Tasmanian Audit Office

Report of the Auditor-General No. 4 of 2022-23

Auditor-General's report on the financial statements of State entities

Volume 2

Audit of State entities and audited subsidiaries of State entities
31 December 2021 and 30 June 2022

17 April 2023

Our role

The Auditor-General and Tasmanian Audit Office are established under the *Audit Act 2008*. Our role is to provide assurance to Parliament and the Tasmanian community about the performance of public sector entities. We achieve this by auditing financial statements of public sector entities and by conducting audits, examinations and investigations on:

- how effective, efficient, and economical public sector entity activities, programs and services are
- how public sector entities manage resources
- how public sector entities can improve their management practices and systems
- whether public sector entities comply with legislation and other requirements.

Through our audit work, we make recommendations that promote accountability and transparency in government and improve public sector entity performance.

We publish our audit findings in reports, which are tabled in Parliament and made publicly available online. To view our past audit reports, visit our reports page on our website.

Acknowledgement of Country

We acknowledge Tasmanian Aboriginal people as the traditional owners of this Land, and pay respects to Elders past and present. We respect Tasmanian Aboriginal people, their culture and their rights as the first peoples of this Land. We recognise and value Aboriginal histories, knowledge and lived experiences and commit to being culturally inclusive and respectful in our working relationships with all Aboriginal people.

2023 (No. 4)

2023
PARLIAMENT OF TASMANIA

Auditor-General's report on the financial statements of State entities

Volume 2

Audit of State entities and audited subsidiaries of State entities 31 December 2021 and 30 June 2022

17 April 2023

Presented to both Houses of Parliament pursuant to
Section 29 of the *Audit Act 2008*

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

Tasmanian Audit Office

GPO Box 851
Hobart
TASMANIA 7001

Phone: (03) 6173 0900
Email: admin@audit.tas.gov.au
Website: www.audit.tas.gov.au

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Tasmanian Audit Office

Level 2, 144 Macquarie Street, Hobart, Tasmania, 7000
Postal Address GPO Box 851, Hobart, Tasmania, 7001
Phone: 03 6173 0900
Email: admin@audit.tas.gov.au
Web: www.audit.tas.gov.au

17 April 2023

President, Legislative Council
Speaker, House of Assembly
Parliament House
HOBART TAS 7000

Dear President, Mr Speaker

Report of the Auditor-General No. 4 of 2022-23: Auditor-General's report on the financial statements of State entities, Volume 2 - Audit of State entities and audited subsidiaries of State entities 31 December 2021 and 30 June 2022

In accordance with the requirements of section 29 of the *Audit Act 2008*, I have the pleasure in presenting the second volume of my report on the audit of the financial statements of State entities and audited subsidiaries of State entities for the years ended 31 December 2021 and 30 June 2022.

Yours sincerely

[redacted]

Rod Whitehead
Auditor-General

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Executive summary

This report summarises the findings from our audits of public sector entity financial statements for the years ended 31 December 2021 and 30 June 2022. A total of 221 audit findings arose from these audits, a decrease from the 272 findings identified in the previous year. This is not entirely unexpected given our greater prior year focus on assessing how well entities managed certain financial reporting obligations.

Our analysis of the resolution of prior year findings revealed an increase in the number of unresolved findings from 107 in the prior year to 166 this year. This increase also relates to matters carried forward from our prior year focus on assessing how well entities managed certain financial reporting obligations. Given resourcing constraints in some State entities, we anticipated these findings would take more than one year to satisfactorily address.

One of the findings we comment upon this year is the accounting treatment for National Redress Scheme for Institutional Child Sexual Abuse claims and civil child sexual abuse claims. In examining the basis for recognising the expenses and liabilities for these claims, we found the expense and liability were only recognised by the Department of Justice when there was an agreed and signed Deed of Settlement and Release confirming payment to be made to a claimant. This is contrary to AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, which is more encompassing, requiring a liability (provision) to be recognised when a present obligation (legal or constructive) arises from a past event, it is probable the obligation will be required to be settled, and a reliable estimate can be made of the amount of the obligation.

While we recognise sensitivity and the complexity associated with the measurement and recognition of claims of this nature, and the Tasmanian Government's evolving approach to managing civil litigation in this area, we have recommended representatives from the Departments of Justice and Treasury and Finance and the Office of the Solicitor-General engage to agree the basis on which civil claims will be recognised as an actual or contingent liability in the financial statements.

Department of Justice supported the recommendation and Department of Treasury and Finance advised they would engage actuarial services to assist in defining and quantifying the Government's estimated liability exposure with respect to likely abuse-related claims. The Solicitor-General will further assist in this matter.

This report also contains our analysis and commentary on the financial performance and position of the local government sector.

All Councils, in aggregate, generated an underlying surplus of $8.78 million for 2021-22, an improvement of $17.92 million on the previous year. Urban councils were the primary contributor to this result, having rebounded strongly from the financial effects of COVID-19, with an aggregate underlying surplus of $16.45 million in 2021-22 compared to a deficit of $18.07 million in 2019-20. Rural councils have not experienced the same improvement however, with an aggregated underlying deficit of $7.66 million incurred in 2021-22 compared to a deficit of $4.57 million in 2019-20. Our analysis of operating revenue and expenses over the past 4 years shows a concerning trend for rural councils, with the average growth in expenses outpacing the average growth in revenue.

Councils had challenging budget decisions to make in setting rates for 2021-22, as many faced increased cost pressures, especially for infrastructure materials, and the effects of the rate freeze in the prior year. Our analysis of the increase in rate revenue over the past 4 years shows an annual increase in rate revenue of 6.0% in 2021-22 compared to the increase of only 1.6% in the previous year. The prior year increase reflects the impact of council decisions not to increase general rates for 2020-21 to support ratepayers during the COVID-19 pandemic.

Councils continue to struggle to achieve their capital expenditure budgets. In 2021-22, the 29 councils collectively spent $284.00 million on capital projects. This was only 80.0% of their budgeted spend for the financial year. In 2021-22, 21 councils spent less than their anticipated capital budget. This included 8 of the 10 urban councils, and 13 of the 19 rural councils. This capital expenditure gap may also be contributing to the declining trend in the aggregate asset sustainability ratio for both urban and rural councils over the past 4 years.

Whilst acknowledging the civil construction resource challenges faced by councils, councils should endeavour to achieve budgeted capital expenditure. This is to ensure that asset renewal occurs at the optimal time, thereby reducing the risks of increased maintenance costs, reducing the potential for loss of asset condition, safety and functionality and reduced council services to communities.

Our analysis of cash and investments held by councils over the past 4 years showed the large majority of councils had steadily increased their cash and investments. As at 30 June 2022, 9 councils had a healthy cash expense ratio, with funds to cover more than 12 months of expenditure.

Introduction

The Auditor-General has the mandate to carry out the audit of the financial statements of the Treasurer and all Tasmanian State entities and audited subsidiaries of State entities. The aim of a financial audit is to enhance the degree of confidence in the financial statements by expressing an opinion on whether they present fairly[1], in all material respects, the financial performance and position of State entities and audited subsidiaries of State entities and were prepared in accordance with the relevant financial reporting framework.

This report updates and completes the information provided in *Report of the Auditor-General No. 2 of 2022-23: Auditor-General's report on the financial statements of State entities, Volume 1 - Audit of State entities and audited subsidiaries of State entities 31 December 2021 and 30 June 2022*. This second volume contains the findings from all audits completed for the years ended 31 December 2021 and 30 June 2022 together with commentary on the local government sector.

The information provided in this report summarises the financial audits undertaken under section 16 (audit of the financial statements of the Treasurer), section 18 (audit of the financial statements of State entities) and section 21 (audit of the financial statements of audited subsidiaries of State entities) of the *Audit Act 2008* (Audit Act). Audits undertaken by arrangement under section 28 of the Audit Act are not included in this report.

Overview of this report

This report summarises the outcomes of audits of financial statements of State entities and audited subsidiaries of State entities for the years ended 31 December 2021 and 30 June 2022. This report provides commentary on:

- the timeliness of financial reporting by State entities and audited subsidiaries of State entities
- the completion of audits of financial statements and audit opinions issued
- audits dispensed with
- audit findings
- prior period errors
- audit fees for financial statement audits
- financial analysis of the local government sector
- the audit of all firearms or ammunition disposed of under the *Firearms Act 1996* (Firearms Act).

[1] Give a true and fair view in the case of entities reporting under the *Corporations Act 2001*.

Guide to using this report

Guidance relating to the use and interpretation of financial information included in this report can be found at the Tasmanian Audit Office website: www.audit.tas.gov.au

The guidance includes information on the calculation and explanation of financial ratios and performance indicators and the definition of audit finding risk ratings.

Audits of financial statements

Introduction

The information provided in this chapter summarises the financial audits undertaken under sections 16, 18 and 21 of the Audit Act.

Summary of audits of financial statements

The audit of the Treasurer's Annual Financial Report (TAFR), comprising the statements reporting on the transactions and balances within the Public Account during 2021-22 and balances at 30 June 2022, was completed on 25 October 2022.

The timeliness of submission of financial statements by State entities and audited subsidiaries of State entities and timeliness of audit completion is summarised in Table 1 below.

Table 1: Audits of State entities and audited subsidiaries of State entities as at 31 March 2023

Audits of financial statements	December 2021 and June 2022	December 2020 and June 2021
State entity and audited subsidiaries of State entity financial statements submitted, complete in all material respects:		
• within 45 days of the end of the financial year [Audit Act, section 17(1)]	142	141
• after 45 days of the end of the financial year	16	15
	158	156
Audits of financial statements of State entities and audited subsidiaries of State entities:		
• completed within 45 days of receiving the financial statements [Audit Act, section 19(3)]	70	71
• completed after 45 days of receiving the financial statements	47	50
Total audits completed as at 31 March 2023	117	121
Audits dispensed	38	35
Audits not yet completed or dispensed	3	-
	158	156

Submission of financial statements

The TAFR financial statements are to be submitted to the Auditor-General before 30 September each year. The statements for 30 June 2022 were received on 30 September 2022.

State entities and audited subsidiaries of State entities are required to submit financial statements to the Auditor-General within 45 days after the end of each financial year. For 31 December 2021 and 30 June 2022 financial reporting, the deadlines fell on 14 February 2022 and 15 August 2022, respectively. Before accepting the financial statements as submitted, the Auditor-General determines whether the financial statements are complete in all material respects. As part of this requirement, the financial statements must be signed by either the accountable authority or by a suitably senior finance officer responsible for financial reporting, such as the Chief Financial Officer or equivalent.

State entities and audited subsidiaries of State entities
31 December 2021 and 30 June 2022

158
Financial statements submitted

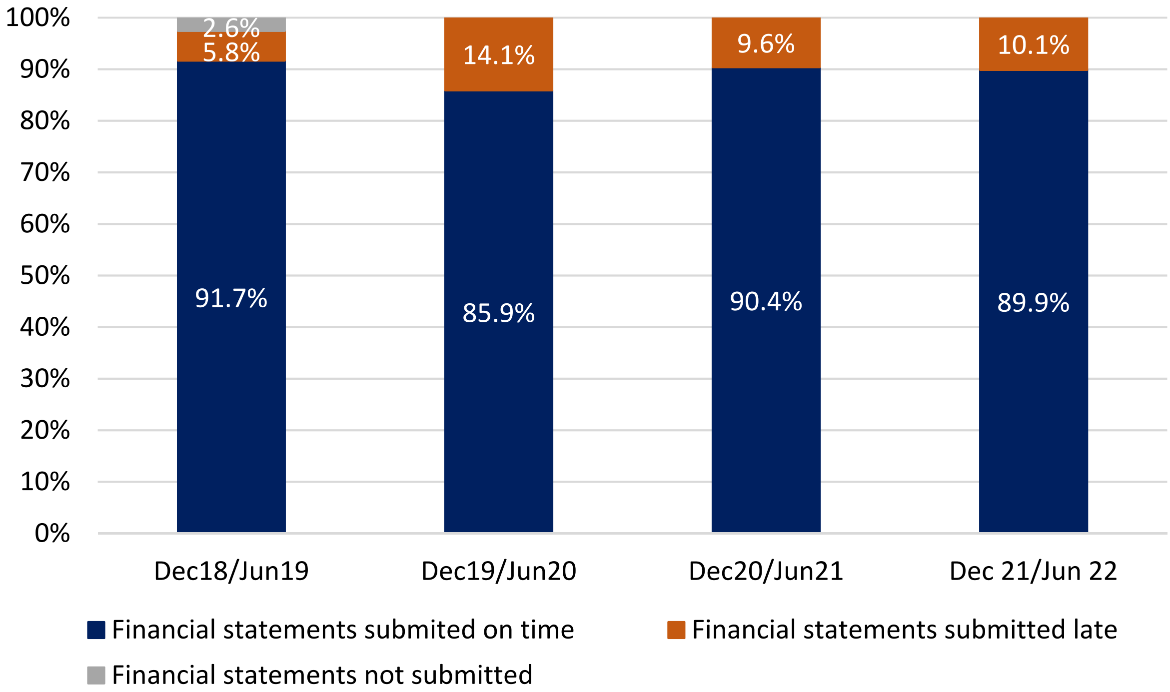
90%
Financial statements submitted on time

87
Financial statements certified by Accountable authority

71
Financial statements certified by Management

A comparison of the timeliness of financial statement submission by State entities and audited subsidiaries of State entities for the past 4 years is shown in Figure 1.

Figure 1: Timeliness of submission of financial statements



For the years ended 31 December 2021 and 30 June 2022, 16 State entities failed to meet the financial statement submission deadline, compared to 15 State entities for the years ended 31 December 2020 and 30 June 2021. Entities that failed to meet the submission deadline for the last two years were:

- Board of Architects
- Tasmanian Affordable Housing Limited
- Northern Midlands Council
- Tasman Council.

The classification of entities who submitted financial statements, by sector and legislative reporting obligation, is illustrated in Figure 2.

Figure 2: Classification of State entities and audited subsidiaries of State entities by sector and legislative reporting obligation

Completion of financial statement audits

Audits of 31 December 2021 and 30 June 2022 financial statements in progress

As at 31 March 2023, 117 audits had been completed and 38 audits had been dispensed. The audits for Aboriginal Land Council of Tasmania and palawa Enterprises Unit Trust were still in progress, largely due to a failure to respond in a timely manner to audit requests to provide information.

The audit for Newood Holdings Pty Ltd had not commenced, with this audit likely to be dispensed subsequent to the approval of an amendment to its constitution.

Timeliness of audit completion

The audit of the financial statements in TAFR are required to be completed in sufficient time to enable the Treasurer to table the report in Parliament by 31 October each year. The audit reports for these financial statements for 30 June 2022 were issued on 25 October 2022.

The Auditor-General must issue an audit report on the financial statements of State entities and audited subsidiaries of State entities within 45 days of the date of submission. For financial statements submitted on 14 February 2022 and 15 August 2022, our deadlines fell on 31 March 2022 and 29 September 2022, respectively.

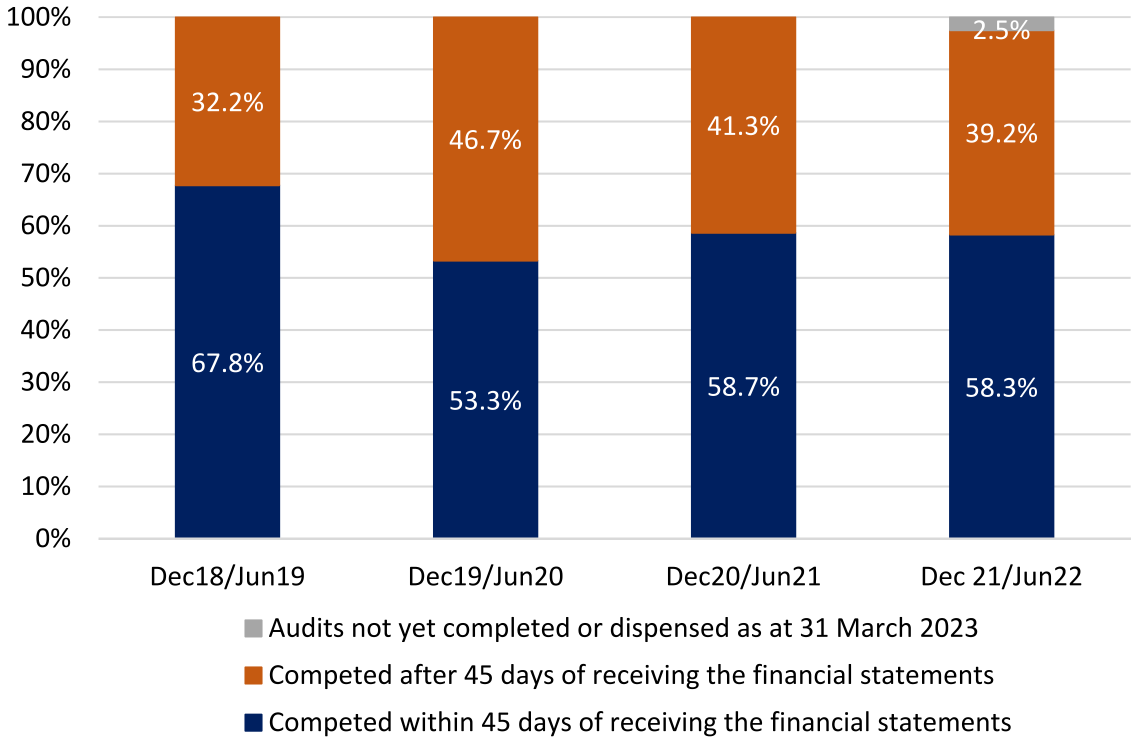
State entities and audited subsidiaries of State entities
31 December 2021 and 30 June 2022

70

Audit reports issued within deadline

A comparison of the timeliness of the completion of the audit of financial statements of State entities and audited subsidiaries of State entities for the past 4 years is shown in Figure 3.

Figure 3: Timeliness of audit completion



Forty-seven audits for the years ended 31 December 2021 and 30 June 2022 were not completed within the statutory timeframe, compared to 50 audits for the years ended 31 December 2020 and 30 June 2021. In addition, 2 audits in progress have also exceeded the statutory timeframe for completion. As in the previous year, staff shortages in the Tasmanian Audit Office (the Office) significantly affected our ability to complete 31 December 2021 and 30 June 2022 audits within the statutory timeframe.

The auditor's reports for the State entities included in Table 2 were signed more than 100 days from the date of financial statement submission.

Table 2: Auditor's reports signed more than 100 days from the date of financial statement submission

Entity	Financial statements received	Audit opinion signed	Days from receipt to issuance of auditor's report
Flinders Council	15 Aug 2022	28 Nov 2022	105 days
Huon Valley Council	15 Aug 2022	25 Nov 2022	102 days
Kentish Council	9 Sep 2022	6 Mar 2023	178 days
King Island Council	13 Aug 2022	17 Jan 2023	157 days
Latrobe Council	9 Sep 2022	29 Mar 2023	201 days
Local Government Association of Tasmania	12 Aug 2022	6 Dec 2022	116 days
National Trust of Australia (Tasmania)	12 Aug 2022	22 Feb 2023	194 days

Root causes for delays in finalising audits included:

- entities failing to respond in a timely manner to requests to provide information
- quality issues in documentation provided to the Office
- quantum and complexity of issues identified throughout the audit
- staff shortages in the Office which significantly affected our ability to complete audits within the statutory timeframe.

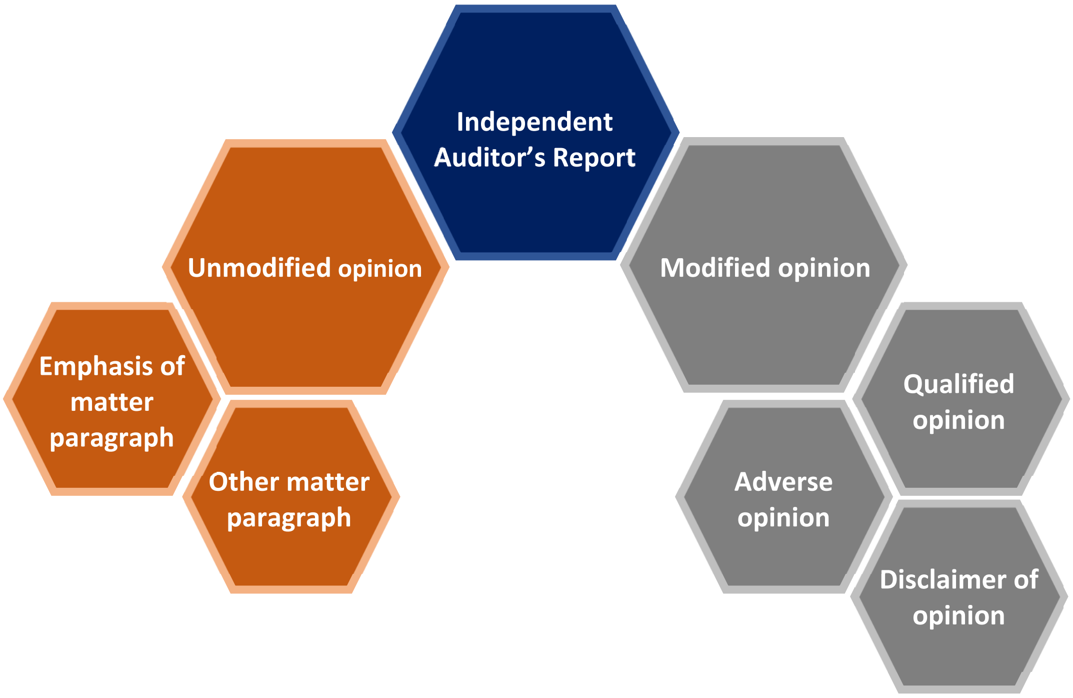
Audit opinions on financial statements

Types of audit opinions on the financial statements

Under section 19(1) of the Audit Act, the Auditor-General is to prepare and sign an opinion on an audit of the financial statements of State entities in accordance with Australian Auditing and Assurance Standards. Australian Auditing and Assurance Standards prescribe the auditor's reporting responsibilities, including the responsibility to form an opinion on whether the financial statements present fairly[2], in all material respects, the financial performance and position of an entity and whether the financial statements were prepared in accordance with the relevant financial reporting framework.

The types of audit opinions that may be issued in an independent auditor's report are depicted in Figure 4.

Figure 4: Types of audit opinions



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

The auditor can also communicate additional matters in the auditor's report, while still expressing an unmodified opinion on the financial statements by including an emphasis of matter or other matter paragraph. The purpose of this is to draw the attention of the users of the financial statements to relevant information, which in itself is not significant enough to result in a modified opinion.

