**	**635 096**	**2 785**	**637 881**	**(5 645)**	**84 224**		**536 804**
Average per Council 2009-10	**21 705**	**3 195**	**24 900**	**21 900**	**99**	**21 996**	**(195)**	**2 904**	**11.2**	**18 510**

[1] *Operating revenue includes 2012 Financial Assistance Grant received in June 2011.*

[2] *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.*

Operating Surplus Ratio	Self Financing Ratio	Rate Revenue	Rate Revenue to Operating Revenue	Average Rate Per Rateable Valuation	Rate Revenue Per Head of Population	Operating costs per Rateable Valuation [4]	Councils' Own Source Revenue	Councils' Own Source Revenue to Operating Revenue	Operating Government Grants [3]	Operating Grants per Head of population	Operating Government Grants to Operating Revenue	Depreciation to Operating Revenue
No.	%	$'000s	%	$	$	$	$'000s	%	$'000s	$	%	%
(1.82)	24.9	38,657	75.4	1,637	732	2,212	46,693	91.0	4,609	87	9.0	25.2
(6.01)	15.7	24,843	46.5	1,189	546	2,710	47,958	89.8	5,462	120	10.2	27.6
(0.59)	13.7	62,985	63.2	2,676	1,250	4,186	96,239	96.5	3,450	68	3.5	16.0
(1.92)	20.8	51,986	60.6	1,716	774	2,887	78,765	91.8	7,072	105	8.2	23.0
6.66	22.1	6,872	58.1	1,003	438	1,612	9,962	84.2	1,876	120	15.8	20.3
(2.79)	26.0	18,792	52.1	1,970	930	3,008	32,105	89.0	3,968	196	11.0	22.0
2.52	28.3	12,310	54.6	1,170	551	2,091	18,152	80.4	4,412	198	19.6	23.2
1.66	23.8	5,284	49.9	1,058	534	2,086	7,277	68.7	3,314	335	31.3	19.2
(2.24)	26.0	23,836	70.6	2,004	929	2,903	31,299	92.7	2,482	97	7.3	23.8
3.74	18.3	9,049	43.5	887	571	1,965	16,409	78.8	4,409	278	21.2	18.9
(10.65)	7.1	19,771	64.1	1,228	570	2,122	27,199	88.1	3,663	106	11.9	21.8
7.87	37.1	9,443	52.4	988	481	1,736	13,183	73.2	4,826	246	26.8	26.9
(12.33)	39.3	7,556	52.3	1,095	596	2,353	10,165	70.3	4,292	338	29.7	32.2
3.46	32.0	9,835	66.1	1,152	734	1,684	12,349	83.0	2,538	189	17.0	27.2
(2.88)	29.9	8,771	58.4	1,170	612	2,060	11,757	78.3	3,249	227	21.7	24.6
6.00	26.9	13,427	64.6	1,227	589	1,785	18,310	88.1	2,473	109	11.9	24.4
(23.49)	3.3	6,604	48.1	1,041	1,025	2,672	8,195	59.7	5,529	858	40.3	24.6
(25.15)	43.4	2,803	46.0	763	1,194	2,078	3,832	62.8	2,268	966	37.2	49.6
(3.53)	18.3	6,554	51.1	1,372	782	2,778	9,903	77.2	2,919	348	22.8	24.4
0.66	38.4	5,822	47.7	1,133	819	2,361	8,131	66.6	4,076	574	33.4	29.4
(6.79)	23.9	1,221	25.6	1,050	1,519	4,381	2,551	53.5	2,220	2,761	46.5	30.3
4.16	29.7	6,425	69.2	1,469	930	2,033	7,588	81.8	1,690	245	18.2	22.1
4.21	23.7	5,845	56.9	1,052	1,326	1,773	8,071	78.5	2,209	501	21.5	19.1
3.09	30.8	5,765	58.6	1,030	565	1,704	8,360	85.0	1,480	145	15.0	25.2
5.29	43.9	4,317	51.4	1,216	684	2,239	5,751	68.5	2,644	419	31.5	29.6
(16.81)	20.7	1,749	29.7	1,118	1,063	4,469	3,818	64.7	2,079	1,263	35.3	52.8
(14.79)	28.2	3,811	42.9	1,077	609	2,886	5,752	64.7	3,140	502	35.3	35.0
8.85	31.8	3,686	67.7	1,096	1,500	1,444	4,501	82.6	945	385	17.4	22.0
5.03	33.6	6,160	56.4	1,322	1,255	1,927	8,612	78.9	2,307	470	21.1	24.1
		384 179							**95 601**			
(2.42)	**26.3**	**13 248**	**54.6**	**1 273**	**831**	**2 419**	**19 410**	**78.2**	**3 297**	**423**	**21.8**	**26.4**
		361 441							**91 269**			
(1.10)	**23.3**	**12 463**	**54.0**	**1 183**	**776**	**54**	**18 558**	**78.6**	**3 147**	**365**	**21.4**	**24.9**