Audit opinions expressed on financial statements

Of the 117 auditor's opinions issued on the audits of the 31 December 2021 and 30 June 2022 financial statements of State entities and audited subsidiaries of State entities, all were unmodified (commonly referred to as 'unqualified'). Of these opinions, 2 were issued with an emphasis of matter paragraph and one was issued with a material uncertainty related to going concern paragraph.

[2] Give a true and fair view in the case of entities reporting under the *Corporations Act 2001*.

Audit opinions issued with an emphasis of matter paragraph

Two unmodified audit opinions were issued with an emphasis of matter paragraph, which was used to highlight matters that, although appropriately presented or disclosed in the financial statements, were fundamentally important to bring to the reader's attention so as to assist with their understanding of the financial statements. Including an emphasis of matter paragraph does not modify the audit opinion.

An emphasis of matter paragraph was included in the independent auditor's report for the year ended 30 June 2022 for the following entities:

- Tasmanian Public Finance Corporation (TASCORP) - to draw attention to a note in the financial statements which describes TASCORP's application of Treasurer's Instruction GBE-08-52-09P *Accounting Treatment of the Mersey Community Hospital Fund by the Tasmanian Public Finance Corporation* in respect of the Mersey Community Hospital Fund.
- Tasmanian Affordable Housing Limited (TAHL) – to draw attention to notes within the financial statements stating that the financial statements for TAHL have been prepared on a non-going concern basis due to the activities of the company having ceased. TAHL has chosen to present their asset and liabilities in decreasing order of liquidity, and expect to recover or settle all balances within 6 months of 30 June 2022.

Both of these entities received a similar emphasis of matter paragraph in the independent auditor's reports for the year ended 30 June 2021.

Audit opinions issued with a material uncertainty related to going concern paragraph

One unmodified audit opinion was issued with a material uncertainty related to going concern paragraph.

This type of paragraph is used to highlight disclosures made in the financial statements about the existence of material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. The identification of a material uncertainty is a matter that is important to users' understanding of the financial statements. The use of a separate section with a heading that includes reference to the fact that a material uncertainty related to going concern exists, alerts users to this circumstance. Including a material uncertainty related to going concern paragraph does not modify the audit opinion.

A material uncertainty related to going concern paragraph was included in the auditor's report for the Legal Profession Board (the Board). The material uncertainty arose as the Board had, at the date of signing the auditor's report, not received confirmation of its 2022-23 funding. As at 30 June 2022, the Board had cash reserves of $0.30 million, which were considered insufficient by the members of the Board to cover the operating expenses for 2022-23. These events indicated that a material uncertainty existed that may have cast significant doubt on the Board's ability to continue as a going concern.

The Board reviewed the appropriateness of continuing to prepare the financial report on the going concern basis for the year ended 30 June 2022. It resolved that it was appropriate to prepare the financial report on the basis that the Board is a going concern, as it had received its first quarter of funding for 2022-23 from the Department of Justice (Justice) and was working with the Justice to identify a funding source for 2022-23.

The Board is aware that it is dependent on either the Solicitors Trust Fund (the Fund), or an alternative State Government funding source until such time as the Fund attains its statutory minimum balance, to remain financially sustainable in future years.

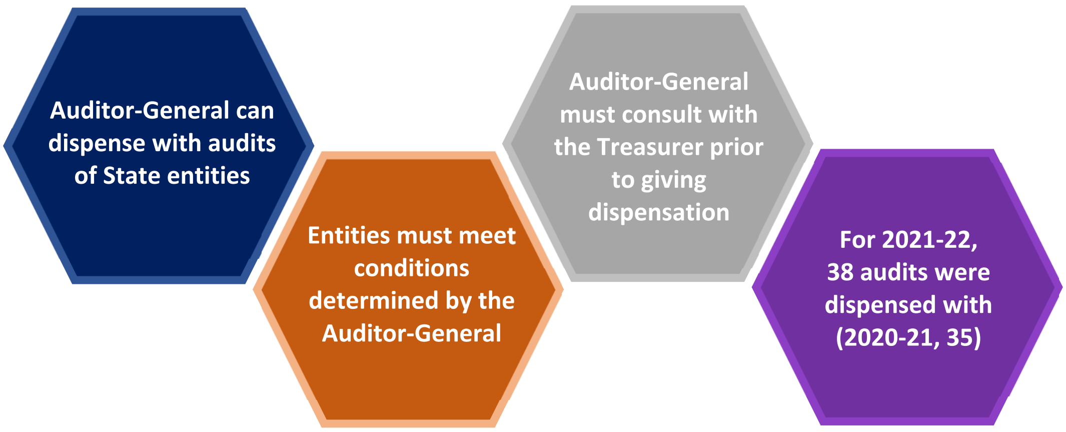
Audits dispensed with

The Auditor-General has discretion under section 18 of the Audit Act to dispense with all or any part of the audit of a particular State entity, if considered appropriate in the circumstances. The Auditor-General has determined dispensation from audit may be provided where one of the following conditions is met:

- The State entity demonstrates that its financial reporting and auditing arrangements are appropriate. To satisfy this condition, the entity is required to submit their audited financial statements to the Auditor-General each year. The financial statements are reviewed and, where necessary, feedback on information presented in the financial statements is provided to the entity.
- The entity is controlled by another State entity and is included in the group audit of the controlling entity.
- The entity has not operated and the accountable authority has provided evidence to support this assertion.

The audit dispensation process is illustrated in Figure 5.

Figure 5: Dispensation of audits process



It is important to note that dispensation of the audit does not limit any of the Auditor-General's functions or powers under the Audit Act. Where the entity is of significant size or by its nature of particular public interest, it is unlikely dispensation will be granted. The Audit Act also requires the Auditor-General to consult with the Treasurer before exercising the power to dispense with audits.

Entities where the Auditor-General has dispensed with the audit are listed in Appendix A.

Audit findings

Findings from the audit of the financial statements included in TAFR

There were no high or moderate risk findings arising from the audit of the financial statements included in TAFR.

A low risk finding was identified regarding duplicated disclosure of liabilities in lease liabilities (note 7.2) and commitment disclosures (note 8.1) arising from property lease and rental agreements. The finding was accepted by the Department of Treasury and Finance (Treasury) and will be addressed during 2022-23.

Findings from 31 December 2021 and 30 June 2022 financial statement audits

State entities and audited subsidiaries of State entities
31 December 2021 and 30 June 2022

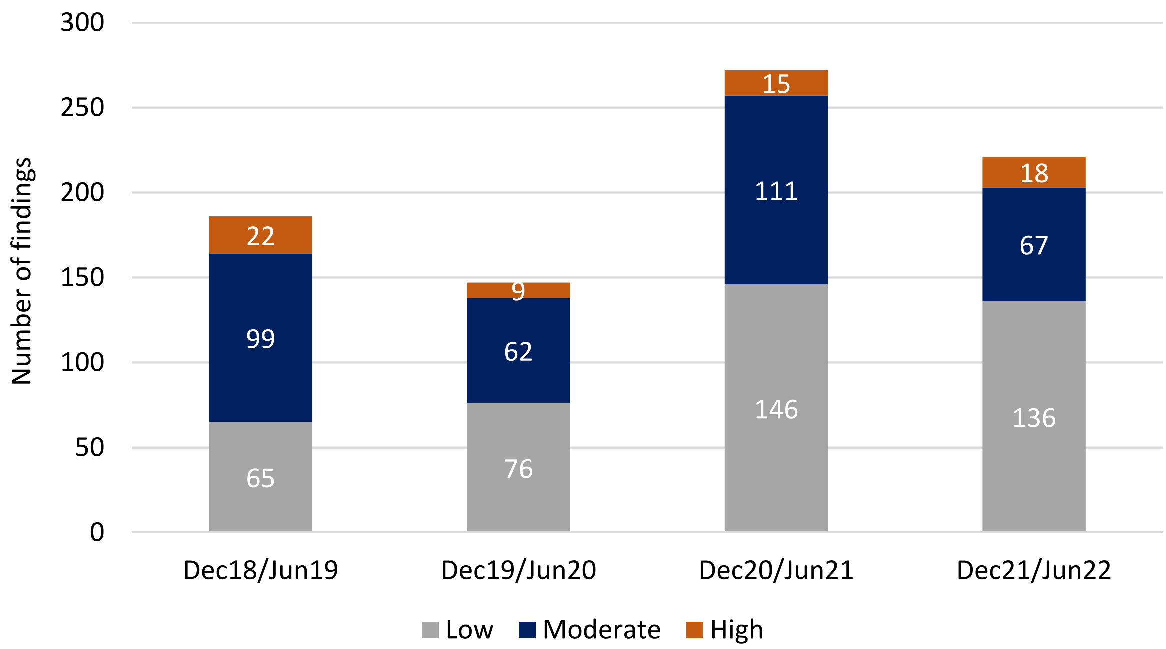
221	166
Audit matters raised	Audit matters raised in prior periods assessed as unresolved

Deficiencies in internal controls and financial reporting, fraud, non-compliance with laws or regulations and other significant matters identified during an audit are reported to management, those charged with governance of State entities and audited subsidiaries of State entities and relevant Ministers. These are communicated by way of a memorandum of audit findings, which reports finding observations, related implications, recommendations and risk ratings. Management responses to findings are also sought and included, along with expected date for resolution. The memorandum of audit findings also includes a section for the monitoring of actions taken by management on outstanding matters raised in previous years.

Each finding is categorised as high, moderate or low risk, depending on its potential impact. The definition of these risk categories, together with a details of current and prior year findings by entity, can be found in Appendix B.

A comparison of the number and risk rating of audit findings identified in the past 4 years is shown in Figure 6.

Figure 6: Comparison of audit findings by risk rating



The high number of new audit findings for the financial years ended 31 December 2020 and 30 June 2021 reflected our focus on assessing how well entities managed certain financial reporting obligations, with particular emphasis on:

- the consideration of the risks relevant to financial reporting objectives
- the extent to which the design and implementation of appropriate controls and processes were adequately documented
- reliance on information produced by experts.

In addition to continuing to focus on matters outlined above relating to certain financial reporting obligations, for the financial years ended 31 December 2021 and 30 June 2022 we paid particular attention to the design, implementation and operating effectiveness of internal controls covering payroll and non-financial asset systems. Whilst weaknesses were found for these areas of focus, they were not at the equivalent level identified for the financial years ended 31 December 2020 and 30 June 2021.

Payroll controls

Employee benefits are often the largest annual expenditure incurred by State entities and audited subsidiaries of State entities. The Total State Sector spent $3.78 billion on employee benefits in 2021-22, 34.4% of total expenditure (2020-21, $3.56 billion, 34.8%). In 2021-22, the local government sector expended 35.5%, $314.80 million, of their total expenditure on employee benefits (2020-21, $302.00 million, 35.8%).

Employee benefits consist of a number of items, including wages and salaries. There are also allowances and on-costs such as payroll tax, superannuation and other benefits that might be awarded through industrial awards and agreements. In addition to their direct expenditure, entities need to ensure they recognise liabilities related to their employees in their financial statements. This includes annual leave and long service leave liabilities, and provisions for superannuation or retirement payments, where applicable.

As a result, the processes, controls and oversight of payroll systems is immensely important. Weaknesses in any of these components can not only result in material errors in the financial statements; but have an impact on employees through incorrect payment of their remuneration and entitlements. Media reporting of large employee underpayments in recent years highlights this criticality.

Our testing of payroll controls included assessing the design, implementation and operating effectiveness of controls such as:

- changes to pay rates are authorised and reviewed
- correct authorisation and processing of employee appointments and terminations
- preparation and approval of reconciliations between the payroll system and the general ledger.

Audit findings relating to payroll controls that were identified during 2021-22 included:

- timesheet approvals not being documented
- employees approving their own timesheets
- employees able to change their own pay details
- lack of oversight arising from key payroll system reports not being prepared, or reviewed.

We observed that some entities outsource their payroll function to a third party provider. Such arrangements can have both risk and internal control implications, some of which are described below:

- Risks:
    - security risks - outsourcing to a service entity can expose an entity to data breaches, identity theft, or other information security risks
    - compliance risks - the service entity may not be familiar with the user entity's compliance requirements, leading to potential compliance violations
    - operational risks - the service entity may fail to process financial transactions accurately or on time, leading to operational disruption for the user entity
    - reputation risks - the service entity may fail to meet expectations leading to the user entity’s reputation being damaged.
- Internal control implications:

- control design – the user entity should ensure that the service entity's controls are designed and implemented appropriately to mitigate risks associated with financial transaction processing
- monitoring and oversight – the user entity should establish appropriate monitoring and oversight procedures to ensure the service entity complies with the user entity's business rules for transactional processing
- service level agreements – the user entity should establish a service level agreement with the service entity to ensure that the service entity meets the user entity's performance expectations.

In summary, while outsourcing financial transaction processing to a service entity can provide benefits such as cost savings and increased efficiency, it also comes with risks and internal control implications that organisations need to carefully consider and manage. Our audits identified instances where payroll services were provided by a third party with no service level agreement in place.

Non-financial (physical) asset controls

Most State entities manage physical assets, such as property, plant and equipment, to enable services to be provided to the community.

At 30 June 2022, the Total State Sector recorded physical assets worth $24.63 billion (2020-21, $22.30 billion). At the same date, the local government sector recorded $11.36 billion of physical assets (2020-21, $10.51 billion). This excludes other assets that State entities disclose in their statements, but which are managed by third parties (such as service concession asset arrangements).

Our testing of controls over physical assets included assessing the design, implementation and operating effectiveness of controls such as:

- management oversight of valuation processes, including the selection of valuation experts, and the assessment of results
- appropriate policies and procedures for capitalising expenditure
- controls over the recording of purchased or constructed assets in the asset register
- preparation and approval of reconciliations between the physical asset system and the general ledger.

Audit findings relating to physical asset controls identified during 2021-22 included:

- lack of documented assessment and oversight of valuations by management or those charged with governance
- absence of controls to reconcile the asset register with the general ledger.

Classification of audit findings

Audit findings for 31 December 2021 and 30 June 2022, as shown in Table 3, have been categorised using a primary classification, such as internal control, financial reporting, non-compliance with laws and regulations and other significant matters, and a secondary classification, which further defines the nature of the finding.

A description of primary and secondary categories has been included in the *Guide to using reports on the audit of financial statements of State entities.*

Table 3: 31 December 2021 and 30 June 2022 audit findings by classification and risk rating

	High Risk	Moderate Risk	Low Risk	Total
Financial reporting	**11**	**20**	**46**	**77**
Accounting Estimate	1	5	19	25
Disclosures	2	3	10	15
Fair Value	1	7	1	9
Going Concern	1	0	0	1
Non-compliance-Accounting Standard	4	3	10	17
Related Party	0	2	2	4
Unintentional Misstatement	2	0	4	6
Internal control	**7**	**46**	**85**	**138**
Control Activity	5	19	33	57
Control Environment	2	13	17	32
Information Systems and Communications	0	8	16	24
Monitoring Activity	0	4	8	12
Risk Assessment	0	2	11	13
Non-compliance with Laws or Regulations	**0**	**0**	**2**	**2**
Non Compliance-Laws or Regulations	0	0	2	2
Other significant matters	**0**	**1**	**3**	**4**
Management Actions	0	1	2	3
Other	0	0	1	1
Total	**18**	**67**	**136**	**221**

Of the 221 audit findings raised, 138 (62.4%) relate to entities' internal control environments. Common findings within this category related to:

- weak system controls

- inactive or undocumented key controls
- control weaknesses relating to information systems
- draft or non-existent policies and procedures outlining processes and key controls
- absence of a current service level agreements with third party providers for the provision of financial transaction processing.

Of the 77 findings raised relating to financial reporting, common findings related to:

- valuation processes and oversight over physical assets
- incorrect or unsupported assumptions used in the calculation of estimates, such as employee provisions
- material financial statement disclosures not disclosed in accordance with the relevant Australian Accounting Standard.

Audit findings by sector

The number and risk rating of audit findings by sector arising from 31 December 2021 and 30 June 2022 financial statement audits are shown in Table 4.

Table 4: 31 December 2021 and 30 June 2022 audit findings by sector and risk rating

Sector	High Risk	Moderate Risk	Low Risk	Total
General Government Sector	4	12	37	53
Public Non-Financial Corporation	4	21	24	49
Public Financial Corporation	0	0	2	2
Local Government	9	31	53	93
Other	1	3	20	24
Total	**18**	**67**	**136**	**221**

High risk findings

High risk findings are summarised in Table 5 below.

Table 5: 31 December 2021 and 30 June 2022 high risk audit findings

Entity	High risk finding
Dulverton Regional Waste Management Authority	The discount rate used in the calculation of the aftercare provision for the landfill site is highly judgemental, and expert advice is required by the Authority to support the rates used. The initial discount rate was revised leading to a material decrease in both the aftercare liability and asset.
Flinders Council	Inadequate review by management of asset valuation methodologies and calculations resulted in road assets being materially understated.
FortyTwo24 Pty Ltd (subsidiary of TasNetworks)	The company prepared financial statements that complied with AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not For-Profit Tier 2 Entities*, which complied with an exemption provided by the Treasurer to do so, but which did not comply with Treasurer's Instruction GBE 08-51-07. The expectation is that for subsequent financial years, the company will comply with the Treasurer's Instruction GBE 08-51-07, which will require the company to comply with Tier 1 financial reporting requirements and segment reporting, or alternatively it will seek a further exemption from doing so.
Hobart City Council	Council to review the capture and treatment of construction or building improvements on Council owned land, including land assets subject to operating leases.
House of Assembly	Inadequate assignment of user access across financial systems.
Kentish Council	Council did not submit financial statements to us within 45 days of the end of the financial year, therefore not complying with section 17 of the *Audit Act 2008*.
	Material errors were identified within the fixed (physical) asset balances, partly due to poor oversight of the work performed.
	Council was over-reliant on a single person to complete the fixed asset management and revaluation work.
Latrobe Council	Regulatory non-compliance and inability to provide audit documentation in a sufficient time period.
	Key person dependency in asset management and reporting.
	Application and review of asset valuation methodology.

Entity	High risk finding
Legislative Council	Inadequate assignment of user access across financial systems.
Legislature-General	Inadequate assignment of user access across financial systems.
	No restriction on modifying vendor bank account details.
Marinus Link Pty Ltd (subsidiary of TasNetworks)	The company prepared financial statements that complied with AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not For-Profit Tier 2 Entities*, which complied with an exemption provided by the Treasurer to do so, but which did not comply with Treasurer's Instruction GBE 08-51-07. The expectation is that for subsequent financial years, the company will comply with the Treasurer's Instruction GBE 08-51-07, which will require the company to comply with Tier 1 financial reporting requirements and segment reporting, or alternatively it will seek a further exemption from doing so.
Port Arthur Historic Site Management Authority	Although partially mitigated by the structure of operations, control weakness regarding segregation of duties were noted over journal processing.
Tasmanian Pharmacy Authority	The financial sustainability of the entity is at risk in the medium-to-long term.
Tasmanian Ports Corporation Pty Ltd	On Friday 28 January 2022, an allision occurred at the Port of Devonport involving a commercial cement carrier that allided with berthed tugs Campbell Cove and York Cove. Although not virtually certain, costs incurred in performing the clean-up have been capitalised as a receivable in the Statement of Financial Position, pending finalisation of the proceedings and expected recovery of the costs via the insurance provider.

Management responses outlining proposed actions in relation to the above matters were received from the respective entities.

Finding relating to the National Redress Scheme for Institutional Child Sexual Abuse claims and civil child sexual abuse claims

The National Redress Scheme for Institutional Child Sexual Abuse (Scheme) was established by the Australian Government on 1 July 2018 to provide support to people who experienced institutional child sexual abuse. The Government officially joined the Scheme on 1 November 2018.

The Scheme allows for redress to be provided to a person who suffered abuse (sexual abuse and related non-sexual abuse). The Scheme can provide a monetary payment of between $5,000 and $150,000 as a tangible means of recognising the wrong survivors have suffered, access to counselling and psychological care and a direct personal response which provides a meaningful apology and acknowledgment from the responsible institution.

In the 2018-19 State Budget, the Government made a commitment to fund Justice $70.00 million over 10 years to pay compensation and administration costs over the life of the Scheme.

In addition to applications for redress under the Scheme from individuals who suffered abuse, a number of civil claims have been made against the State relating to child abuse in State care. The Tasmanian Risk Management Fund does not cover the Crown's legal liability for civil claims brought by survivors of historical childhood institutional sexual abuse in circumstances where redress would be available if sought. Consequently, the State is responsible for funding these claims where the circumstances giving rise to the claim would have provided the claimant with an entitlement to redress under the Scheme. Whilst the Government is unable to determine the full amount and timing of any potential payouts in these civil cases, the value is expected to exceed the $70.00 million allocated for the payment of claims under the Scheme.

The management and responses to civil claims made against the State are undertaken by the Office of the Solicitor-General (OSG) on instructions from relevant departments. The reason for that is that OSG is responsible (presently at least) for the conduct of civil litigation.

Accounting for claims under the scheme and related civil claims against the Crown

For the year ended 30 June 2022, Justice recognised an expense of $30.93 million (2020-21, $15.11 million) for redress payments under the Scheme and related civil claims against the Crown. Included in this balance was $8.97 million (2020-21, $4.60 million) which was accrued as a liability at 30 June 2022, reflecting claims recognised but not paid as at that date.

In addition, Justice disclosed the following contingent liabilities in its 30 June 2022 financial statements:

- contingent legal claims related to child abuse in State care totalling $45.50 million (2020-21, $23.56 million)
- unquantifiable contingent liabilities related to applications under the Scheme and civil claims made against various Government agencies relating to child abuse that occurred whilst children were in State care.

In examining the basis for recognising the expenses and liabilities for redress payments and civil claims, we found the expense and liability were only recognised when there was an agreed and signed Deed of Settlement and Release confirming payment to be made to a claimant. This is contrary to AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* which requires a liability (provision) to be recognised when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision is recognised.

From discussions with other Australian state and territory audit offices, we identified other states and territories recognise the redress scheme liability on an actuarial basis, which recognises incurred but not reported claims. The rationale for recognising the liability on this basis is:

(a) the National Redress Scheme has a finite life of 30 June 2028

(b) there is sufficient information held at the Commonwealth or state or territory level to enable the estimation of the number of redress participants, average payment size and time value of money.

We identified a number of other states and territories are also the 'funder of last resort' under the Scheme, which transfers a liability from a defunct institution to the state or territory. In the majority of cases, no liability is recognised for liabilities incurred as 'funder of last resort' although most states and territories have disclosed this obligation as an unquantified contingent liability.

The position in respect to recognition and measurement of civil claims by other states and territories is varied, ranging from unquantified contingent liabilities to an actuarially quantified provision. For a number of states and territories, the civil liability is managed by the government insurance fund.

We recognise the basis for recognition and measurement of child sexual abuse civil claims is further complicated by the Government's evolving approach to civil litigation involving alleged child sexual abuse whilst in State care.

In our report of audit findings issued to Justice and Treasury, we recommended the liability arising under the Scheme be actuarially measured and recorded in Justice's financial statements.

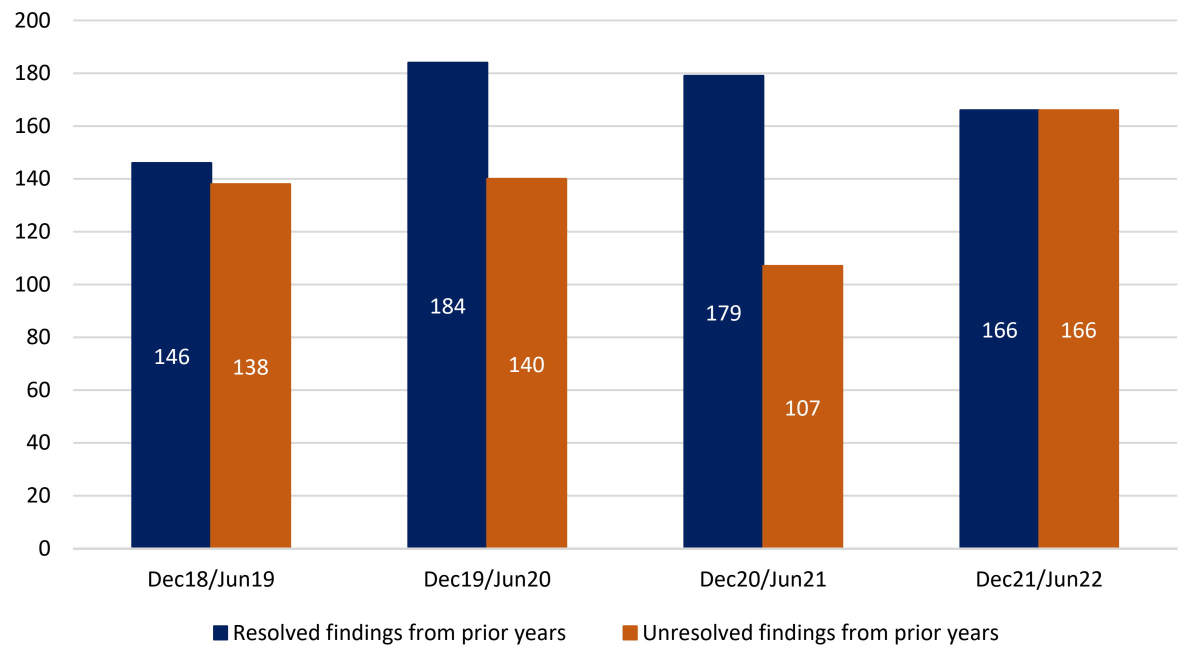
Given the complexity associated with the measurement and recognition of child sexual abuse civil claims, we recommended representatives from Justice, Treasury and the OSG engage to agree the basis on which civil claims will be recognised as a liability in the Justice financial statements and the basis on which civil claims will be recognised as quantified or unquantified contingent liabilities in the Justice financial statements.

Justice supported the recommendation and Treasury advised they would engage actuarial services to assist in defining and quantifying the Government's estimated liability exposure with respect to abuse-related claims. The Solicitor-General will further assist in this matter.

Unresolved audit findings from prior years

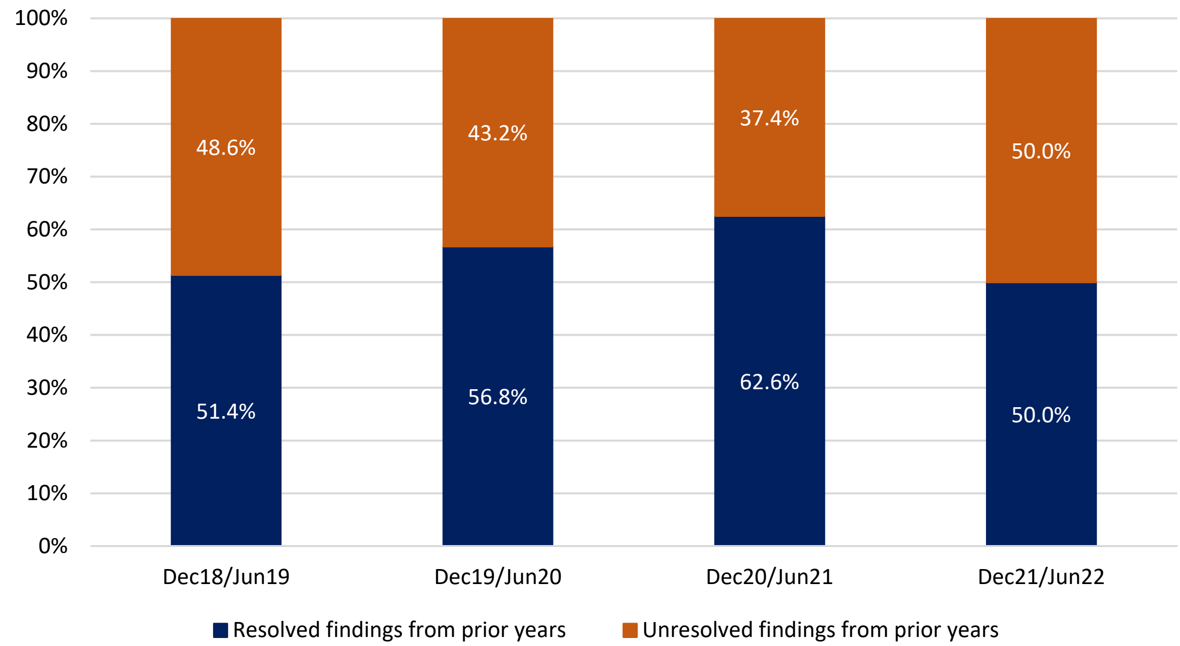
Unresolved audit findings from prior years are followed up each year to confirm whether they have been resolved or satisfactorily addressed by management. The number of resolved and unresolved prior years' audit findings as at the end of each year for the past 4 years are shown in Figure 7.

Figure 7: Number of prior years' audit findings resolved or unresolved each year



A 4 year history of the percentage of prior years' audit findings resolved each year is shown in Figure 8.

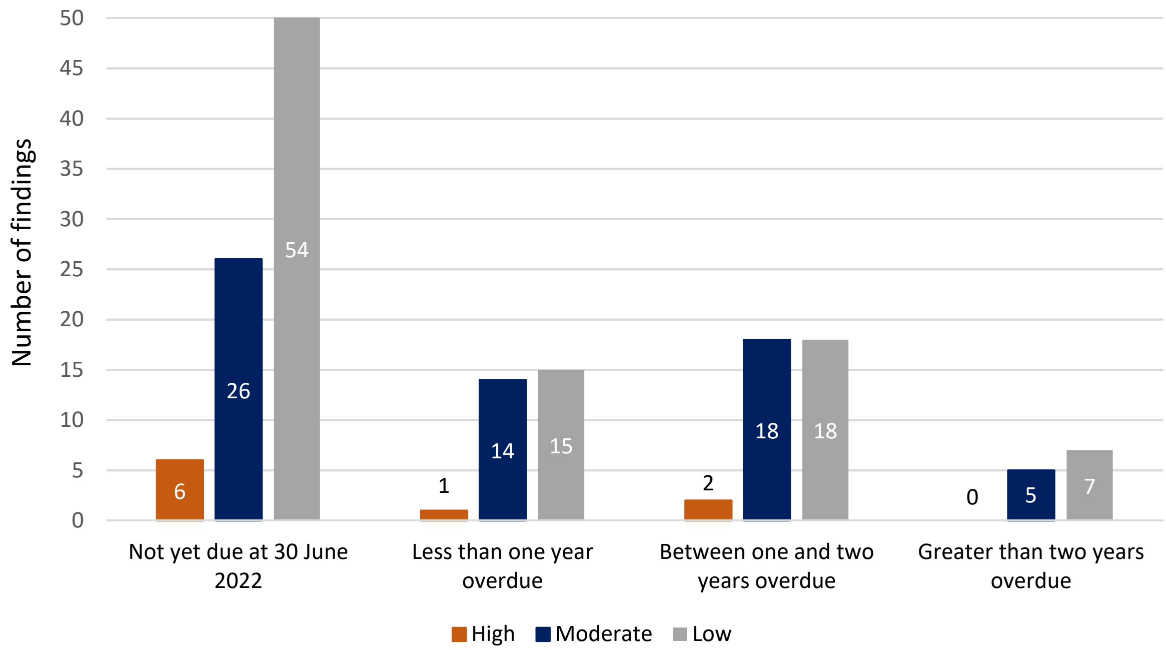
Figure 8: Resolution of prior years' audit findings



The increase in the number of unresolved findings from prior years is not unexpected given the high number of findings raised for the financial years ended 31 December 2020 and 30 June 2021 regarding entities' management of certain financial reporting obligations. Given resourcing constraints in some entities, we anticipated these findings would take more than one year to satisfactorily address.

The ageing of previously reported findings past the date by which they were to be resolved is shown in Figure 9.

Figure 9: Previously reported findings (yet to be resolved from date corrective action was due) aging analysis



Efficient resolution of audit findings is crucial to reduce an entity's exposure to risk. In particular, we recommend that High Risk rated issues are resolved within 3 months of reporting. Issues rated as high risk present either a risk of significant weakness in the entity's control environment, or a potential risk of material misstatement in their financial statements. Unresolved high risk issues raised in 2020-21 or earlier are detailed in Table 6.

Table 6: Unresolved high risk issues raised in 2020-21 or earlier

Entity	High risk issues raised in 2020-21 or earlier
Brighton Council	Weakness within entity's control environment where there was no evidence that the vendor Masterfile change log had been reviewed on a regular basis.
Clarence City Council	Risk matter related to IT systems and control environment.
Hobart City Council	Weakness within entity's control environment where key controls were not in place or there was evidence they could be overridden
Legislature-General	Weakness within entity's control environment where key controls were not in place or there was evidence they could be overridden.
Metro Tasmania	Risk matter related to IT systems and control environment

Entity	High risk issues raised in 2020-21 or earlier
National Trust of Australia (Tasmania)	Issue relating to the application of the going concern principle to an entity in future reporting periods.
	Issue regarding asset valuation methodologies.
Northern Midlands Council	Issue regarding asset valuation methodologies.
Tasman Council	Weakness within entity's control environment where key controls were not in place or there was evidence they could be overridden.

We reinforce the need for management and those charged with governance to remedy these items as soon as possible.

Identification of misstatements

In completing our audit, we may identify misstatements that result from:

- an inaccuracy in gathering or processing data from which the financial statements is prepared
- an omission of an amount or disclosure, including inadequate or incomplete disclosures, and those disclosures required to meet the disclosure objectives of the financial reporting framework
- an incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts
- judgements of management concerning accounting estimates that we consider unreasonable or the selection and application of accounting policies that we consider inappropriate
- an inappropriate classification, aggregation or disaggregation, of information
- the omission of a disclosure necessary for the financial statements to achieve fair presentation beyond disclosures specifically required by the financial reporting framework.

Identified misstatements are discussed with management, and a determination made on whether or not the error will be corrected in the financial statements before our auditor's report is issued. The requirement to correct the error will depend on its nature, value and impact on the users of the financial statements. All identified misstatements above an agreed threshold are formally communicated to those charged with governance of the entity as part of our reporting on audit outcomes.

For audits of financial statements for years ended 31 December 2021 and 30 June 2022, 124 misstatements were identified for 61 entities. Of these misstatements, 73 were corrected by the entity before the auditor's report was issued. Table 7 summarises the financial statement classification of the corrected and uncorrected misstatements identified.

Table 7: Misstatements identified for 31 December 2021 and 30 June 2022 audits

Item	Assets $'000s	Liabilities $'000s	Equity $'000s	Revenue $'000s	Expenses $'000s
Corrected misstatements	44,597	(27,153)	25,757	18,609	(61,809)
Uncorrected misstatements	26,656	(10,863)	(29,919)	9,301	4,825
Total	**71,253**	**(38,016)**	**(4,162)**	**27,910**	**(56,984)**

Positive numbers are debits and negative balances are credits.

Prior period errors

Seven prior period errors were reported in the completed audits for 31 December 2021 and 30 June 2022, compared to 24 for the preceding year.

A prior period error represents an omission or misstatement in an entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue, and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

For reported prior period errors, the following disclosures are required in the financial statements:

(a) the nature of the prior period error

(b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected

(c) the amount of the correction at the beginning of the earliest prior period presented.

Where it is impracticable to adjust figures for a particular prior period, the financial statements must disclose the circumstances that led to the existence of the condition and a description of how and from when the error had been corrected.

Audit procedures undertaken to assess the appropriateness of prior period errors included:

- inspection and testing of evidence leading to the occurrence and quantification of the error
- consideration of the size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole
- discussions with management to confirm the appropriateness of the accounting treatment and disclosures to be made in the financial statements

- an assessment by the Office's technical committee for review of the proposed accounting treatment and disclosures.

Where material errors impact financial results and balances prior to the comparative year, a restated third statement of financial position may be required to be presented. Of the 6 entities that disclosed prior period errors, none presented a third statement of financial position on the basis retrospective restatement or the reclassification had no material effect on the information in the statement of financial position at the beginning of the preceding period.

Prior period errors included in 31 December 2021 and 30 June 2022 financial statements are summarised in Table 8.

Table 8: Summary of prior period errors

Entity	Prior Period Error
Copping Refuse Disposal Site Joint Authority	Correction to the Provision for income tax and associated Contribution by owners associated with requirements under the National Tax Equivalent Regime.
Macquarie Point Development Corporation	Correction regarding an overstatement of inventories, comprising of work in progress remediation and redevelopment expenditure, and the Cold Store site due to a misinterpretation of the valuation for the Macquarie Point site.
Metro Tasmania Pty Ltd	Correction to disclosure regarding key management personnel for the year ending 30 June 2021
	Correction of classification of Greencard liability from trade payables to revenue received in advance.
Port Arthur Historic Site Management Authority	In reconciling completed works relating to lengthy construction of the Isle of the Dead walkway dating back to 2016-17, the Authority identified that certain construction costs totalling $0.88 million were incorrectly expensed, instead of capitalised. While this was not material, the Authority chose to make the correction as a prior period error.
Tasmanian Affordable Housing Limited	Correction to trade creditors and grant expenditure to reflect grant deed not signed as at balance date.
Tasman Council	Correction to recognise stormwater assets not previously recorded.

Consistent with prior years, there is no common theme to the prior period errors disclosed above, with each being unique to that particular entity.

Audit fees

Summary of audit fees for 2021-22

Audit fees by sector for 2021-22, excluding fees for audits undertaken by arrangement, are summarised in Table 9.

Table 9: Audit fees by sector for 2021-22

Sector	$'000s
General Government Sector entities	1,984
Public Financial Corporations and Public Non-Financial Corporations	1,766
Local government entities	1,109
Other State entities	422
Total	**5,281**

Basis for setting audit fees for 2021-22

Section 27 of the Audit Act provides that:

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

In relation to the tabling of Auditor-General's reports on audits of the financial statements of State entities and audited subsidiaries 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. These audits and investigations are funded from Appropriation.

This section explains the fee setting process for individual State entities, including:

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

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 assigned 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.

Direct travel costs attributable to each audit are billed separately.

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 2 parts; direct salary cost and overhead recovery.

Application of audit fee matrix

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

- Size of the entity based on its expected gross turnover which is used to determine the base amount of time required to conduct the audit. Turnover is based on the client's actual income and expenditure for the preceding financial year, adjusted for any known factors (fixed element).
- Risk and complexity profiles for each entity which considers the corporate structure, complexity of systems, operations and financial statement reporting requirements. The profile bands applied range from 40.0% below to 40.0% above the base time (variable element).

The fee scales also take account of changes to Australian Auditing or Accounting Standards and known changes in the scope of work to be performed, and are shown in Table 10.

Table 10: Fee scales for 2021-22

Turnover*	Base Hours	Variable component
<$100,000.00	15	+/-40.0%
$100,000.00 to $1.50 million	30	+/-40.0%
$1.50 million to $10.00 million	100	+/-40.0%
$10.00 million to $55.00 million	155	+/-40.0%
$55.00 million to $121.00 million	270	+/-40.0%
$121.00 million to $200.00 million	460	+/-40.0%
$200.00 million to $410.00 million	610	+/-40.0%
$410.00 million to $1.00 billion	830	+/-40.0%
>$1.00 billion	1,350	+/-40.0%

*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.

It is emphasised the fee scales only provide a framework from which actual fees charged to individual State entities and audited subsidiaries of State entities are set. 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 by the audit team in consultation with entity management, reflecting the assessment of risk and the extent and complexity of the audit work required.

Key assumptions

Fees are calculated on the basis that:

- current accounting systems will be operating throughout the year with a satisfactory appraisal of internal control
- no errors or issues requiring significant additional audit work will be encountered during the course of the audit
- the standard period-end general ledger reconciliations will be available at the commencement of the final audit visit
- requests for additional information throughout the audit will be attended to in a reasonably timely manner
- agreed timetables will be met, within reason
- financial statements, complete in all material respects, are submitted to audit in accordance with statutory time limits
- the nature of the entity’s business and scale of operations will be similar to that of the previous financial year.

Use of specialist skills impact on fees

In certain circumstances, audit experts may be engaged to assist with an audit. Where this is the case, it can result in higher costs being incurred. In these circumstances, the fee to be charged will be determined by the audit team in consultation with entity management and will reflect the size, complexity or any other particular difficulties in respect of the audit work required. Where possible, such costs are absorbed within the base audit fee.

Additional audit fees

If the circumstances outlined under the section headed “Key assumptions” change in a year, additional audit fees may be charged. 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 audit effort
- ad-hoc matters that impact upon significant balances within the financial statements, such as a significant asset revaluation
- unavoidable increases in costs of maintaining the Office.

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

Additional work (including work arising from the adoption of new accounting standards or issues associated with key risks and other matters arising) will be billed separately if it cannot be absorbed into the existing fee.

Any future impact of agreed additional fees would be assessed in terms of the on-going audit fee.

Communication of audit fees

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

Basis for setting audit fees for 2022-23 and future years

In determining fees for the 2022-23 audits, we have adopted a new audit fee model which adopts a 'benchmark fee' approach. The model prices our audits based on the relative size, nature, and complexity of an audit. Using a series of decision inputs, we categorise our audits into benchmark fee ranges. The audit fee we charge should sit within that range. The benchmark fee is based on the most optimal team (resource) mix for the audit, a set of hourly charge-out rates for each role in the team, and an estimate of the total hours required to complete the audit.

Key components of the model

Series of decision inputs

Decision inputs are objective factors that can significantly affect resourcing required to complete an audit. These resourcing decisions relate to both the mix of resources and the time required to complete an audit. The more significant factors that affect our resourcing decisions are listed in the 'significant factors that impact our audit fees' section below.

Optimal team mix

An outcome of the series of decision inputs is the recommended optimal team mix. The optimal team mix reflects the ideal team mix required to complete an audit. Each separate benchmark fee range has a different mix. This acknowledges that different types of audits require different levels of senior team member involvement compared to other audits.

The availability of resources within the Office is not a pricing factor. That is, the availability or otherwise of particular resources will not change our optimal team mix used to determine the audit fee we charge. We do tailor team mixes for certain audits if entity-specific factors mean a different mix is considered more appropriate. For example, if the entity has a complex business model or significant and complex transactions.

Hourly charge-out rates

We calculate hourly charge-out rates for each role in the team. The rates are based on the average 'direct' costs (such as salaries and wages) of the role, and 'indirect and support' costs (such as IT equipment, domestic travel, office rental expenses and utilities, and corporate services staff salaries).

Estimate of total hours

An outcome of the decision inputs is the recommended estimate of total hours. The estimate of total hours reflects our expectations of completing a standard audit based on the series of decision inputs. Entity-specific factors that cannot be appropriately reflected in the decision inputs mean we may deviate from the recommended estimate.

Time incurred in travelling to entities located outside of Hobart and Launceston are not taken into account in estimating total hours and are not incorporated into the benchmark fee.

Setting the benchmark fee

The benchmark fee is a function of the optimal team mix, charge-out rates, and the estimate of total hours. The benchmark fee is intended as a guide, subject to audit-specific factors unable to be reliably included in the decision inputs.

Audit fees that deviate from the benchmark fee by a set percentage are subject to review and approval by the Auditor-General.

The cost of direct expenses, such as external specialist services, will be added to the benchmark fee to arrive at the final audit fee. Travel related expenses for vehicle, meals and accommodation will no longer be charged to entities, and will be treated as an overhead expense of the office.

There will be times when circumstances arise during our audit that were not expected or factored into the final audit fee. These can include new transactions or events, or a higher than expected number of issues, complications, or misstatements. Where these result in additional work, we will discuss the impact on our audit fee with entity management.

Estimating our audit cost

A core requirement to setting our hourly charge-out rates is establishing the cost required to sustainably fulfil our mandate to audit financial statements of State entities and audited subsidiaries of State entities and audits expected to be undertaken by arrangement.

Our benchmark fees are calculated based on historical costs for the work we do. Over time, greater levels of benchmarking data will be incorporated into the benchmark fee.

Benchmarking our audit fees

Benchmarking our audit fees is an important aspect in demonstrating our efficiency. We perform a range of benchmarking exercises to give us the evidence we need.

External benchmarking

External benchmarking involves comparing our costs against our peers. We participate in annual macro benchmarking surveys with other public sector audit offices throughout Australia and disclose the results in our annual report.

We compare our costs against our peers on a range of measures including:

- Total audit costs (excluding payroll tax) per $’000 of public sector transactions
- Total audit costs (excluding payroll tax) per $’000 of public sector assets
- Cost per financial audit opinion.

We also benchmark our audit fees and hourly rates with external audit firms, known as ‘Audit Service Providers’, who perform audits on our behalf.

Contracting out audits provides important data for benchmarking the audit fees we charge against those of Audit Service Providers. Through the selection of audits to be contracted out, we look to gather enough data by audit type and sector to enable meaningful benchmarking.

Internal benchmarking

Internal benchmarking involves the analysis of audit fees and total audit hours for comparable audits. This analysis aims to look at trends in audit fees, and identifies audit fees that appear outside a reasonable range. In addition to the macro analysis, a representative sample of audits is selected for quality review each year. Among other things, the review considers whether the audits were conducted efficiently.

Resolving audit fee disputes

If an entity disputes an audit fee determined by the Auditor-General, we encourage the entity to resolve the dispute through direct engagement with the Office. If the dispute cannot be resolved, it will be referred to arbitration under the *Commercial Arbitration Act 2011*.