3 *Operating grant revenue excludes 2012-13 Financial Assistance Grant received in June 2012, but includes 2011-12 Financial Assistance Grant received in June 2012.*

4 *Operating costs per Rateable Valuation calculated on Council's financial information excluding subsidiaries.*

LOCAL GOVERNMENT COMPARATIVE ANALYSIS
Balance Sheets - 2011-12

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	54,196	8,160	46,036	6.6	85	619,578	1,407	1,001	201.84	3.0
Glenorchy	58,116	10,038	48,078	5.8	53	681,581	15,981	14,706	11.85	33.3
Hobart	40,229	19,809	20,420	2.0	(19)	928,701	38,457	12,603	26.26	40.0
Launceston	68,131	27,432	40,699	2.5	7	1,442,223	33,670	15,370	18.68	42.7
Brighton	4,963	1,505	3,458	3.3	29	189,102	68	-	-	0.7
Burnie	13,233	5,317	7,916	2.5	2	345,220	5,928	3,893	51.64	18.5
Central Coast	7,615	4,559	3,056	1.7	(9)	424,437	4,804	2,240	40.44	26.5
Derwent Valley	3,122	2,550	572	1.2	(18)	94,078	2,351	2,359	18.71	32.3
Devonport	13,700	6,043	7,657	2.3	(2)	412,115	8,110	8,533	15.03	25.9
Huon Valley	13,743	4,253	9,490	3.2	21	211,769	715	-	-	4.4
Kingborough	14,475	6,406	8,069	2.3	11	591,341	4,611	-	-	17.0
Meander Valley	20,905	2,173	18,732	9.6	72	262,746	5,502	3,600	-	41.7
Northern Midlands	10,194	2,085	8,109	4.9	53	261,525	422	-	-	4.2
Sorell	12,538	3,175	9,363	3.9	35	204,962	3,716	4,162	22.67	30.1
Waratah-Wynyard	9,297	2,460	6,837	3.8	38	168,819	385	64	640.14	3.3
West Tamar	11,155	3,273	7,882	3.4	33	251,145	619	640	112.90	3.38
Break O'Day	8,120	3,544	4,576	2.3	32	138,986	143	-	-	1.7
Central Highlands	8,838	1,195	7,643	7.4	124	132,339	26	-	-	0.7
Circular Head	12,475	1,992	10,483	6.3	68	138,920	1,612	1,834	16.82	16.3
Dorset	18,427	2,234	16,193	8.2	118	158,345	1,481	255	388.67	18.2
Flinders	8,307	552	7,755	15.0	156	78,826	162	-	-	6.4
George Town	6,723	1,385	5,338	4.9	22	109,848	2,554	2,522	14.42	33.7
Glamorgan Spring Bay	2,535	1,290	1,245	2.0	3	90,242	683	479	89.41	8.5
Latrobe	8,407	1,902	6,505	4.4	38	156,848	1,484	370	120.16	17.8
Kentish	7,231	1,675	5,556	4.3	43	90,197	1,745	1,714	30.49	30.3
King Island	5,027	1,110	3,917	4.5	49	66,577	838	911	22.50	21.9
Southern Midlands	9,102	1,759	7,343	5.2	68	91,945	929	953	44.4	16
Tasman	3,836	425	3,411	9.0	49	45,570	743	754	31.11	16.5
West Coast	6,203	1,741	4,462	3.6	28	100,030	1,288	1,277	37.23	15.0
Total	**460 843**	**130 042**	**330 801**			**8 488 015**	**140 434**	**80 240**		
Average per Council	**15 891**	**4 484**	**11 407**	**4.7**	**41.1**	**292 690**	**4 843**	**2 767**	**67.4**	**18.3**
Total 2010-11	**387 975**	**133 310**	**254 665**			**8 141 107**	**116 588**	**65 532**		
Average per Council 2010-11	**13 378**	**4 597**	**8 782**	**4.3**	**29.4**	**280 728**	**4 020**	**2 260**	**50.7**	**16.7**

* *First year information included in table.*

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	%	%	$	$	$
1,637	4.2	11,672	12,943	90.2	9.3	1,098,732	7,842	17,538
468	1.9	14,156	14,747	96.0	5.2	3,984,467	10,515	22,877
1,024	1.6	23,278	15,974	145.7	8.9	9,070,090	14,003	29,984
1,451	2.8	26,670	19,778	134.8	5.5	675,169	14,179	31,442
91	1.3	3,535	2,400	147.3	5.2	776,556	8,472	19,374
1,204	6.4	14,681	7,920	185.4	6.5	470,607	14,206	30,088
368	3.0	10,678	5,229	204.2	3.5	381,712	15,912	33,787
588	11.1	3,669	2,038	180.0	7.6	16,845	6,980	13,848
486	2.0	12,503	8,027	155.8	7.2	2,999,153	12,975	27,982
319	3.5	7,225	3,931	183.8	5.3	31,150	10,812	16,791
249	1.3	6,883	6,724	102.4	4.1	437,559	13,799	29,742
519	5.5	5,292	4,852	109.1	4.6	61,608	10,416	21,397
542	7.2	6,979	4,649	150.1	3.5	42,409	17,133	31,492
300	3.1	5,154	4,054	127.1	5.7	297,552	12,949	20,327
224	2.6	4,082	3,692	110.6	6.8	36,663	9,023	17,250
579	4.3	4,875	5,073	96.1	7.1	273,939	8,295	17,273
574	8.7	1,733	3,370	51.4	6.5	29,051	15,881	16,129
182	6.5	1,642	3,026	54.3	2.3	15,434	52,431	33,508
343	5.2	2,967	3,130	94.8	5.6	23,861	13,928	24,425
419	7.2	4,065	3,584	113.4	4.2	43,436	19,701	27,252
42	3.4	1,556	1,446	107.6	1.6	37,748	93,619	64,721
128	2.0	1,934	2,047	94.5	7.3	135,564	12,818	20,243
253	4.3	3,438	1,959	175.5	11.2	20,756	11,878	9,425
102	1.8	2,639	2,484	106.2	4.5	215,645	12,686	23,121
322	7.5	2,906	2,035	142.8	5.2	72,319	13,233	23,522
78	4.5	634	1,758	36.1	2.8	56,621	37,529	39,497
346	9.1	3,697	3,114	118.7	4.9	29,911	12,480	22,080
238	6.5	1,143	1,197	95.5	8.3	67,607	18,133	13,244
265	4.3	3,231	2,633	122.7	8.3	7,792	15,202	16,008
13 341		**192 917**	**153 814**					
460	**4.6**	**6 652**	**5 304**	**121.8**	**5.8**	**738 274**	**17 829**	**24 633**
11 541		**224 935**	**143 388**					
398	**4.5**	**7 756**	**4 944**	**146.9**	**7.3**	**703 822**	**14 954**	**21 162**

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 five 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, other General Government State entities, other State entities and Superannuation Funds
- Volume 3 – Government Business Enterprises, State Owned Corporations and Water Corporations
- Volume 4 – Local Government Authorities
- Volume 5 - Other State entities 30 June 2012 and 31 December 2012

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

Each entity's financial performance is analysed by discussing the Statement of Comprehensive Income, 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)		Result from Operating Revenues less Operating Expenses
Operating surplus ratio	>0	Net operating surplus (deficit) divided by total operating revenue
Own source revenue		Total Revenue less Total Grant Revenue, Contributed Assets and Asset Revaluation Adjustments
Return on assets		EBIT divided by Average Total Assets
Return on equity		Result from Ordinary Activities after Taxation divided by Average Total Equity
Self financing ratio		Net Operating Cash Flows divided by Operating Revenue

Financial Management

Asset consumption ratio	Between 40% and 80%	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

Financial Performance Indicator	Benchmark[1]	Method of Calculation
Capital Investment Gap, Asset investment ratio or Investment gaP	>100%	Payments for Property, plant and equipment divided by Depreciation expenses
Capital Replacement Gap, Asset renewal ratio or Renewal gap	100%	Payments for Property, plant and equipment on existing assets divided by Depreciation expenses
Cost of debt		Gross Interest Expense divided by Average Borrowings (include finance leases)
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365
Current ratio	>1	Current Assets divided by Current Liabilities
Debt collection	30 days	Receivables divided by billable Revenue multiplied by 365
Debt to equity		Debt divided by Total Equity
Debt to total assets		Debt divided by Total Assets
Indebtedness Ratio		Non-Current Liabilities divided by Own Source Revenue
Interest coverage ratio		Net operating cashflows less interest and tax payments divided by Net interest payments
Interest cover – EBIT	>2	EBIT divided by Gross Interest Expense
Interest cover – EBITDA	>2	EBITDA divided by Gross Interest Expense
Interest cover – Funds from Operations	>2	Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense
Liquidity ratio	2:1	Liquid assets divided by current liabilities other than provisions
Net financial assets (liabilities) ($'000s)		Total financial liabilities less liquid assets
Net financial liabilities ratio	0 – (50%)	Total liabilities less liquid assets divided by total operating income
Returns to Government		
CSO funding ($'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

Financial Performance Indicator	Benchmark[1]	Method of Calculation
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
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 weakening.