Significant factors that impact our audit fees

Many factors can impact the audit fee we charge for the work we do. Examples of significant factors that can impact the audit fee, and which are incorporated into our audit fee model, are provided in Table 11.

Table 11: Significant factors impacting the audit fee

Factor	Impact on audit effort and/or audit fee
Audit engagement risk	Audit engagement risk is, broadly speaking, the risk of our exposure to financial loss and damage to our professional reputation. Audits with higher engagement risk generally require more time by senior team members, and more time overall responding to the higher risk.
Governance and internal control environment	Strong governance and internal control environments allow us to place more reliance on these elements as part of our audit approach. Placing more reliance on these elements generally reduces the time we have to spend on testing transactions and balances in the financial statements.
History of misstatements	If an entity has a history of misstatements, unless we can assess otherwise, we have to assume a similar level of misstatements will occur in the future. The more misstatements we expect overall, will generally increase the amount of work we have to do. A greater number of misstatements also generally requires more time to assess the impact of the misstatements in the financial statements, to discuss the misstatements with management, and ultimately raise the misstatements with those charged with governance.
Focus on reliable financial reporting and respond quickly (and accurately) to our requests for information	A strong focus on reliable financial reporting and responsiveness to our requests for information will generally reduce the time spent on the audit. The strong focus generally means management provide timely and accurate information in response to our requests – reducing the time spent following up information that was previously requested, or requesting more accurate information where the information originally provided was incomplete, insufficient or not accurate.
Significant change in operations	An entity experiencing significant changes in its operations generally requires more involvement of senior team members, and more time overall reviewing financial reporting impacts. This involves assessing the appropriateness of the accounting treatment through our audit procedures.
Complex computer processing environments	Complex computer processing (IT) environments generally require involvement by information systems audit specialists. They specialise in reviewing complex IT environments to ensure we can rely on systems as part of our audit approach. Less complex IT environments will generally require less time spent by our audit specialists in reviewing the structure of the environments and the controls implemented to support reliable processing of information.

Factor	Impact on audit effort and/or audit fee
Number of revenue, expense, asset, and liability streams	The larger number of revenue, expense, asset, and liability streams an entity has will generally increase the time spent on the audit. Time is required to fully understand and assess the controls within each of the significant streams, perform audit procedures to test the streams, and evaluate any issues identified through our procedures.
Financially significant components that require a decentralised audit approach	Having centralised financial reporting responsibilities generally reduces the time spent on the audit. With decentralised responsibilities, time is required to understand the extent of decentralisation, assess the controls in place at the significant components (sites), perform audit procedures to test the sites, and evaluate any issues identified through our procedures.
Shared services (outsourcing) arrangements	Shared services (outsourcing) arrangements can have a range of impacts depending on the nature and extent of the arrangements. Key factors include: • the complexity of arrangements with the shared service provider • the pervasiveness of outsourced functions affecting the entity's financial reporting • whether the shared service provider receives an independent audit report over the design, implementation and operating effectiveness of its internal controls • the nature and extent of any issues identified in the shared service provider's controls • the nature, extent, and significance of procedures and controls the entity is required to implement to support the shared service provider's controls.
Significant accounting estimates or judgements	Significant accounting estimates and judgements generally require involvement by senior team members to review the financial reporting impact. Estimates and judgements are, by their nature, at greater risk of fraud and error. Senior team members use their experience to assess the appropriateness of management's estimates and judgements against accounting standards, relevant laws and regulations, and other authoritative pronouncements, for example, Treasurer's Instructions. The impact on audit effort and audit fee can vary significantly from one year to the next. For example, a desktop asset indexation or annual assessment of fair value requires less time spent on the audit compared to a full asset revaluation.

Factor	Impact on audit effort and/or audit fee
Complex accounting transactions	Complex accounting transactions generally require more involvement of senior team members, and more time overall reviewing the financial reporting impact. More senior team members use their experience to understand and assess the appropriateness of the accounting transactions, design audit procedures to validate key aspects of the transactions, and evaluate any issues arising from our procedures. The complex nature of these accounting transactions may also require involvement of technical experts.
Technical expert involvement	Significant accounts, classes of transactions or account balances that are subject to technical expert involvement, will generally require involvement of senior team members to review the financial reporting impact. We may engage our own external experts to review the appropriateness/reasonableness of any methodologies, inputs, assumptions, or judgements used.
Group audit	An entity will sometimes form part of a consolidated group of entities. As a result, it is likely management are required to provide the preparers of the group financial statements information to help with their preparation. The group auditor generally requires an entity's auditors to provide documentation about their audit, including any misstatements or issues identified. The time spent completing this documentation will vary depending on the significance of the entity to the group's financial statements. The time spent completing this documentation is generally charged to the entity unless specific arrangements are established between the group and entity management.

Local government

Introduction

This chapter contains commentary and financial analysis on Tasmanian local government entities subject to audit, comprising 29 councils, 2 council controlled entities and 6 other local government entities.

Local government sector developments

This section summarises significant developments that affected the operations of councils identified during the course of the audits.

Local Roads and Community Infrastructure program

In May 2020, the Australian Government announced the implementation of the Local Roads and Community Infrastructure (LRCI) program, with the funding allocation for Tasmania being $16.27 million. The program was developed to support councils to deliver priority local road and community infrastructure projects across Australia. The aim of the program was to support jobs and the resilience of local economies, whilst stimulating growth and creating jobs in local communities in response to the impacts of the Novel Coronavirus disease pandemic (COVID-19). Funding for the LRCI program has been announced in phases by the Australian Government.

During 2021-22, 2 phases of the program were operational:

- Phase 2 funded projects from 1 January 2021 to 30 June 2022, with projects to be physically completed by 30 June 2022. $24.90 million was allocated across the 29 councils in this phase.
- Phase 3 funded projects from 1 January 2022 to 30 June 2023, with projects to be physically completed by 30 June 2023. $32.55 million was allocated across the 29 councils in this phase.

The future of local government in Tasmania

In November 2021, the Minister for Local Government and Planning announced the commencement of a review to create a more robust and capable system of local government to meet current and emerging community needs and support Tasmania's recovery from COVID-19. The Minister also appointed a 6 person Local Government Board to undertake 'The Future of Local Government Review'.

The review commenced on 20 January 2022 and is expected to take approximately 18 months to complete. The Local Government Board is expected to make recommendations on the future role, functions and design of local government and the structural, legislative and financial reforms required to meet this objective.

As at 31 March 2023, the Local Government Board had issued the *Future of Local Government Review Stage 1 Interim Report* (July 2022) and *Future of Local Government Review Stage 2 Options Paper* (December 2022).

Individual entity key developments

The following section summarises significant developments during 2021-22 affecting the operations of individual councils and Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater).

Burnie City Council

In July 2021, the Burnie City Council acquired the net assets and business operations of the Tas Communication Unit Trust (Trust), leading to the winding up of the Trust and its corporate trustee. The liquidation of the Trust is expected to occur during 2022-23.

Clarence City Council

Legal action regarding rates equivalent dispute

As at 31 March 2023, Clarence City Council was involved in an ongoing legal action against Hobart International Airport relating to a rates equivalent dispute.

In September 2019, a judgment was handed down by the Federal Court of Australia in favour of the Hobart International Airport. This decision was appealed by the Council and on 6 August 2020, the Full Court of the Federal Court of Australia handed down a decision to allow the appeal with the matter referred back to the Federal Court of Australia. However, the defendant subsequently appealed the Federal Court decision to the High Court of Australia.

In March 2022, the High Court confirmed the decision that the meaning and operation of rates equivalent clause of the lease between the Commonwealth and Hobart International Airport will now be determined by the Federal Court. This matter was heard in the Federal Court in late September 2022 with the decision to be handed down in due course. Clarence City Council assessed the recoverability of the outstanding rates equivalent as $5.06 million at 30 June 2022.

Kangaroo Bay Development Precinct

In December 2020, Clarence City Council approved an unconditional extension of time for substantial commencement of the Kangaroo Bay Development Precinct project. Under the sale and development agreement, the developer had until October 2022 to commence substantial work on the site, and if not commenced, the buy-back clause will come into effect. As at the date of signing the auditor’s report on the financial statements, there had not been any further development on this project.

Devonport City Council

Devonport Living City

Devonport City Council continued progressing the Living City Masterplan during 2021-22. Stage 2 of the project, which included the waterfront park precinct budgeted at $17.00 million and the privately funded hotel development budgeted at $49.00 million, was completed in February 2023.

At 30 June 2022, Council's capital work-in-progress balance included $14.55 million relating to the waterfront park precinct. Detailed planning for Stage 3 of the Masterplan, incorporating Fenton Way, is expected to be completed during 2022-23.

George Town Council

George Town Mountain Bike Trail Development

The Mt George Trails opened in October 2021 and the lower section of the Tippogoree Hills Trails opened in late January 2023.

At 30 June 2022, there was $2.09 million recognised as capital work in progress and $1.23 million as capital expenditure commitments associated with the project. Construction on the remainder of the mountain bike trail network was expected to continue throughout 2022-23.

A grant funding agreement was entered into for up to $4.40 million of expenditure for the construction of the bike trails between 2020 and 2022. A variation to the grant deed was signed in 2021-22 which extended the project completion date from 30 June 2022 to 11 July 2023.

Glenorchy City Council

Glenorchy CBD revitalisation' project

In 2021-22, Glenorchy City Council completed a number of major projects, the largest being the $5.80 million 'Glenorchy CBD revitalisation' project which was completed in September 2021.

Jackson Street Landfill

In June 2022, the life of the Jackson Street Landfill was extended following the substantial completion of a new $2.50 million waste disposal cell, together with the completion of the $1.18 million Eady Street Amenities Building.

Launceston City Council

Birchalls Building Arcade and Paterson Street Central Car Park Development

Launceston City Council purchased the former Birchalls building in 2019-20 with plans for the building to be privately developed into a ground level arcade.

During 2021-22, the expression of interest process to identify a preferred proponent and re-development proposal stalled, awaiting determination of a dispute in respect to the Paterson Street central carpark site.

Council is a third party to the development of the Paterson Street central carpark site. The proposed multi-use development includes a Creative Precinct and a new bus interchange, which would enable Council to relocate the existing St John Street bus stops.

Queen Victoria Museum and Art Gallery

Launceston City Council is continuing discussions with the Government to review the future funding and governance model for the Queen Victoria Museum and Art Gallery.

Tasman Council

Nubeena civic Centre

During 2021-22, Nubeena Council received a $1.00 million grant for the development of the Nubeena Civic Centre. Council has commenced works with a total of $0.95 million being spent on the project during 2021-22.

Hacking of Tasman Council IT Services

On or around 16 June 2022, Tasman Council's IT services were hacked, leading to a 6 day shutdown of IT services for most Council Officers. During that period, it was also discovered the saving of back up files by the then service provider had not occurred since 4 June 2022. This, in combination with the hacking, resulted in the loss of all information stored on the Council's IT Server for the period from 4 June 2022 to 21 June 2022. The hacking did not affect property records or financial records stored in other locations and Tasman Council had no reason to believe that any personal information was accessed. As a result of the failure to back up files, records created during this period, including payment and other electronic records were lost. This meant all records had to be recreated post the hacking event. The loss of the sequence of payments led to inconsistencies in records.

Late submission of financial statements

Tasman Council was not able to hold its Annual General Meeting or present its 2021-22 Annual Report before 15 December 2022, making it non-compliant with the *Local Government Act 1993* (LG Act). A number of factors contributed to the situation, including the IT hacking incident in June 2022 and the single person dependency which was highlighted in the departure of a key staff member in October 2022. Council submitted its financial statements to the Office on 10 January 2023.

TasWater

Financial result

TasWater recorded an underlying net profit for 2021-22 of $31.92 million (2020-21, $16.29 million). The improved result was primarily due to an increase in sales revenue. When also taking into account non-cash items such as contributed asset revenue ($30.96 million) and impairment expense ($0.45 million), TasWater recorded a net profit of $62.44 million (2020-21, $43.54 million).

Capital projects

TasWater increased capital expenditure from $177.60 million in 2020-21 to $253.00 million in 2021-22. Expenditure in 2021-22 included $109.87 million spent on the continuing upgrade of the Bryn Estyn Water Treatment Plant at New Norfolk. This project is anticipated to be completed during the fourth quarter of 2023.

Major projects completed during 2021-22 included the Lake Mikany Dam upgrade (Smithton), Henderson Dam Wall Raising (Whitemark), the Longford Sewage Treatment Plant upgrade, the Upper Reservoir Dam upgrade in Hobart and the Lake Fenton – New Norfolk Trunk Water main Renewal.

Aggregated financial statements

This section focuses on the aggregated financial information for all 29 councils, including council controlled entities, but excluding other local government entities. Transactions between councils have not been identified or eliminated in our aggregation of the financial statements. In this analysis, financial information relating to the 2020-21 financial year has changed from my *Report of the Auditor-General No. 5 of 2021-22: Auditor-General's Report on the Financial Statements of State entities, Volume 2,* due to the impact of prior period errors on comparative information.

Throughout this section, aggregated financial information is presented based on councils being grouped into 2 classifications, urban and rural, as follows:

- urban, populations greater than 20,000 or at a density >30 per square kilometre
- rural, populations up to 20,000 at a density of <30 per square kilometre.

The local government sector aggregated financial performance for the year ended 30 June 2022 is detailed in Table 12.

Table 12: Aggregated financial performance for the year ended 30 June 2022

Council	Underlying surplus (deficit) \$'000s	Net surplus (deficit) \$'000s
Urban Councils		
Brighton Council	331	1,364
Burnie City Council	131	6,266
Central Coast Council	(61)	6,725
Clarence City Council	6,689	20,673
Devonport City Council	1,552	10,532
Glenorchy City Council	2,033	22,354
Hobart City Council	5,636	20,495
Kingborough Council	(568)	5,257
Launceston City Council	(993)	17,147
West Tamar Council	1,696	5,021
Total Urban Councils	**16,446**	**115,834**

Council	Underlying surplus (deficit) $’000s	Net surplus (deficit) $’000s
Rural Councils		
Break O'Day Council	(708)	(1,438)
Central Highlands Council	(3)	1,907
Circular Head Council	(90)	1,844
Derwent Valley Council	(2,235)	389
Dorset Council	(42)	5,458
Flinders Council	(709)	2,149
George Town Council	182	4,167
Glamorgan Spring Bay Council	(430)	2,994
Huon Valley Council	(270)	5,148
Kentish Council	(1,013)	967
King Island Council	(721)	(102)
Latrobe Council	(5,898)	830
Meander Valley Council	368	5,620
Northern Midlands Council	2,101	4,795
Sorell Council	1,585	13,297
Southern Midlands Council	(90)	6,449
Tasman Council	527	2,015
Waratah-Wynyard Council	581	5,757
West Coast Council	(797)	3,351
Total Rural Councils	**(7,662)**	**65,597**
All Councils		
Total	**8,784**	**181,431**

Councils generated an overall net surplus of $181.43 million in 2021-22, a significant increase of $68.72 million from the 2020-21 net surplus of $112.71 million. The increase is partly attributable to:

- $43.00 million increase in rates, user fees and charges
- $14.00 million increase in councils' revenue from their TasWater investment
- $29.03 million increase in grants and subsidies received from other levels of government, including Financial Assistance Grants received in 2021-22 for the 2022-23 financial year.

These increases in council revenue were offset by:

- $12.80 million, 4.2%, increase in employee benefit expenses
- $13.79 million increase in depreciation costs, reflecting changes in councils' fixed asset values.

The Australian Government provides Financial Assistance Grants to councils each year which are untied, allowing councils to spend the grants according to local priorities. For 2021-22, Tasmanian councils were collectively allocated $83.28 million through these grants, however $40.95 million of this allocation was received by councils prior to 1 July 2021. Similarly, in 2021-22, councils received $65.26 million which related to the 2022-23 allocation.

As Financial Assistance Grants are untied and have no performance obligations, AASB 1058 *Income of Not-For-Profit Entities* requires councils to recognise the advance payments as revenue when received. This means councils recognised the 2022-23 advanced payment of $65.26 million as revenue from Financial Assistance Grants in their financial statements for 2021-22.

The net surplus balance in Table 12 reflects the funding received by councils in the financial year. For the 2021-22 underlying result calculation in Table 12, the advance payments have been adjusted for in the calculation, with the 2021-22 advance payment for 2021-22 included in the calculation and the 2021-22 advance payment for 2022-23 excluded.

Underlying result

$(0.48)m	$(22.64)m	$(9.14)m	$8.78m
2018-19	2019-20	2020-21	2021-22
▼ 102%	▼ (4,617%)	▲ 60%	▲196%

▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

For the purpose of calculating a council's underlying surplus or deficit (underlying result), we have applied the definition of underlying surplus or deficit in the *Local Government (Management Indicators) Order 2014*, as follows:

> *'underlying surplus or deficit is the amount that is the recurrent income (not including income received specifically for new or upgraded assets, physical resources received free of charge or other income of a capital nature) of a council for a financial year less the recurrent expenses of the council for the financial year.'*

The intent of the underlying result is to show the outcome of a council's normal or usual day-to-day operations. It is intended to remove extraneous factors that could create volatility and therefore make it difficult for users to understand the outcome of a council's normal operations.

The term 'recurrent' is a commonly used term by entities to refer to transactions for all purposes except those of a capital nature. While the meaning of the word 'recurrent' may be interpreted as referring to items regularly occurring or repeating, for the purposes of determining underlying result, it includes operational transactions that may occur once or infrequently such as changes to existing decommissioning, rehabilitation, restoration or similar provisions or financial support, subsidies, grants and programs to organisations, businesses or industry. Recurrent transactions include gains or losses on disposal of assets, unless there was an unusual reason for the disposal, such as a natural disaster.

Income of a capital nature includes amounts received that did not form part of operating activities and were received in connection with non-financial assets. Examples include Roads to Recovery (RTR) funding, reimbursements of costs under the Natural Disaster Relief and Recovery Arrangements (NDRRA), gains or losses from one-off disposal of surplus assets or discontinued operations.

Other items, although not capital in nature, that would usually be excluded from underlying result include Australian Government Financial Assistance Grants received in advance, clearly identifiable clean-up costs after a natural disaster which were claimable under insurance or NDRRA and payments or provisions in relation to a redundancy program.

Table 13 discloses the underlying surplus generated, or deficit incurred, by councils over the 4 years to 30 June 2022, together with a trend indicator showing whether the councils underlying result is improving, deteriorating or not materially changing over the 4 year period.

Table 13: Underlying surplus by Council for financial years 2018-19 to 2021-22

Council	Trend	2018-19 $'000s	2019-20 $'000s	2020-21 $'000s	2021-22 $'000s
Urban Councils					
Brighton Council	▲	(44)	(728)	(426)	331
Burnie City Council	▲	(1,296)	(851)	(1,921)	131
Central Coast Council	▲	(358)	(1,506)	(192)	(61)
Clarence City Council	▲	4,409	5,217	4,796	6,689
Devonport City Council	▲	(1,561)	(1,797)	1,245	1,552
Glenorchy City Council	●	(157)	(2,821)	(6,329)	2,033
Hobart City Council	▲	1,246	(9,317)	(25)	5,636
Kingborough Council	●	(563)	(649)	240	(568)
Launceston City Council	●	2,055	(7,215)	(3,109)	(993)
West Tamar Council	▼	2,314	1,600	212	1,696
Total Urban Councils	▲	**6,045**	**(18,067)**	**(5,509)**	**16,446**
Rural Councils					
Break O'Day Council	▼	997	143	(383)	(708)
Central Highlands Council	▼	123	287	85	(3)
Circular Head Council	●	(54)	(1,491)	(465)	(90)
Derwent Valley Council	▼	208	(270)	(1,222)	(2,235)
Dorset Council	▼	1,476	179	417	(42)
Flinders Council	▲	(3,284)	951	538	(709)
George Town Council	▼	398	462	256	182
Glamorgan Spring Bay Council	▼	279	(1,270)	(2,492)	(430)

Council	Trend	2018-19 $'000s	2019-20 $'000s	2020-21 $'000s	2021-22 $'000s
Huon Valley Council	▲	(614)	33	(89)	(270)
Kentish Council	▼	669	385	(44)	(1,013)
King Island Council	▲	(1,373)	(1,265)	(59)	(721)
Latrobe Council	▲	(9,965)	(1,690)	266	(5,898)
Meander Valley Council	▼	803	434	(533)	368
Northern Midlands Council	▲	896	(1,177)	(285)	2,101
Sorell Council	▲	1,189	410	1,089	1,585
Southern Midlands Council	●	(258)	125	(35)	(90)
Tasman Council	▼	1,015	212	474	527
Waratah-Wynyard Council	●	567	20	53	581
West Coast Council	▼	403	(1,052)	(1,201)	(797)
Total Rural Councils	●	**(6,525)**	**(4,574)**	**(3,630)**	**(7,662)**
All Councils					
Total	▲	**(480)**	**(22,641)**	**(9,139)**	**8,784**

▲ improvement in trend ▼ deterioration in trend ● no material change in trend

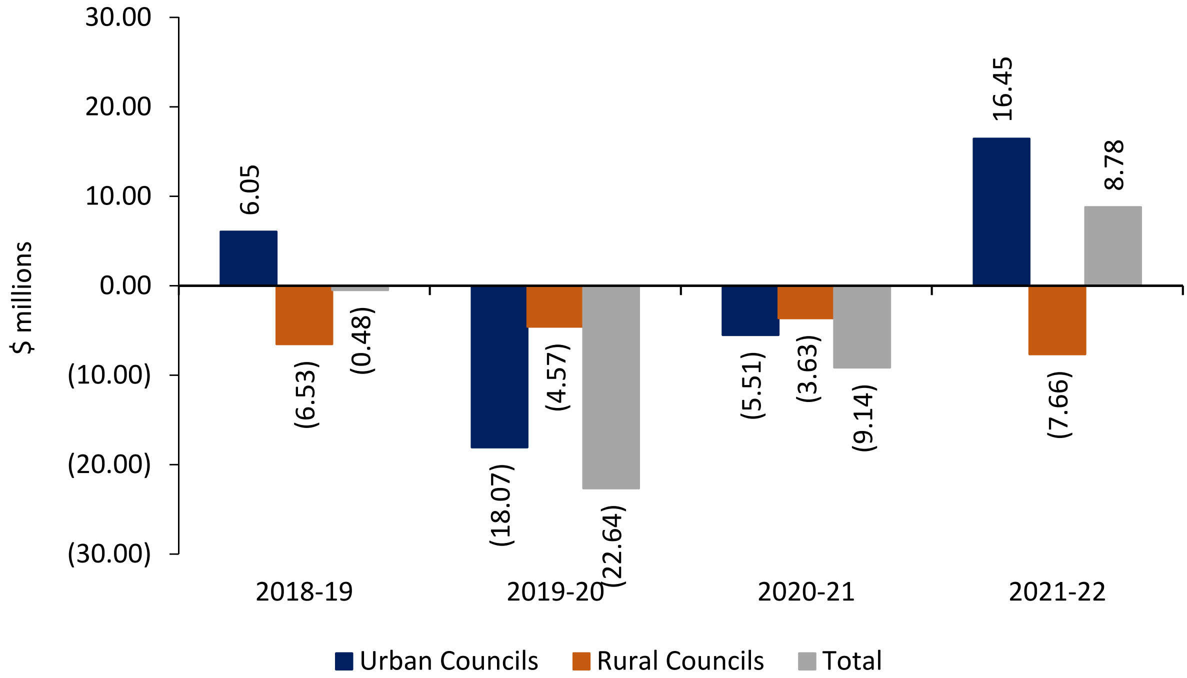
Analysis of the 4 year underlying results across the 29 councils highlights:

- Sixteen councils recorded underlying deficits in 2021-22, a slight decrease on the number for 2020-21.
- Central Coast Council, Circular Head Council and King Island Council generated negative underlying results each year since 2018-19, however, the performance of Central Coast Council and King Island Council has been improving in recent years.
- Break O'Day, Derwent Valley and Kentish Councils experienced the most significant downward trends in their underlying results over the 4 year period.

As shown in Figure 10, councils produced an underlying surplus of $8.78 million for 2021-22, an improved result of $17.92 million compared to the previous year which recorded an underlying deficit of $9.14 million.

Urban councils produced an aggregate underlying surplus of $16.45 million in 2021-22 compared to an aggregate underlying deficit of $18.07 million in 2019-20. Rural councils have not rebounded as well, incurring an aggregate underlying deficit of $7.66 million in 2021-22 compared to an aggregate underlying deficit of $4.57 million in 2019-20.

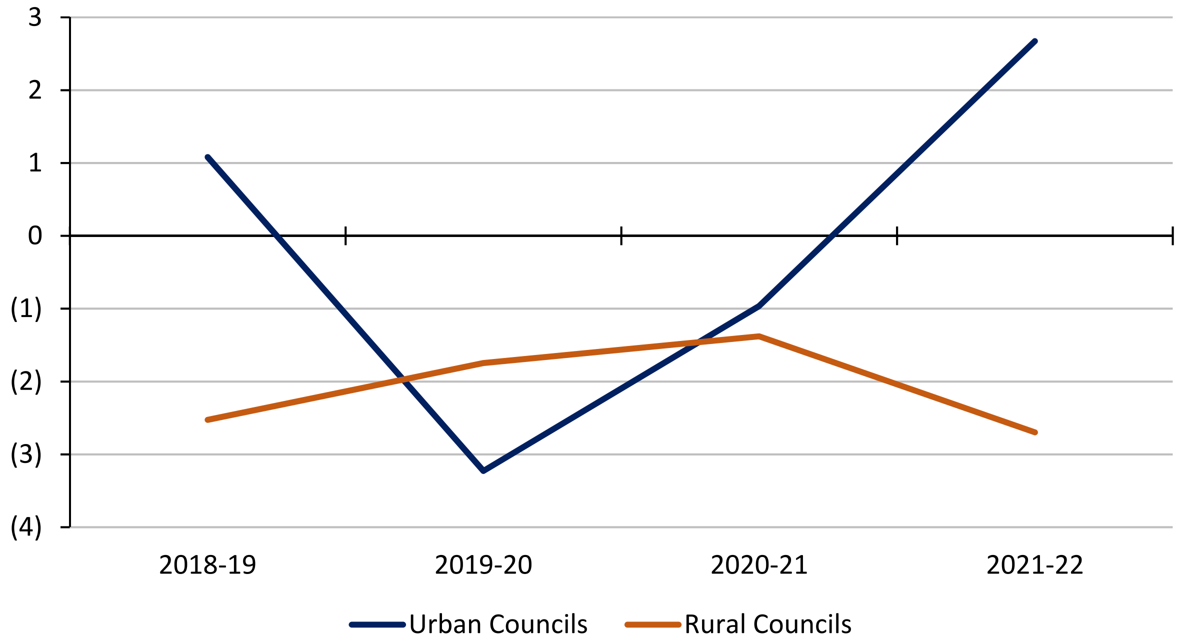
Figure 10: Underlying surplus (deficit)



The change in the total underlying result was primarily due to an additional $32.89 million in rates collected across the 29 councils compared to 2020-21. Fees and charges revenue increased by $10.08 million in the same period. These increases were offset by an increase in expenditure over the same period, with employee costs increasing by $12.80 million in 2021-22 and depreciation costs increasing by $13.78 million.

The movement in the underlying ratio is different for urban and rural councils, as illustrated in Figure 11.

Figure 11: Underlying surplus ratio



The underlying surplus ratio for urban councils has improved significantly since 2019-20, increasing from negative 3.2 to positive 2.7 in 2021-22. Meanwhile, the ratio for rural councils has continued to decrease, dropping from negative 1.7 in 2019-20 to negative 2.7 in 2021-22.

A core reason for this is the ability of councils to self-generate revenue through rates, fees and user charges (also called own-sourced revenue). Due to their higher populations, urban councils are naturally more able to increase revenue this way, and be less reliant on government grants to meet their costs.

Over the 4 year period:

- Urban councils' rate revenue increased from $365.41 million in 2018-19 to $409.01 million in 2021-22, an increase of 11.9%. For the same period, rural councils' rate revenue increased from $148.09 million to $167.92 million, an increase of 13.4%.
- Between 2018-19 to 2021-22 revenue from user fees and charges increased by 10.8% for urban councils, whereas rural councils experienced a 39.4% increase for this class of revenue over the same period.

The underlying surplus ratio is also impacted by changes to operating expenses. Differences between urban and rural councils over the 4 year period include:

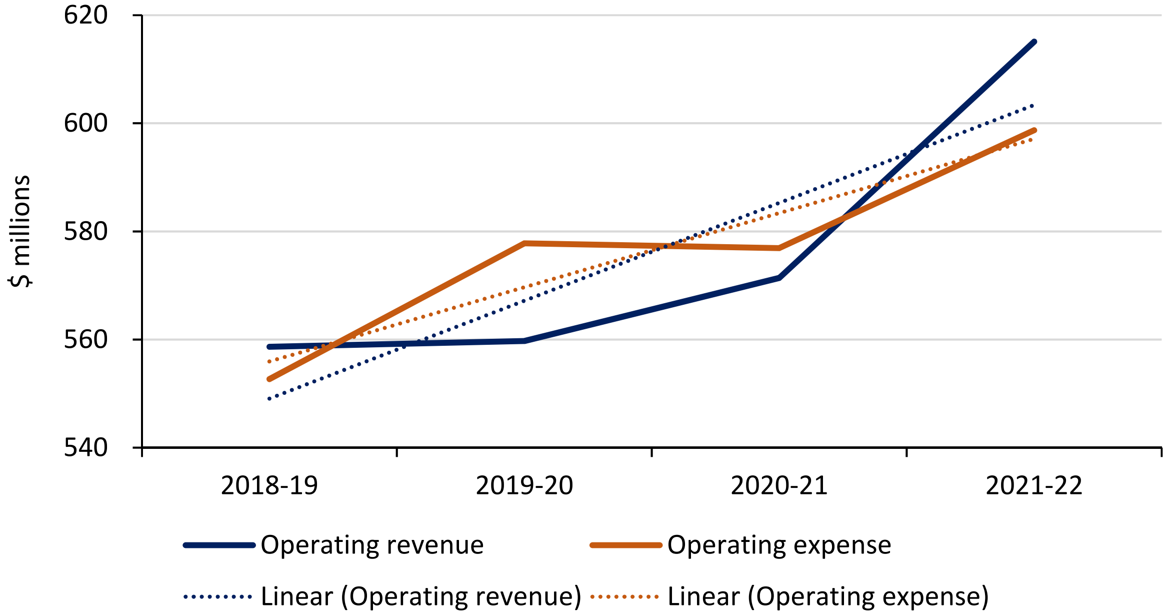
- Urban council employee expenses increased from $202.43 million in 2018-19 to $216.63 million in 2021-22, an increase of 7.0%. Whereas, rural council employee expenses increased from $82.65 million to $98.17 million, an increase of 18.8%.
- Urban council depreciation expense increased from $112.23 million in 2018-19 to $136.73 million in 2021-22, an increase of 21.8%. Whereas, rural council depreciation expense increased from $63.52 million to $74.24 million, an increase

of 16.9%. The significant increase in depreciation expense for both urban and rural councils over the 4 years is attributed to depreciation on higher assets values arising from periodic non-financial (physical) asset revaluations together with additional depreciation on newly acquired or constructed assets.

- Other expenses for urban councils increased from $223.39 million in 2018-19 to $234.28 million in 2021-22, an increase of 4.9%. Whereas, for rural councils they increased from $102.51 million to $112.11 million, an increase of 9.4%.

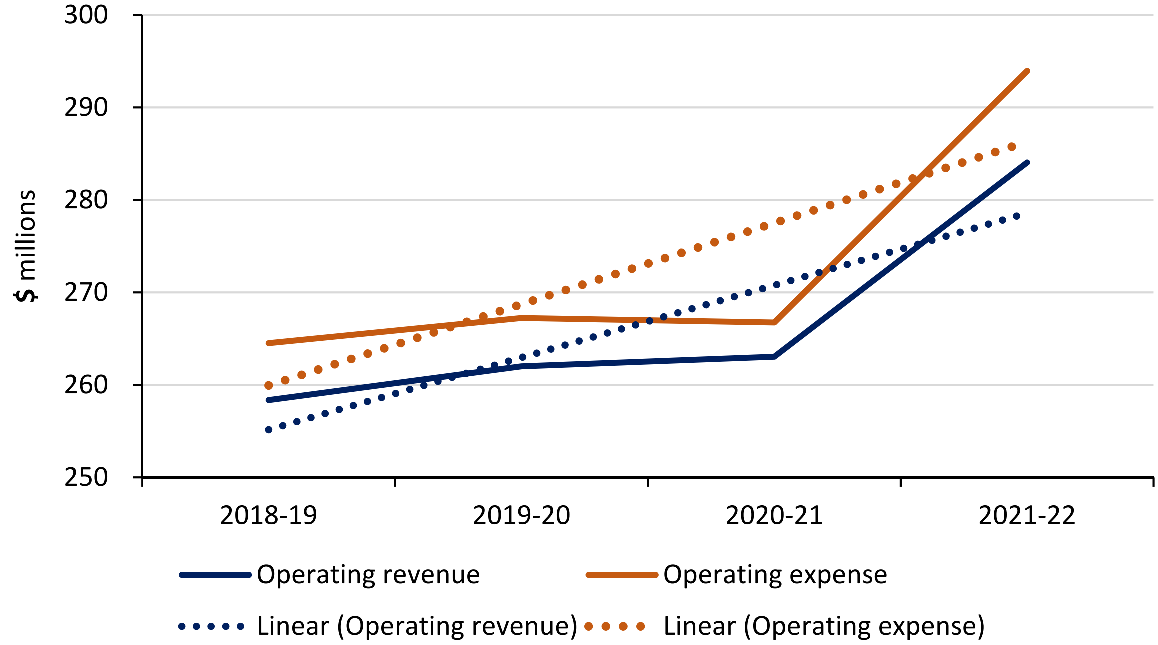
The movement in urban councils operating revenues and expenses over the 4 year period is illustrated in Figure 12, with the average growth in revenues of 10.1% exceeding average growth in expenditure of 8.3%.

Figure 12: Average annual increase in urban councils operating revenue and expenses



The movement in rural councils operating revenues and expenses over the 4 year period is illustrated in Figure 13, with the average growth in expenses of 11.1% exceeding average growth in revenue, 9.9%.

Figure 13: Average annual increase in rural councils operating revenue and expenses



Revenue

$899.16m	$875.17m	$576.93m	$100.91m
Operating revenue	Own-source revenue	Total rate revenue	Operating grants
▲8.0%	▲5.0%	▲6.0%	▲5.0%

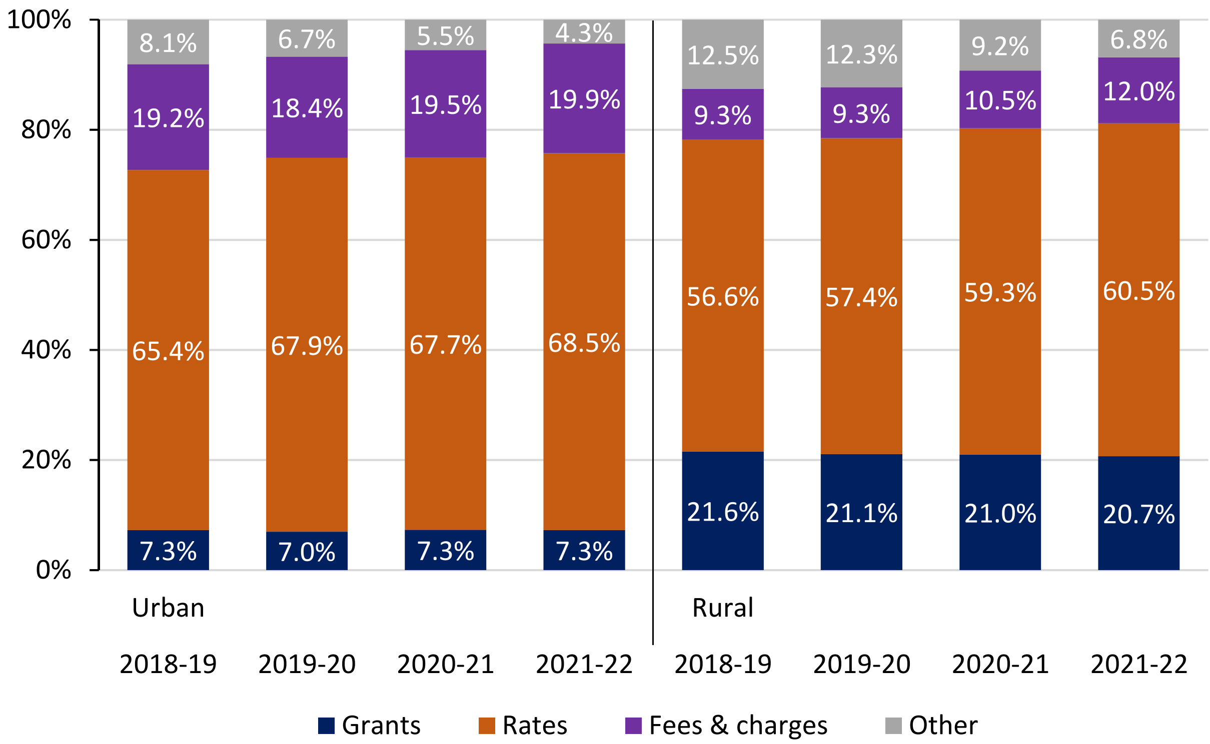
▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

Councils recorded operating revenue of $899.16 million in 2021-22, an increase of $64.72 million from 2020-21.

Councils' own source revenue represents operating revenue other than recurrent grants. In general terms, urban councils with larger populations had the ability to generate higher levels of own source revenue. Smaller rural councils, with lower population levels, relied more heavily on grant funding.

Figure 14 provides details of the composition of council revenue. Consistent with prior years, rural councils are more reliant on grant funding than urban councils. In 2021-22, grant funding was 20.7% of rural councils operating revenue, compared to 7.3% for urban councils.

Figure 14: Revenue source

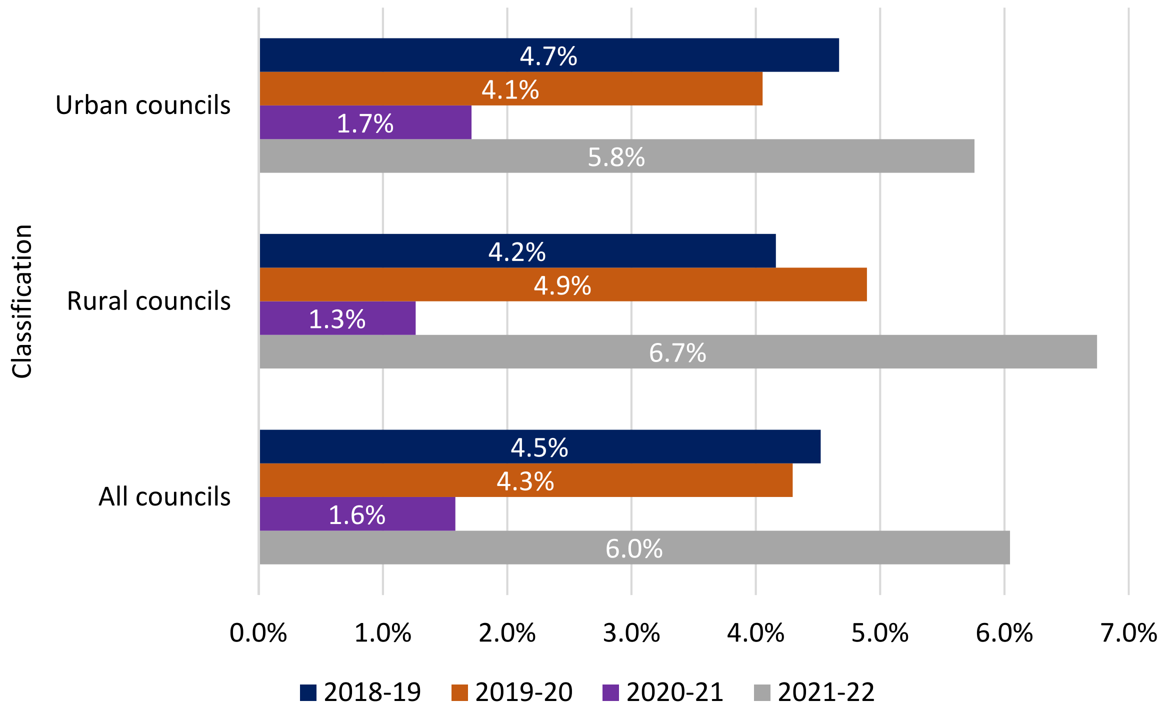


The most significant contributor to council own source revenue was rates, which in 2021-22 equated to 68.5% of urban council revenue and 60.5% of rural council revenue. Rate revenue reflects charges for rates and associated charges such as the fire levy.

In line with their smaller populations, Flinders Council and King Island Council generated significantly below average total rate revenue in 2021-22 when compared to other councils. Flinders Council's rates revenue was 39.6% of their operating revenues and King Island generated 32.0% of their operating revenue through rates. Both councils received government grants to assist in the provision of services, but still generated underlying deficits in 2021-22.

A comparison of increases in rate revenue by urban and rural councils and in aggregate for all councils over the past 4 years is shown in Figure 15.

Figure 15: Increases in council rate revenue



As can be seen in Figure 15, there were minimal increases in rate revenues in 2020-21. This reflects the decision by councils not to increase rates for 2020-21 to support ratepayers during the COVID-19 pandemic. The minimal increases in rate revenues in that year were attributable to other factors, for example, increases in the number of rateable properties in the municipality.

Councils had challenging budget decisions to make in setting rates for 2021-22, as many faced increased cost pressures, especially for infrastructure materials, and the effects of the rate freeze in the prior year. As can be seen in Figure 15, the increase in rate revenue in 2021-22 was higher than revenue increase in 2018-19 and 2019-20. The increase in rate revenue for all councils for 2021-22 was 6.0%.

Capital investment

Capital spend compared to budget

$1.16bn	$1.45bn	$73.11m
Total capital spend last 4 years	Total budgeted capital spend last 4 years	Average spending gap last 4 years

Councils undertake capital spending to build new, upgrade or renew their non-financial (physical) assets. These assets cover a variety of items, including buildings, infrastructure (including roads, bridges and footpaths) and specialist items such as heritage items or sports facilities. Each year, councils set capital budgets outlining the projects that they will undertake and the expected cost.

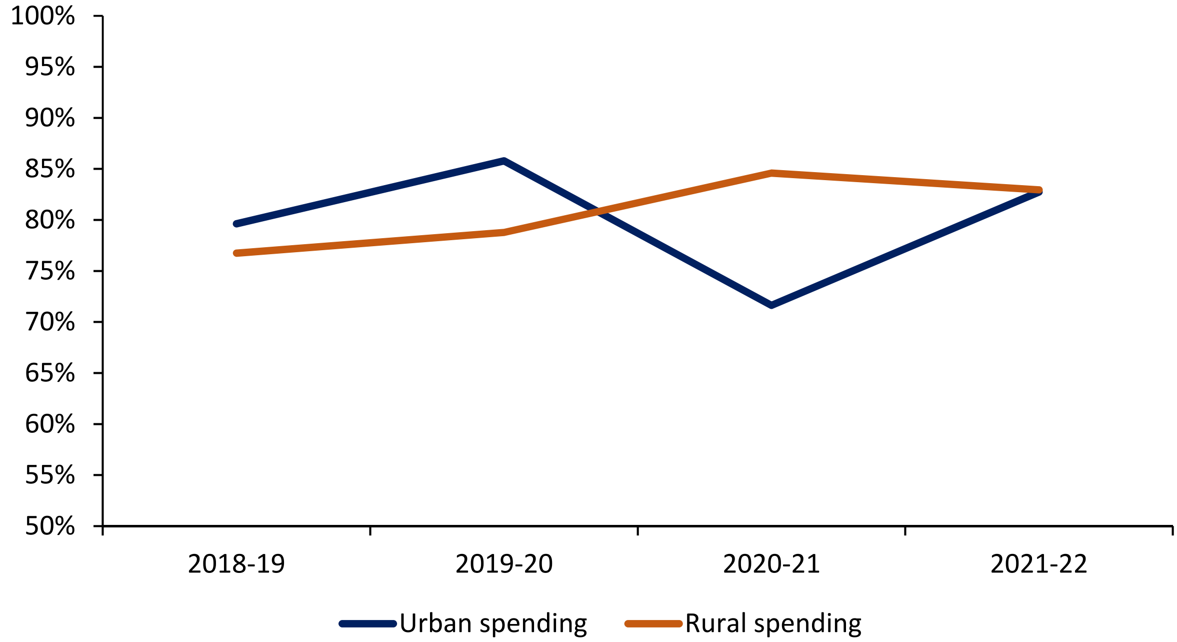
In 2021-22, the 29 councils collectively spent $284.00 million on capital projects. This was only 80.0% of their budgeted spend for the financial year. A lower spend than budgeted usually indicates that projects have either not been started, or haven't progressed as far as anticipated. This can happen for a variety of reasons, including changes in project scope or unanticipated delays in undertaking various stages of a project.