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	Balance Date	Financial statements: Financial Statement deadline	Signed Financial Statements Received	Re-signed/ Amended Financial Statements Received	Audit opinion signed	Weeks between balance date and opinion issue	Timeliness of audit opinion issue from balance date: < 8 weeks	8 to 10 weeks	10 to 12 weeks	12 to 14 weeks	14 to 16 weeks	> 16 weeks
OTHER STATE ENTITIES												
ANZAC Day Trust	31 December 2012	15 February 2013	6 February 2013		19 February 2013	7.1		✓				
Board of Architects Tasmania	31 December 2012	15 February 2013	14 February 2013		18 March 2013	11.0			✓			
Tasmanian Qualification Authority	31 December 2012	15 February 2013	14 February 2013		12 March 2013	10.1			✓			
University of Tasmania	31 December 2012	15 February 2013	14 February 2013		15 February 2013	6.6			✓			
Theatre Royal Management Board	31 December 2012	15 February 2013	15 February 2013		15 February 2013	6.6				✓		
Solicitors Trust	31 December 2012	15 February 2013	14 February 2013		28 March 2013	12.4				✓		
COUNCILS												
Kentish Council	30 June 2012	15 August 2012	9 October 2012	15 November 2012	16 November 2012	19.9				✓		
King Island Council	30 June 2012	15 August 2012	16 August 2012	29 November 2012	29 November 2012	21.7				✓		

APPENDIX 3 - ACRONYMS AND ABBREVIATIONS

AASB	Australian Accounting Standards Board
ACAG	Australasian Council of Auditors-General
ACARA	Australian Curriculum, Assessment and Reporting Authority
AS	Australia Standard
COSO	Committee of Sponsoring Organisations
CPI	Consumer Price Index
CSIRO	The Commonwealth Scientific and Industrial Research Organisation
CSV	Commer-seperated Value
DHHS	Department of Health and Human Services
DIISRTE	The Commonwealth Department of Industry, Innovation, Science, Research and Tertiary Education
EBA	Enterprise Bargaining Agreement
EBIT	Earnings Before Income Tax
EBITDA	Earnings Before Income Tax, Depreciation and Amortisation
EFTSL	Equivalent Full-Time Student Load
FAG	Financial Assistance Grant
FTE	Full-Time Equivalent
HECS	Higher Education Contributions Scheme
IMAS	Institute for Marine and Antarctic Studies
ISO	International Organisation for Standardisation
NA	Not Applicable
NHCDC	National Hospital Cost Data Collection
NMDS	National Minimal Data Set
NZS	New Zealand Standard
PHE	Public Hospital Establishment
RoGS	Report on Government Services
RSL	The Returned and Services League
SLIMS	Student Lifecycle Information Management & Services
SPFR	Special Purpose Financial Report
TAO	Tasmanian Audit Office
TCE	Tasmanian Certificate of Education
THO	Tasmanian Health Organisation
UTAS	University of Tasmania
WIP	Work In Progress

APPENDIX 4 - RECENT REPORTS

TABLED	No.	TITLE
November	No. 4 of 2011-12	Volume 2 – Executive and Legislature, Government Departments and other General Government Sector entities 2010-11
November	No. 5 of 2011-12	Volume 3 – Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds 2010-11
November	No. 6 of 2011-12	Volume 4 – Local Government Authorities 2010-11
December	No. 7 of 2011-12	Volume 5 – Other State Entities 30 June 2011 and 31 December 2011
March	No. 8 of 2011-12	The assessment of land-use planning applications
June	No. 9 of 2011-12	Volume 6 – Other State Entities 30 June 2011 and 31 December 2011
June	No. 10 of 2011-12	Public Trustee: management of minor trusts
June	No. 11 of 2011-12	Updating the Motor Registry System
June	No. 12 of 2011-12	Follow up of special Reports 75-81
July	No 1 of 2012-13	Sale of TOTE Tasmania
October	No 2 of 2012-13	TasPorts: benefits of amalgamation – October 2012
November	No 3 of 2012-13	Volume 3 – Government Business Enterprises, State Owned Companies and Water Corporations 2011-12
November	No 4 of 2012-13	Volume 4 – Local Government Authorities 2011-12
November	No 5 of 2012-13	Volume 1 – Analysis of the Treasurer's Annual Financial Report 2011-12
November	No 6 of 2012-13	Volume 2 – Executive Legislature, Government Departments, other General Government Sector State entities and Superannuation Funds 2011-12
December	No 7 of 2012-13	Compliance with the *Tasmanian Adult Literacy Plan 2010-15*
March	No 8 of 2012-13	National Partnership Agreement on Homelessness
March	No 9 of 2012-13	Royal Derwent Hospital: site sale
May	No 10 of 2012-13	Hospital bed management and primary preventative health

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Our Vision

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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.

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