An example of this was Australian and Tasmanian Government measures to stimulate the economy in response to COVID-19, which led to an increased pipeline of capital projects during 2020-21 across national, state and local levels of government. The increased demand in resources needed to plan and execute capital projects, has led to many councils experiencing difficulties in engaging civil construction personnel and contractors to undertake or complete planned capital projects. This contributed to a deterioration in the capital expenditure gap for some councils in 2020-21 and beyond, with many of these projects continued into the 2021-22 year, meaning that other planned projects were similarly delayed into future financial years.

Conversely, individual councils can over-deliver on their capital projects, meaning they spend more than budgeted. This may indicate that new projects were added to council's priorities after the original capital budget was set, sometimes due to the awarding of new grant funding from the Tasmanian or Australian Governments. It may also indicate that projects have overrun their anticipated costings.

As shown in Figure 16, in aggregate, councils have not spent their capital budgets in each of the past 4 years. In 2021-22, urban councils spent 82.7% of their capital budget, and rural councils 83.0%. These percentages have only slightly improved over the past 4 years.

Figure 16: Capital spending as a percentage of capital budget



To provide additional context to Figure 16, Table 14 shows the level of capital spending above or below budget by council for the 4 year period to 2021-22.

Table 14: Capital spending above/(below) budget by council

Council	2018-19 $'000s	2019-20 $'000s	2020-21 $'000s	2021-22 $'000s
Urban councils				
Brighton Council	(1,051)	(130)	(2,679)	(1,042)
Burnie City Council	(1,501)	(1,802)	(4,281)	2,596
Central Coast Council	(4,262)	(20,528)	(16,830)	(11,629)
Clarence City Council	(25,564)	4,464	(1,175)	(4,945)
Devonport City Council	(5,974)	(3,128)	(296)	(1,531)
Glenorchy City Council	(2,688)	(1,417)	(8,429)	(5,831)
Hobart City Council	(13,015)	(16,916)	(13,585)	(16,503)
Kingborough Council	(5,203)	(52)	1,575	3,497
Launceston City Council	13,929	10,895	(14,375)	(212)
West Tamar Council	(1,864)	(399)	(3,241)	(3,628)
Total Urban	**(47,193)**	**(29,013)**	**(63,316)**	**(39,228)**

Council	2018-19 $'000s	2019-20 $'000s	2020-21 $'000s	2021-22 $'000s
Rural councils				
Break O'Day Council	(5,693)	(2,494)	786	(2,174)
Central Highlands Council	(84)	(556)	1,323	(1,238)
Circular Head Council	975	0	201	(19)
Derwent Valley Council	(1,141)	(3,304)	(1,567)	(2,364)
Dorset Council	(1,931)	(2,688)	(2,427)	(1,958)
Flinders Council	64	(268)	(156)	2,375
George Town Council	2,578	(6,127)	2,716	5,068
Glamorgan Spring Bay Council	1,429	979	107	(4,708)
Huon Valley Council	(1,797)	4,117	2,184	726
Kentish Council	(3,020)	(3,868)	(1,621)	(3,173)
King Island Council	(1,475)	(520)	139	(531)
Latrobe Council	(492)	(2,967)	(5,129)	(15,704)
Meander Valley Council	(6,399)	(1,236)	(6,733)	(4,509)
Northern Midlands Council	(2,114)	(4,541)	(8,552)	(11,524)
Sorell Council	(129)	(640)	(1,788)	(2,586)
Southern Midlands Council	(2,425)	(5,426)	(419)	2,991
Tasman Council	(4,619)	5,156	(243)	(1,961)
Waratah-Wynyard Council	(6,642)	(4,994)	(1,745)	3,834
West Coast Council	(2,362)	(1,372)	(90)	5,500
Total Rural	**(35,277)**	**(30,749)**	**(23,014)**	**(31,955)**
All councils				
Total	**(82,470)**	**(59,762)**	**(86,330)**	**(71,183)**

Table 15 shows the actual capital spend as a percentage of budget for each council.

Table 15: Capital spending above/(below) budget as a percentage of budget

Council	Trend	2018-19	2019-20	2020-21	2021-22
Urban councils					
Brighton Council	●	79.2%	97.6%	78.9%	86.9%
Burnie City Council	▲	87.4%	82.8%	64.3%	138.3%
Central Coast Council	●	63.7%	28.2%	52.3%	56.9%
Clarence City Council	●	37.7%	126.2%	94.8%	76.9%
Devonport City Council	▲	78.2%	81.4%	98.1%	89.2%
Glenorchy City Council	▼	80.5%	89.9%	61.2%	70.3%
Hobart City Council	▼	80.3%	71.2%	60.2%	59.2%
Kingborough Council	▲	79.2%	99.7%	111.7%	123.0%
Launceston City Council	▼	167.3%	142.9%	67.3%	99.1%
West Tamar Council	▼	79.7%	96.2%	72.4%	74.7%
Total Urban	▼	**79.6%**	**85.8%**	**71.6%**	**79.6%**
Rural councils					
Break O'Day Council	▲	55.7%	76.3%	110.3%	68.6%
Central Highlands Council	●	96.2%	82.2%	132.6%	72.1%
Circular Head Council	▼	109.3%	100.0%	104.3%	99.6%
Derwent Valley Council	▼	80.2%	68.0%	79.6%	69.7%
Dorset Council	●	86.2%	76.0%	79.0%	85.5%
Flinders Council	▲	106.5%	94.3%	82.5%	530.3%
George Town Council	▲	143.8%	38.8%	166.4%	284.8%
Glamorgan Spring Bay Council	▼	125.1%	117.1%	102.6%	44.6%
Huon Valley Council	●	79.4%	158.4%	134.7%	111.6%
Kentish Council	●	59.2%	51.0%	85.2%	57.1%
King Island Council	▲	53.7%	65.9%	110.5%	84.3%

Council	Trend	2018-19	2019-20	2020-21	2021-22
Latrobe Council	▼	90.4%	59.6%	57.2%	33.1%
Meander Valley Council	●	53.5%	89.7%	55.8%	60.4%
Northern Midlands Council	▼	87.1%	62.2%	54.3%	43.5%
Sorell Council	▼	98.3%	92.0%	88.6%	83.7%
Southern Midlands Council	▲	61.9%	40.9%	93.7%	139.7%
Tasman Council	●	41.3%	380.8%	87.9%	57.5%
Waratah-Wynyard Council	▲	41.0%	57.4%	84.6%	138.3%
West Coast Council	▲	63.2%	74.8%	98.0%	267.0%
Total Rural	▲	**76.8%**	**78.8%**	**84.6%**	**80.4%**
All councils					
Total	●	**78.5%**	**82.9%**	**76.8%**	**80.0%**

▲ improvement in trend ▼ deterioration in trend ● no material change in trend

In 2021-22, 21 councils spent less than their anticipated capital budget. This included 8 of the 10 urban councils, and 13 of the 19 rural councils. This is consistent with 2018-19 to 2020-21.

Changed priorities and circumstances mean that councils may amend capital budgets during the year. In some cases, this may result in material differences between projects planned in initial budgets and final spending.

Similar to prior years, receipt of specific purpose funding, announcement of new funding programs and natural disasters such as the spring flooding in the north of Tasmania, can adversely affect capital spending allocations, and add further pressure on available resources.

Whilst acknowledging the civil construction resource challenges faced by councils, councils should endeavour to achieve budgeted capital expenditure to ensure asset renewal occurs at the optimal time, thereby reducing the risks of increased maintenance costs, reduced asset condition, safety and functionality and reduced council services to communities. This is particularly important for those councils with a deteriorating trend in the capital expenditure gap.

Capital investment funding source

$1.16bn	$284.22m	$876.23m
Total capital spend last 4 years	Total capital grants last 4 years	Total self-funded last 4 years

Over the last 4 years, 75.5% of councils' capital spending was self-funded, with the balance from capital grants. Capital grants represented Tasmanian or Australian Government grants for new and upgraded assets and asset replacements. These included grants under the RTR program, NDRRA funding, as well as funding for improving public spaces, leisure and recreation facilities, bridge and street renewal, road safety, memorials and other purposes. Figure 17 illustrates the aggregate capital payments and funding sources for urban and rural councils.

Figure 17: Capital investment funding source

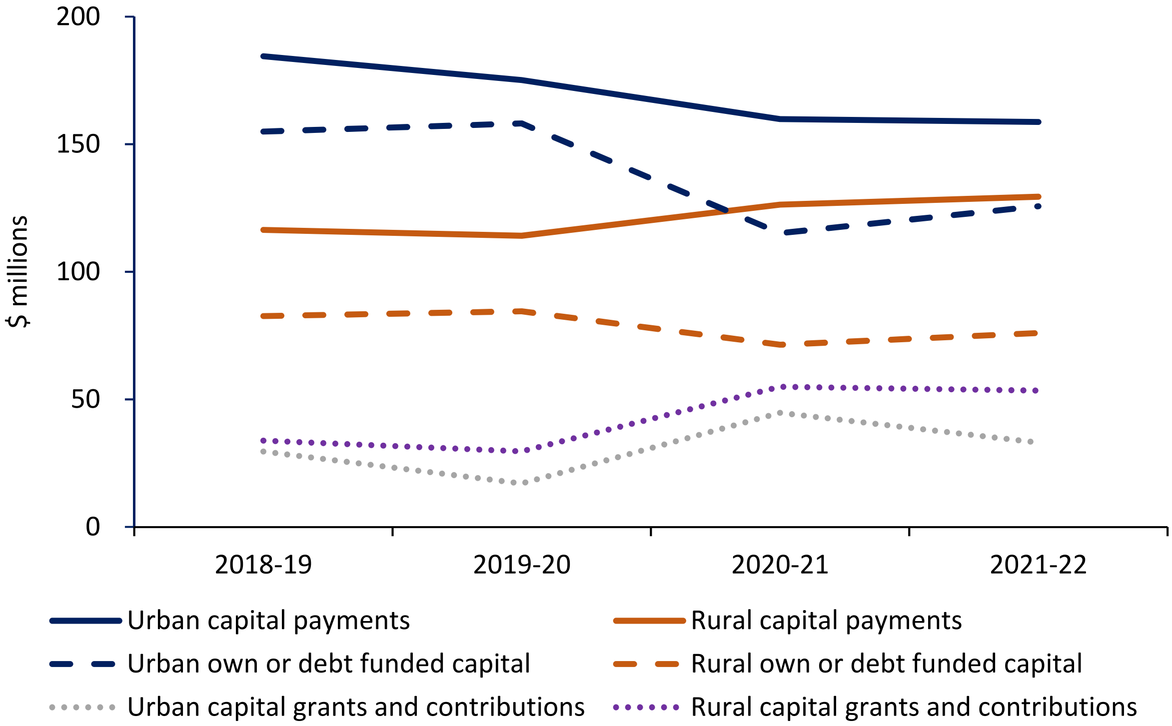


Figure 17 shows capital spending by urban councils was significantly higher than the capital spending by rural councils over the last 4 years, although the disparity is decreasing.

In 2021-22, Hobart City, Launceston City and Kingborough Councils accounted for $67.27 million of the $152.60 million spent by urban councils on capital projects. These councils only received $10.11 million in capital grants towards these projects.

Capital grant funding for rural councils in 2021-22 remained similar to prior year levels with $129.44 million recognised across the 19 councils (2020-21, $126.35 million).

It is expected capital grants will vary from year to year depending on applications made by councils and budget priorities of governments. Despite this, a consistently large component of capital grants for local government was funding provided under the RTR program. The current RTR program covers the period from 2019-20 to 2023-24 with total funds of $82.42 million allocated to Tasmania, with $31.24 million for urban councils and $51.18 million for rural councils. In 2021-22, a total of $14.64 million (2020-21, $17.27 million) in RTR funding was received by councils.

During 2021-22, councils recognised capital grant revenue of $16.15 million under the LRCI program. This program was discussed at the start of this chapter.

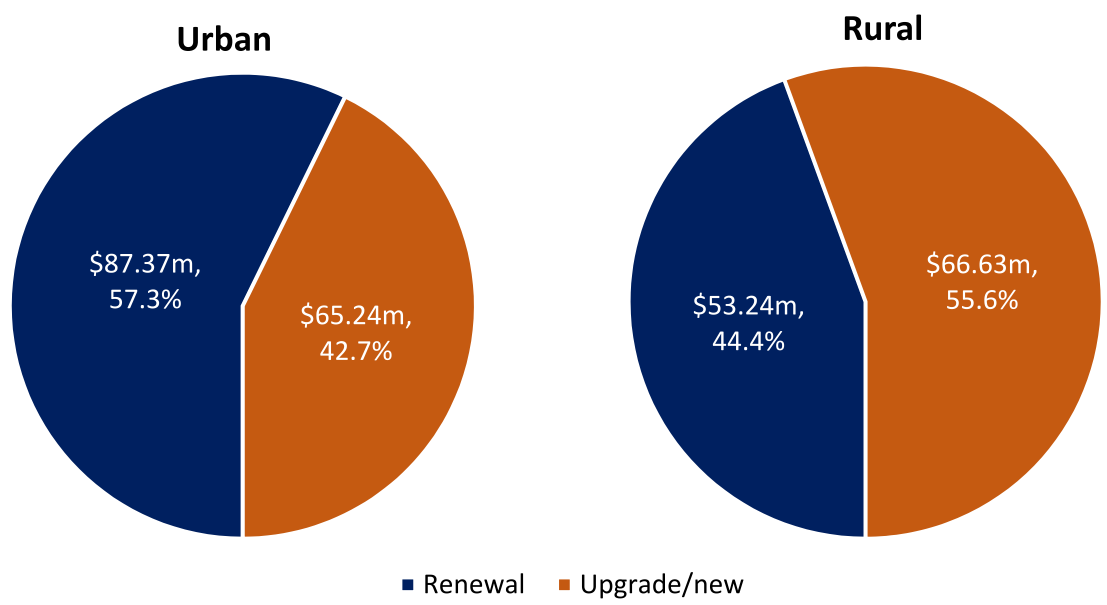
Other notable specific purpose funding for councils in 2021-22 included:

- Sorrell Council: $5.34 million of cultural sport and recreation capital grant funding (funded by both the Tasmanian and Australian Governments)
- Flinders Council: $2.00 million from the Government towards Palana Road project
- $3.57 million of grant funding was awarded to 3 councils to fund Mountain Bike Trails (Dorset Council, George Town Council and West Coast Council), funded by both the Tasmanian and Australian Governments.

Capital investment allocation

As illustrated in Figure 18, in 2021-22, urban councils focused on renewing their existing assets, whilst rural councils spent more on new or upgraded assets. This is a shift from the prior year when both urban and rural councils spent approximately the same amount of capital expenditure on renewal of existing assets, and expenditure on new and upgraded assets. Renewal of assets does not include funding on maintenance.

Figure 18: Capital investment allocation 2021-22



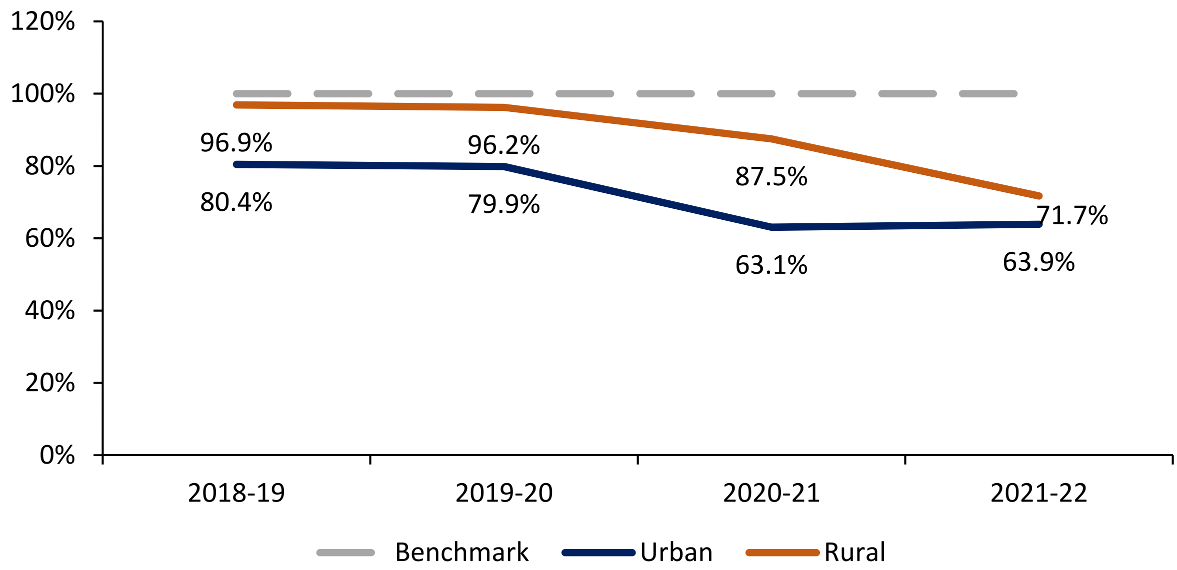
Asset sustainability ratio

This ratio shows the extent to which councils maintain operating capacity through renewal of their existing asset base. The generally accepted benchmark for this ratio, subject to appropriate levels of maintenance expenditure and the existence of approved long-term asset management plans, is 100.0%.

The benchmark is based on a council expending the equivalent of its annual depreciation expense on asset renewals within the year. However, it is acknowledged this will not occur every year or evenly over time.

Figure 19 shows the asset sustainability ratio on an average basis for urban and rural councils over the last 4 years.

Figure 19: Asset sustainability ratio



Urban councils expended, on average, 71.3% of their depreciation expense to maintain existing non-current assets, whereas rural councils expended, on average, 90.5% over the 4 year period. As noted earlier, rural councils generally spent more on renewal of existing assets than urban councils. A concerning trend for both urban and rural councils is the declining trend in the aggregate asset sustainability ratio over the 4 years.

In most cases, councils failed to meet the benchmark. Only 7 councils achieved an asset sustainability ratio equal to or above 100.0% in 2021-22, and only 1 urban and 6 rural councils consistently met this target over the 4 year period.

Cash and borrowings

$625.00m	**$456.85m**	**$273.73m**
Cash and investments	Working capital	Interest-bearing liabilities

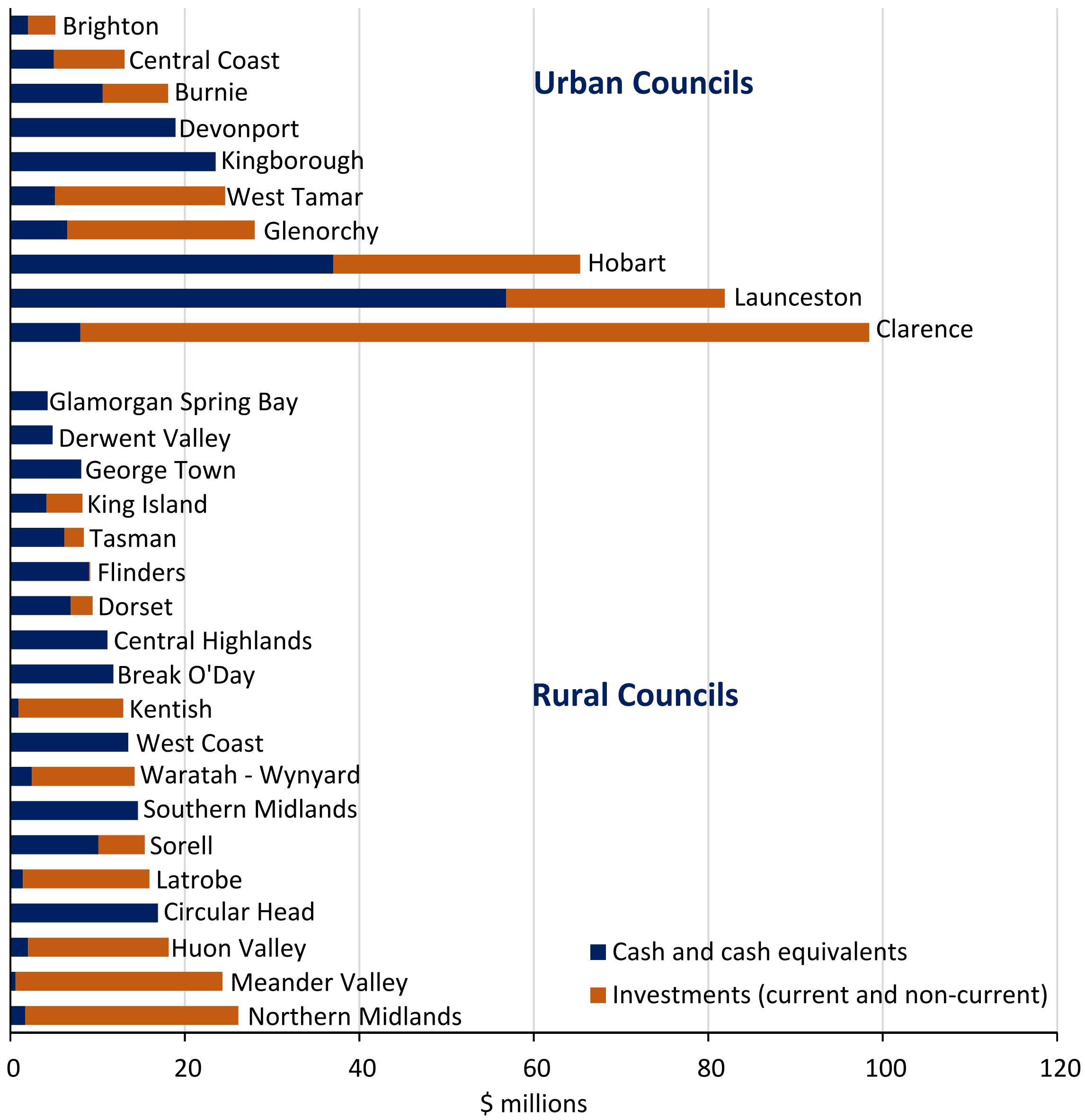
At 30 June 2022, councils held cash and investments of $625.00 million, (30 June 2021, $547.96 million) and $273.73 million in interest-bearing liabilities (30 June 2021, $277.77 million).

Cash and investments

Cash comprises cash on hand and demand deposits together with cash equivalents, such as short-term, highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of changes in value. Cash equivalents are those assets that meet the definition as such under AASB 107 *Statement of Cash Flows.*

Cash and investments held by each council at 30 June 2022 is shown in Figure 20.

Figure 20: Cash and investments held at 30 June 2022



The advance payment of $65.26 million (2020-21, $40.95 million) of Australian Government Financial Assistance Grants for 2021-22 was included in cash and investments at the end of the financial year. Excluding these payments, overall cash and investments would have been $559.74 million (2020-21, $507.16 million).

Table 16 shows the value of cash and investments held by each council at 30 June from 2019 to 2022 together with a trend indicator depicting whether cash and investments were increasing, decreasing or remaining at the same level.

Table 16: Cash and investments held at 30 June 2019 to 2022

Council	Trend	30 June 2019 $'000s	30 June 2020 $'000s	30 June 2021 $'000s	30 June 2022 $'000s
Urban councils					
Brighton Council	▲	7,673	6,580	6,823	5,172
Burnie City Council	▲	5,581	14,709	16,340	18,092
Central Coast Council	▲	11,409	11,492	17,461	13,097
Clarence City Council	▲	65,782	65,286	67,761	98,471
Devonport City Council	▲	15,966	13,730	13,720	18,945
Glenorchy City Council	▲	15,439	15,547	28,461	28,016
Hobart City Council	▲	20,125	18,976	44,855	65,333
Kingborough Council	▲	8,287	8,060	23,595	23,538
Launceston City Council	▲	71,986	60,345	84,839	81,902
West Tamar Council	▲	22,769	22,902	23,577	24,634
Total Urban	▲	**245,017**	**237,627**	**327,432**	**377,200**
Rural councils					
Break O'Day Council	▲	8,692	10,257	10,548	11,813
Central Highlands Council	●	10,474	11,222	10,204	11,145
Circular Head Council	▲	10,386	11,583	14,199	16,931
Derwent Valley Council	▼	6,538	5,833	5,002	4,853
Dorset Council	●	11,757	12,900	14,855	9,432
Flinders Council	▲	6,796	3,776	7,455	9,154
George Town Council	▲	6,822	7,616	6,987	8,129
Glamorgan Spring Bay Council	●	3,807	1,683	3,019	4,275

Council	Trend	30 June 2019 $'000s	30 June 2020 $'000s	30 June 2021 $'000s	30 June 2022 $'000s
Huon Valley Council	▲	14,252	15,335	15,435	18,163
Kentish Council	▲	10,387	11,738	12,342	12,945
King Island Council	▲	6,521	6,933	7,580	8,281
Latrobe Council	▲	9,651	9,142	13,226	15,956
Meander Valley Council	●	24,642	21,585	21,174	24,323
Northern Midlands Council	▲	16,791	17,141	21,592	26,152
Sorell Council	▲	9,976	11,360	11,354	15,412
Southern Midlands Council	▲	12,729	14,013	18,500	14,636
Tasman Council	▲	7,944	6,289	7,414	8,436
Waratah-Wynyard Council	▲	12,441	12,076	12,313	14,248
West Coast Council	▲	7,833	8,004	7,326	13,519
Total Rural	▲	**198,439**	**198,486**	**220,525**	**247,803**
All councils					
Total	▲	**443,456**	**436,113**	**547,958**	**625,003**

▲ improvement in trend ▼ deterioration in trend ● no material change in trend

As can be seen from Table 16, the large majority of councils had steadily increased their cash and financial asset balances over the 4 year period.

Cash expense cover ratio

The cash expense cover ratio is used to assess whether the level of uncommitted cash held by each council was appropriate. In calculating uncommitted cash, we deducted the following items from cash and financial asset balances held at 30 June 2022:

- trust funds and deposits
- accrued employee provisions
- unspent grants with conditions
- amounts used to cash-back specific reserves
- heritage funding commitments
- landfill or waste centre rehabilitation obligations
- other restricted funds, e.g. security deposits and bonds.

The cash expense cover ratio compared the uncommitted cash balance against the total payments for operating and financing activities from the cash flow statement, as the cash flow statement is more reflective of the actual movements in cash. The ratio represented the number of months a council can continue operating based on current monthly expenditure. The ratio does not take into count capital expenditure requirements.

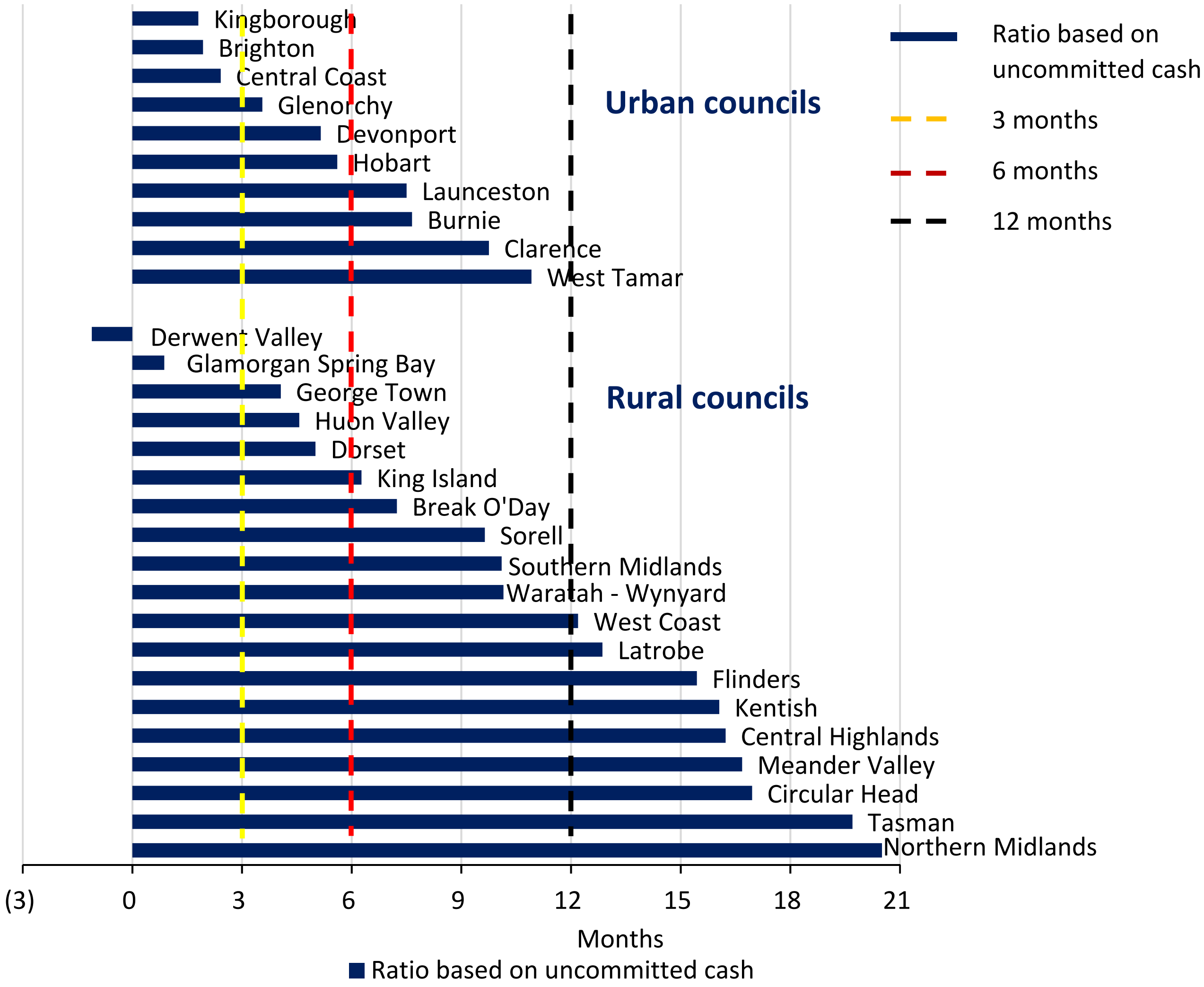
The following benchmarks were used to assess the adequacy of cash balances held:

- less than 3 months – level of cash considered less than adequate
- 3 to 6 months – level of cash considered adequate
- 6 to 12 months – level of cash considered more than adequate
- greater than 12 months – level of cash considered much more than adequate.

This ratio should not be considered in isolation but also take into account other ratios around financial sustainability.

Figure 21 shows that as at 30 June 2022, 9 councils had a healthy cash expense ratio, with funds to cover more than 12 months of expenditure.

Figure 21: Cash expense cover ratio - uncommitted cash at 30 June 2022



Derwent Valley Council has a cash expense ratio below zero as it has negative uncommitted funds.

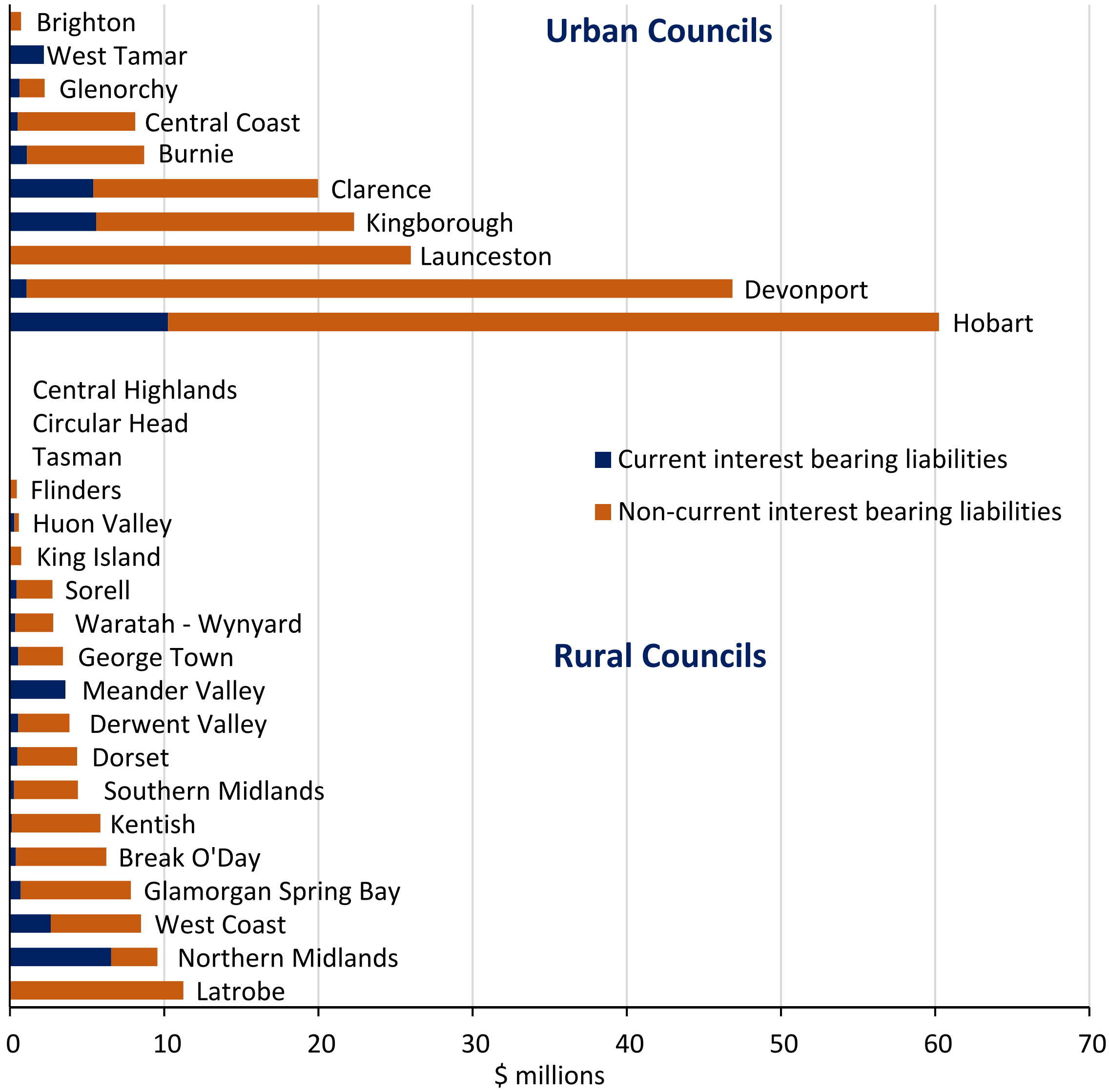
Five councils, 3 urban and 2 rural, had ratios that indicated they do not have funds to cover 3 months of expenses. Whilst these councils receive operating revenue to enable them to meet their ongoing expenses, a poor ratio indicates that these 5 councils are at a higher risk of not being able to meet unexpected costs such as emergency situations, or to save funds for asset renewal or future payments out of provisions, for example, landfill rehabilitation.

Interest bearing liabilities

Under the LG Act, councils are able to request approval from the Treasurer to borrow funds. These borrowings may be used to fund longer-term projects such as the development or improvement of community assets or infrastructure. Borrowings should not be utilised to fund operational expenditure.

At 30 June 2022, 27 of the 29 councils held interest bearing liabilities totalling $273.73 million (30 June 2021, $277.77 million). Figure 22 shows the level of interest bearing liabilities held by individual councils at 30 June 2022.

Figure 22: Interest bearing liabilities held by councils at 30 June 2022



On 1 April 2020, the Government announced its *Local Government Loans Program* (LGLP), enabling councils to access additional funds for specific projects. Based on initial applications, $143.00 million was awarded through this program at 1 August 2020. At 31 August 2021, the Government detailed that changes at individual councils had reduced this borrowing figure by $22.70 million, bring total borrowings under the program to $121.60 million across 17 councils for projects to be completed by 31 December 2021.

Of the 3 councils holding the most borrowings at 30 June 2022, Hobart and Launceston City Councils received $46.00 million through the LGLP, with Devonport City Council not accessing the LGLP.

Table 17 shows the value of interest bearing liabilities held by each council at 30 June from 2019 to 2022, together with a trend indicator depicting whether interest bearing liabilities were increasing, decreasing or remaining at the same level.

Table 17: Interest bearing liabilities held at 30 June 2019 to 2022

Council	Trend	30 June 2019 $'000s	30 June 2020 $'000s	30 June 2021 $'000s	30 June 2022 $'000s
Urban councils					
Brighton Council	●	0	720	720	720
Burnie City Council	▲	1,264	11,336	10,039	8,706
Central Coast Council	●	10,191	11,042	13,761	8,129
Clarence City Council	▲	0	0	2,340	19,980
Devonport City Council	▼	51,821	50,017	47,936	46,863
Glenorchy City Council	●	3,122	2,159	5,664	2,249
Hobart City Council	▲	38,141	54,283	65,106	60,251
Kingborough Council	▲	7,912	12,900	22,323	22,323
Launceston City Council	▲	9,000	15,000	35,000	26,000
West Tamar Council	●	2,200	2,200	2,200	2,200
Total Urban	▲	**123,651**	**159,657**	**205,089**	**197,421**
Rural councils					
Break O'Day Council	▼	8,825	8,484	8,138	6,256
Central Highlands Council	●	0	0	0	0
Circular Head Council	▼	3,900	3,900	0	0
Derwent Valley Council	●	3,997	3,458	4,430	3,864
Dorset Council	▲	3,200	5,700	8,047	4,363
Flinders Council	▼	1,848	3,373	1,531	446
George Town Council	▲	2,589	2,443	2,292	3,436
Glamorgan Spring Bay Council	▲	7,039	7,236	8,302	7,844

Council	Trend	30 June 2019 $'000s	30 June 2020 $'000s	30 June 2021 $'000s	30 June 2022 $'000s
Huon Valley Council	▼	1,410	1,142	868	585
Kentish Council	▲	1,164	1,007	5,989	5,865
King Island Council	▼	1,189	1,041	887	728
Latrobe Council	▲	250	250	6,500	11,250
Meander Valley Council	●	3,600	3,600	3,600	3,600
Northern Midlands Council	▲	8,470	8,470	8,470	9,570
Sorell Council	▲	2,080	2,180	3,157	2,755
Southern Midlands Council	▲	605	457	4,749	4,415
Tasman Council	▼	166	113	70	25
Waratah-Wynyard Council	▲	986	870	3,150	2,807
West Coast Council	▲	1,461	2,500	2,500	8,500
Total Rural	▲	**52,779**	**56,224**	**72,680**	**76,309**
All councils					
Total	▲	**176,430**	**215,881**	**277,769**	**273,730**

▲ improvement in trend ▼ deterioration in trend ● no material change in trend

Whilst there has been an increase in the level of interest bearing liabilities held by councils over the past 4 years, this trend is not evident at the individual council level, with only 15 councils significantly increasing their interest bearing liabilities over that period.

Other local government entities

Entities included in this section are single, joint or controlling authorities controlled by councils established under the LG Act. These entities are detailed in Table 18.

The reporting framework for these entities is prescribed by enabling legislation or rules. In our analysis of financial performance, we have, where necessary, re-allocated certain revenue or expenditure items to better assist readers to interpret financial performance. For Local Government Association of Tasmania and the Launceston Flood Authority, we accepted preparation of special purpose financial statements. All other entities prepared general purpose financial statements.

Aggregated financial results of other local government entities

Table 18: Aggregated financial results of other local government entities for the 2021-22

Other Local Government entities	Underlying surplus (deficit) $'000s	Net surplus (deficit) $'000s	Total comprehensive surplus (deficit) $'000s	Net assets $'000s
Subsidiaries[1]				
C-Cell Unit Trust (Copping Refuse Disposal Site Joint Authority)	908	908	908	5,619
Launceston Flood Authority (Launceston City Council)	(1,146)	(1,146)	(1,146)	-
Equity accounted[2]				
Copping Refuse Disposal Site Joint Authority	1,471	1,034	1,034	20,266
Dulverton Regional Waste Management Authority	4,262	3,197	5,766	25,821
Other Local Government entities[3]				
Cradle Coast Authority	3,669	3,669	3,669	8,136
Local Government Association of Tasmania[4]	54	54	398	4,792
Northern Tasmanian Regional Development Corporation Ltd	514	514	514	815
Southern Tasmanian Councils Authority	(86)	(86)	(86)	252
Tasmanian Water & Sewerage Corporation Pty Ltd	31,928	62,442	63,018	1,655,153
Total	**41,574**	**70,586**	**74,075**	**1,720,854**

Notes

Note 1: Financial results and information for these subsidiaries have been included within the consolidated financial results of their parent entity.

Note 2: Financial results and information for these equity investments have been included within the consolidated financial results of various councils.

Note 3: Financial results and information for these other local government entities are not included in the consolidated results of councils.

Note 4: Local Government Association of Tasmania includes the consolidated general account and assist account.

Collectively, other local government entities controlled net assets valued at $1,720.85 million at 30 June 2022 (30 June 2021, $1,628.80 million).

They reported a combined underlying surplus of $41.57 million for 2021-22 (2020-21, $22.49 million).

Equity accounting

Both Copping Refuse Disposal Site Joint Authority and Dulverton Regional Waste Management Authority were equity accounted by councils that had an equity interests in these entities. This means that, following initial recognition, the carrying amount of the investment in the entity increased or decreased to recognise each participating council's share of the joint authority's operating result, with a corresponding amount recognised in each council's income statement. Distributions received from the joint authority reduced the carrying amount of the investment.

Disposal of firearms and ammunition

Background

The Department of Police, Fire and Emergency Management (DPFEM) is charged with the responsibility for firearms and ammunition disposed of under the Firearms Act.

Under section 149(5) of the Firearms Act, the Auditor-General is to, once every year, arrange for an independent audit of all firearms and ammunition disposed of under this Act and to report on the audit to Parliament. The commentary below relates to the audit undertaken for the year ended 30 June 2022.

Audit requirement under section 149(5)

The scope of the Firearms Act limits our audit requirement to firearms or ammunition disposed of by the Crown, pursuant to the authority of the Firearms Act, in the following circumstances:

- by order of a magistrate under section 149(2)
- as determined by the Commissioner of Police under section 149(3A) associated with firearms or ammunition forfeited to the Crown after a conviction for inappropriate storage
- as determined by the Minister under section 104(4) associated with firearms or ammunition forfeited to the Crown after a conviction for inappropriate conveyance.

The Firearms Act does not define what 'disposed of' means but interpretation is 'disposed of' is not limited to the destruction of firearms or ammunition but can include disposals by other means, including sale. For a disposal to occur, firearms or ammunition must leave the Crown's possession. Transfers of firearms or ammunition within the Crown does not constitute a disposal.

DPFEM recording and disposal practices

DPFEM utilises the Firearms and Weapons Data (FAWD) system to record the details of all seized and surrendered firearms and ammunition. DPFEM stores held firearms and ammunition securely until there is a sufficient quantity to warrant physical destruction.

An ongoing matter with the recording of information in the FAWD system to document whether disposals occurred under sections 149(2)(c), 149(3A) or 104(4) of the Firearms Act remains unresolved and impacts on our ability to appropriately form an opinion on whether the disposals occurred in accordance with the Firearms Act.

Inability to form an opinion on disposals

Despite attempts by DPFEM over the last 2 years to improve information captured in the FAWD system, the inability of the FAWD system to document whether disposals occurred under sections 149(2)(c), 149(3A) or 104(4) of the Firearms Act prevents us from being able to conduct an audit in accordance with section 149(5) of the Firearms Act. Consequently, the auditor's report for the year ended 30 June 2022 contains a disclaimer of opinion in respect of DPFEM's compliance with the requirements of the Firearms Act with respect to disposals made:

- by order of a Magistrate (section 149(2)(c))
- upon determination of the Commissioner of Police (section 149(3A))
- upon determination of the Minister (section 104(4)).

Legislative reform

On 1 February 2023, the Minister for Police, Fire and Emergency Management announced the commencement of a community consultation process for changes to the Firearms Act to improve community safety. The initial proposed changes included extended auditing obligations for the Auditor-General under the Firearms Act.

It is anticipated the *Firearms Amendment (Community Safety) Bill 2023* will address the existing limitations under section 149(5) of the Firearms Act that prevent the Auditor-General from issuing an unmodified opinion in respect of DPFEM's compliance with the requirements of the Firearms Act in regard to disposals.

Appendix A - Timeliness of reporting

	Financial statements received [1]	Financial statements certified	Audit opinion signed
31 December 2021 audits			
University of Tasmania	11-Feb-22	11-Feb-22	16-Feb-22
AMC Search Ltd	11-Feb-22	11-Feb-22	16-Feb-22
Tasmania University Union	14-Feb-22	11-Feb-22	17-Feb-22
Solicitors' Trust	16-Feb-22^	22-Mar-22	23-Mar-22
Theatre Royal Management Board	11-Feb-22	23-Feb-22	24-Feb-22
30 June 2022 audits			
Executive and Legislature			
House of Assembly	11-Aug-22	11-Aug-22	14-Oct-22*
Legislative Council	8-Aug-22	8-Aug-22	11-Oct-22*
Legislature-General	15-Aug-22	9-Aug-22	4-Nov-22*
Office of the Governor	12-Aug-22	14-Oct-22	18-Oct-22*
Ministerial Departments			
Communities Tasmania	12-Aug-22	26-Sep-22	27-Sep-22*
Education, Children and Young People	15-Aug-22	23-Sep-22	28-Sep-22
Health	11-Aug-22	2-Sep-22	6-Sep-22
Justice	12-Aug-22	23-Sep-22	23-Sep-22
Natural Resources and Environment Tasmania	12-Aug-22	6-Sep-22	9-Sep-22
Police, Fire and Emergency Management	15-Aug-22	29-Sep-22	29-Sep-22
Premier and Cabinet	12-Aug-22	16-Sep-22	16-Sep-22
State Growth	15-Aug-22	27-Sep-22	7-Oct-22*
Treasury	15-Aug-22	29-Sep-22	29-Sep-22

	Financial statements received [1]	Financial statements certified	Audit opinion signed
Treasury - Public Account	30-Sep-22	29-Sep-22	25-Oct-22
Treasury – TAFR	30-Sep-22	25-Oct-22	25-Oct-22
Ministerial Departmental Controlled Entities			
Abt Railway Ministerial Corporation	12-Aug-22	4-Oct-22	10-Oct-22*
Ambulance Tasmania	11-Aug-22	5-Sep-22	6-Sep-22
Housing Tasmania	12-Aug-22	26-Sep-22	27-Sep-22*
Office of Tasmanian Assessment, Standards and Certification	15-Aug-22	15-Sep-22	16-Sep-22
Tasmania Development and Resources	12-Aug-22	11-Aug-22	29-Sep-22*
Tasmanian Affordable Housing Limited	29-Aug-22^	26-Sep-22	27-Sep-22
Teachers Registration Board of Tasmania	15-Aug-22	12-Aug-22	20-Sep-22
Tasmanian Health Service	11-Aug-22	2-Sep-22	6-Sep-22
Tasmanian Museum and Art Gallery	12-Aug-22	30-Sep-22	5-Oct-22*
Other General Government Sector Entities			
Asbestos Compensation Fund	12-Aug-22	15-Sep-22	15-Sep-22
Brand Tasmania	12-Aug-22	16-Sep-22	16-Sep-22
Council of Law Reporting	6-Jul-22	6-Jul-22	19-Jul-22
Environment Protection Authority	11-Aug-22	21-Sep-22	26-Sep-22
Inland Fisheries Service	28-Jul-22	14-Oct-22	14-Oct-22*
Integrity Commission	15-Aug-22	15-Aug-22	5-Oct-22*
Marine and Safety Authority	12-Aug-22	12-Aug-22	15-Aug-22
Office of the Director of Public Prosecutions	12-Aug-22	21-Sep-22	26-Sep-22
Office of the Ombudsman and Health Complaints Commissioner	12-Aug-22	26-Sep-22	26-Sep-22
Royal Tasmanian Botanical Gardens	12-Aug-22	7-Sep-22	7-Sep-22

	Financial statements received [1]	Financial statements certified	Audit opinion signed
State Fire Commission	15-Aug-22	30-Sep-22	4-Oct-22*
Tasmanian Economic Regulator	15-Aug-22	29-Sep-22	29-Sep-22
Tasmanian State Health Funding Pool	2-Aug-22	30-Aug-22	31-Aug-22
Tasmanian Timber Promotion Board	9-Sep-22^	4-Sep-22	17-Oct-22
Tasmanian Pharmacy Authority	15-Aug-22	31-Aug-22	31-Aug-22
TasTAFE	16-Aug-22^	16-Aug-22	16-Aug-22
Tourism Tasmania	12-Aug-22	21-Sep-22	23-Sep-22
WorkCover Tasmania Board	12-Aug-22	16-Sep-22	20-Sep-22
Public Financial and Non-Financial Corporations			
Aurora Energy Pty Ltd	15-Aug-22	11-Aug-22	16-Aug-22
Bass Island Line Pty Ltd	15-Aug-22	15-Sep-22	21-Sep-22
FortyTwo24 Pty Ltd	3-Aug-22	3-Aug-22	19-Aug-22
Hydro-Electric Corporation	12-Aug-22	12-Aug-22	15-Aug-22
Macquarie Point Development Corporation	15-Aug-22	28-Sep-22	28-Sep-22
Marinus Link Pty Ltd	3-Aug-22	3-Aug-22	18-Aug-22
Metro Tasmania Pty Ltd	13-Aug-22	13-Aug-22	16-Aug-22
Momentum Energy Pty Ltd	12-Aug-22	12-Aug-22	15-Aug-22
Motor Accidents Insurance Board	11-Aug-22	12-Aug-22	15-Aug-22
Newood Holdings Pty Ltd	15-Aug-22	15-Aug-22	Not yet dispensed
Port Arthur Historic Site Management Authority	15-Aug-22	27-Sep-22	28-Sep-22
Private Forests Tasmania	12-Aug-22	14-Oct-22	14-Oct-22*
Public Trustee	14-Aug-22	9-Sep-22	12-Sep-22
Sustainable Timber Tasmania	8-Aug-22	8-Aug-22	15-Aug-22

	Financial statements received [1]	Financial statements certified	Audit opinion signed
Tasmanian Irrigation Pty Ltd	11-Aug-22	11-Aug-22	15-Aug-22
Tasmanian Networks Pty Ltd	10-Aug-22	10-Aug-22	17-Aug-22
Tasmanian Ports Corporation Pty Ltd	15-Aug-22	15-Sep-22	21-Sep-22
Tasmanian Public Finance Corporation	10-Aug-22	10-Aug-22	15-Aug-22
Tasmanian Railway Pty Ltd	12-Aug-22	12-Aug-22	15-Aug-22
Tasmanian Water and Sewerage Corporation Pty Ltd	11-Aug-22	11-Aug-22	12-Aug-22
Tasracing Pty Ltd	15-Aug-22	15-Aug-22	17-Aug-22
TT-Line Company Pty Ltd	12-Aug-22	12-Aug-22	15-Aug-22
Local Government Authorities			
Urban Councils			
Brighton Council	12-Aug-22	17-Oct-22	26-Oct-22*
Burnie City Council	15-Aug-22	7-Oct-22	18-Oct-22*
Central Coast Council	15-Aug-22	8-Nov-22	8-Nov-22*
Clarence City Council	12-Aug-22	26-Oct-22	26-Oct-22*
Devonport City Council	15-Aug-22	22-Sep-22	29-Sep-22
Glenorchy City Council	11-Aug-22	28-Sep-22	29-Sep-22*
Hobart City Council	11-Aug-22	11-Aug-22	26-Sep-22
Kingborough Council	15-Aug-22	1-Nov-22	2-Nov-22*
Launceston City Council	12-Aug-22	26-Sep-22	27-Sep-22*
West Tamar Council	12-Aug-22	12-Aug-22	19-Aug-22
Rural Councils			
Break O'Day Council	15-Aug-22	25-Oct-22	25-Oct-22*
Central Highlands Council	12-Aug-22	12-Aug-22	16-Nov-22*

	Financial statements received [1]	Financial statements certified	Audit opinion signed
Circular Head Council	12-Aug-22	5-Oct-22	5-Oct-22*
Derwent Valley Council	9-Sep-22^	24-Oct-22	24-Oct-22
Dorset Council	12-Aug-22	17-Oct-22	21-Oct-22*
Flinders Council	15-Aug-22	25-Nov-22	28-Nov-22*
George Town Council	15-Aug-22	15-Aug-22	5-Sep-22
Glamorgan-Spring Bay Council	18-Aug-22^	29-Sep-22	3-Oct-22
Huon Valley Council	15-Aug-22	4-Nov-22	25-Nov-22*
Kentish Council	9-Sep-22^	14-Feb-23	6-Mar-23*
King Island Council	13-Aug-22	11-Jan-23	17-Jan-23*
Latrobe Council	9-Sep-22^	14-Feb-23	29-Mar-23*
Meander Valley Council	12-Aug-22	10-Nov-22	10-Nov-22*
Northern Midlands Council	3-Oct-22^	15-Nov-22	15-Nov-22
Sorell Council	15-Aug-22	6-Oct-22	13-Oct-22*
Southern Midlands Council	12-Aug-22	18-Oct-22	27-Oct-22*
Tasman Council	10-Jan-23^	14-Feb-23	16-Feb-23
Waratah-Wynyard Council	15-Aug-22	15-Aug-22	29-Sep-22
West Coast Council	12-Aug-22	1-Nov-22	1-Nov-22*
Local Government Controlled Entities			
C-Cell Unit Trust	11-Aug-22	28-Sep-22	28-Sep-22*
Cradle Coast Authority	12-Aug-22	26-Sep-22	27-Sep-22
Dulverton Regional Waste Management Authority	15-Aug-22	26-Oct-22	27-Oct-22*
Launceston Flood Authority	12-Aug-22	12-Aug-22	26-Sep-22
Local Government Association of Tasmania	12-Aug-22	6-Dec-22	6-Dec-22*

	Financial statements received [1]	Financial statements certified	Audit opinion signed
Northern Tasmania Development Corporation Ltd	15-Aug-22	25-Oct-22	27-Oct-22*
Southern Tasmanian Councils Authority	12-Aug-22	12-Aug-22	26-Sep-22
Southern Waste Solutions (trading as Copping Refuse Disposal Site Joint Authority)	11-Aug-22	11-Aug-22	28-Sep-22*
Other State Entities			
Aboriginal Land Council of Tasmania	14-Aug-22	●	●
Forest Practices Authority	18-Aug-22^	30-Sep-22	3-Oct-22
Tasmanian Legal Aid	12-Aug-22	26-Oct-22	26-Oct-22*
Legal Profession Board	29-Jul-22	15-Sep-22	5-Sep-22
National Trust of Australia (Tasmania)	12-Aug-22	7-Nov-22	22-Feb-23*
palawa Enterprises Unit Trust	15-Aug-22	●	●
Property Agents Board	17-Aug-22^	27-Oct-22	28-Oct-22*
Property Agents Trust	17-Aug-22^	27-Oct-22	28-Oct-22*
Retirement Benefits Fund	15-Aug-22	27-Sep-22	28-Sep-22
Tasmanian Beef Industry (Research and Development) Trust	15-Aug-22	15-Aug-22	29-Sep-22
Tasmanian Building and Construction Industry Training Board	15-Aug-22	28-Sep-22	5-Oct-22*
Tasmanian Community Fund	13-Aug-22	13-Aug-22	21-Sep-22
Tasmanian Dairy Industry Authority	15-Aug-22	7-Oct-22	7-Oct-22*
Tasmanian Heritage Council	15-Aug-22	20-Sep-22	21-Sep-22
The Nominal Insurer	1-Sep-22^	26-Oct-22	26-Oct-22*
Wellington Park Management Trust	15-Aug-22	21-Oct-22	24-Oct-22*

	Financial statements received [1]	Financial statements certified	Audit opinion signed
Audits dispensed with			
AETV Pty Ltd (Hydro Tasmania)	12-Aug-22	12-Aug-22	N/A
Bell Bay Pty Ltd (Hydro Tasmania)	12-Aug-22	12-Aug-22	N/A
Bell Bay Three Pty Ltd (Hydro Tasmania)	12-Aug-22	12-Aug-22	N/A
Board of Architects	28-Feb-22^	25-Feb-22	N/A
C-Cell Pty Ltd (Southern Waste Solutions)	11-Aug-22	11-Aug-22	N/A
Dulverton Waste Solutions Pty Ltd (Dulverton Regional Waste Management Authority)	16-Aug-22^	26-Oct-22	N/A
Flinders Island Ports Corporation Pty Ltd (TasPorts)	15-Aug-22	23-Sep-22	N/A
Geeveston Town Hall Company Ltd (Huon Valley Council)	15-Aug-22	15-Aug-22	N/A
Geeveston Town Hall Controlling Authority	15-Aug-22	15-Aug-22	N/A
Heemskirk Holdings Pty Ltd (Hydro Tasmania)	12-Aug-22	12-Aug-22	N/A
Heemskirk Wind Farm Pty Ltd (Hydro Tasmania)	12-Aug-22	12-Aug-22	N/A
Heritage Building Solutions Pty Ltd (Southern Midlands Council)	15-Aug-22	15-Aug-22	N/A
Heritage Education & Skills Centre Pty Ltd (Southern Midlands Council)	15-Aug-22	15-Aug-22	N/A
HT Wind Developments Pty Ltd (Hydro Tasmania)	12-Aug-22	12-Aug-22	N/A
Hydro Tasmania Retail Pty Ltd (formerly HT Wind New Zealand Pty Ltd) (Hydro Tasmania)	12-Aug-22	12-Aug-22	N/A
HT Wind Operations Pty Ltd (Hydro Tasmania)	12-Aug-22	12-Aug-22	N/A
Hydro Tasmania Consulting (Holding) Pty Ltd (Hydro Tasmania)	12-Aug-22	12-Aug-22	N/A

	Financial statements received [1]	Financial statements certified	Audit opinion signed
Kingborough Waste Services Pty Ltd (Kingborough Council)	15-Aug-22	15-Aug-22	N/A
King Island Ports Corporation Pty Ltd (TasPorts)	15-Aug-22	23-Sep-22	N/A
Lofty Ranges Power Pty Ltd (Hydro Tasmania)	12-Aug-22	12-Aug-22	N/A
Maidstone Park Management Controlling Authority (Devonport City Council)	15-Aug-22	12-Aug-22	N/A
Metro Coaches (Tas) Pty Ltd (Metro)	5-Aug-22	5-Aug-22	N/A
Microwise Australia Pty Ltd	15-Aug-22	17-Oct-22	N/A
Newood Energy Pty Ltd (Newood Holdings Pty Ltd)	15-Aug-22	15-Aug-22	N/A
Newood Huon Pty Ltd (Newood Holdings Pty Ltd)	15-Aug-22	15-Aug-22	N/A
Newood Smithton Pty Ltd (Newood Holdings Pty Ltd)	15-Aug-22	15-Aug-22	N/A
palawa Enterprises Pty Ltd (Aboriginal Land Council of Tasmania)	15-Aug-22	15-Aug-22	N/A
RE Storage Project Holdings Pty Ltd (Hydro Tasmania)	12-Aug-22	12-Aug-22	N/A
Sense-Co Tasmania Pty Ltd (University of Tasmania)	2-Feb-22	0-Jan-00	N/A
Tas Communications Pty Ltd (Burnie City Council)	15-Aug-22	15-Aug-22	N/A
Tas Communications Unit Trust	15-Aug-22	15-Aug-22	N/A
Tasmanian Networks Holdings Pty Ltd	3-Aug-22	3-Aug-22	N/A
TasNet Connections Pty Ltd (formerly Large Scale Renewables Pty Ltd)	3-Aug-22	3-Aug-22	N/A
UTAS Holdings Pty Ltd (the University)	2-Feb-22	20-Jun-22	N/A
UTAS Properties Pty Ltd (the University)	2-Feb-22	25-Aug-22	N/A

	Financial statements received [1]	Financial statements certified	Audit opinion signed
Veterinary Board of Tasmania	15-Aug-22	15-Aug-22	N/A
Woolnorth Bluff Point Holdings Pty Ltd (Hydro Tasmania)	12-Aug-22	12-Aug-22	N/A
Woolnorth Studland Bay Holdings Pty Ltd (Hydro Tasmania).	12-Aug-22	12-Aug-22	N/A

Notes:

1. Date financial statements complete in all material respects received by the Auditor-General.

Legend:

N/A Not applicable

● Audit opinion not signed as at the 31 March 2023

^ Financial statements not submitted within legislated timeframe.

* Audit not completed within legislated timeframe.

Appendix B - Audit findings

	Current Year issues				Prior Year unresolved issues			
	H	M	L	Total	H	M	L	Total
31 December 2021 audits								
University of Tasmania[3]	0	0	6	6	0	1	2	3
Solicitors' Trust	0	0	1	1	0	0	0	0
Sub-total	**0**	**0**	**7**	**7**	**0**	**1**	**2**	**3**
30 June 2022 audits								
Executive and legislature								
House of Assembly	1	1	1	3	0	0	1	1
Legislative Council	1	1	1	3	0	0	1	1
Legislature-General	2	3	1	6	1	1	2	4
Office of the Governor	0	0	1	1	0	0	3	3
Sub-total	**4**	**5**	**4**	**13**	**1**	**1**	**7**	**9**
Ministerial Departments								
Communities Tasmania[4]	0	1	0	1	0	1	0	1
Education, Children and Young People[5]	0	1	0	1	0	0	4	4
Health[6]	0	2	1	3	0	3	1	4
Justice	0	2	5	7	0	4	9	13
Natural Resources and Environment Tasmania[7]	0	0	1	1	0	2	3	5
Police, Fire and Emergency Management	0	0	2	2	0	2	1	3

[3] Includes AMC Search Ltd, Tasmanian University Union and UTAS Holdings Pty Ltd
[4] Includes Housing Tasmania, Tasmanian Affordable Housing Ltd
[5] On 1 October 2022, Department of Education was renamed to the Department for Education, Children and Young People
[6] Includes Tasmanian State Health Funding Pool, Ambulance Tasmania and Tasmanian Health Service
[7] On 1 December 2021, the Department of Primary Industries, Parks, Water and Environment Tasmania was renamed to the Department of Natural Resources and Environment Tasmania

	Current Year issues				Prior Year unresolved issues			
	H	M	L	Total	H	M	L	Total
Premier and Cabinet	0	0	1	1	0	0	2	2
State Growth	0	0	4	4	0	1	0	1
Treasury	0	1	5	6	0	0	4	4
Sub-total	**0**	**7**	**19**	**26**	**0**	**13**	**24**	**37**
Ministerial Departmental Controlled Entities								
Abt Railway Ministerial Corporation	0	0	1	1	0	0	0	0
Office of Tasmanian Assessment, Standards and Certification	0	0	1	1	0	0	0	0
Teachers Registration Board of Tasmania	0	0	1	1	0	0	0	0
Sub-total	**0**	**0**	**3**	**3**	**0**	**0**	**0**	**0**
Other General Government Sector Entities								
Asbestos Compensation Fund	0	0	0	0	0	1	0	1
Environment Protection Authority	0	0	1	1	0	0	0	0
Inland Fisheries Service	0	0	3	3	0	0	0	0
Integrity Commission	0	0	0	0	0	0	1	1
Marine and Safety Tasmania	0	0	2	2	0	0	0	0
Office of the Ombudsman and Health Complaints Commissioner	0	0	0	0	0	0	2	2
Royal Botanical Gardens	0	0	1	1	0	0	1	1
State Fire Commission	0	0	3	3	0	1	1	2
Tasmanian Pharmacy Authority	1	1	1	3	0	0	0	0

	Current Year issues				Prior Year unresolved issues			
	H	M	L	Total	H	M	L	Total
Tasmanian Timber Promotion Board	0	0	2	2	0	0	0	0
TasTAFE	0	0	1	1	0	0	2	2
Sub-total	**1**	**1**	**14**	**16**	**0**	**2**	**7**	**9**
Public Financial and Non-Financial Corporations								
Aurora Energy Pty Ltd	0	1	3	4	0	0	1	1
Hydro-Electric Corporation	0	2	6	8	0	0	2	2
Macquarie Point Development Corporation	0	1	1	2	0	0	0	0
Metro Tasmania Pty Ltd	0	2	3	5	1	1	0	2
Motor Accidents Insurance Board	0	0	1	1	0	0	0	0
Port Arthur Historic Site Management Authority	1	4	1	6	0	0	1	1
Public Trustee	0	3	2	5	0	2	0	2
Sustainable Timber Tasmania	0	1	0	1	0	0	2	2
Tasmanian Irrigation Pty Ltd	0	1	2	3	0	1	0	1
Tasmanian Networks Pty Ltd[8]	2	2	3	7	0	0	2	2
Tasmanian Ports Corporation Pty Ltd	1	2	0	3	0	0	0	0
Tasmanian Public Finance Corporation	0	0	1	1	0	0	0	0
Tasmanian Railway Pty Ltd	0	0	2	2	0	0	0	0
Tasmanian Water and Sewerage Corporation Pty Ltd	0	1	0	1	0	0	1	1

[8] Includes subsidiary entities

	Current Year issues				Prior Year unresolved issues			
	H	M	L	Total	H	M	L	Total
Tasracing Pty Ltd	0	0	1	1	0	1	4	5
TT-Line Company Pty Ltd	0	1	0	1	0	0	1	1
Sub-total	**4**	**21**	**26**	**51**	**1**	**5**	**14**	**20**
Local Government Authorities								
Urban Councils								
Brighton Council	0	2	0	2	1	1	0	2
Burnie City Council	0	1	2	3	0	0	0	0
Central Coast Council	0	2	4	6	0	0	0	0
Clarence City Council	0	2	4	6	1	0	0	1
Devonport City Council	0	0	0	0	0	0	2	2
Glenorchy City Council	0	0	2	2	0	1	2	3
Hobart City Council	1	0	1	2	1	5	0	6
Kingborough Council	0	3	3	6	0	3	0	3
Launceston City Council	0	0	0	0	0	0	5	5
West Tamar Council	0	0	0	0	0	0	1	1
Sub-total	**1**	**10**	**16**	**27**	**3**	**10**	**10**	**23**
Rural Councils								
Break O'Day Council	0	1	2	3	0	0	1	1
Central Highlands Council	0	0	5	5	0	0	0	0
Circular Head Council	0	0	0	0	0	4	1	5
Derwent Valley Council	0	0	1	1	0	6	4	10
Dorset Council	0	0	2	2	0	0	4	4
Flinders Council	1	4	4	9	0	2	0	2
George Town Council	0	1	0	1	0	0	2	2
Glamorgan Spring Bay Council	0	1	1	2	0	0	0	0

	Current Year issues				Prior Year unresolved issues			
	H	M	L	Total	H	M	L	Total
Huon Valley Council	0	0	0	0	0	1	3	4
Kentish Council	3	0	0	3	0	3	1	4
King Island Council	0	0	0	0	0	1	1	2
Latrobe Council	3	0	0	3	0	2	2	4
Meander Valley Council	0	0	3	3	0	1	2	3
Northern Midlands Council	0	0	0	0	1	0	2	3
Sorell Council	0	1	2	3	0	3	1	4
Southern Midlands Council	0	0	2	2	0	0	0	0
Tasman Council	0	5	9	14	1	2	2	5
Waratah-Wynyard Council	0	2	0	2	0	2	0	2
West Coast Council	0	4	1	5	0	0	1	1
Sub-total	**7**	**19**	**32**	**58**	**2**	**27**	**27**	**56**
Local Government Controlled Entities								
Dulverton Regional Waste Management Authority	1	0	1	2	0	0	0	0
Local Government Association of Tasmania	0	1	1	2	0	0	0	0
Northern Tasmania Development Corporation Ltd	0	0	1	1	0	1	0	1
Southern Waste Solutions (trading as Copping Refuse Disposal Site Joint Authority)	0	1	2	3	0	0	0	0
Sub-total	**1**	**2**	**5**	**8**	**0**	**1**	**0**	**1**
Other State Entities								
Legal Profession Board	0	0	0	0	0	1	0	1
National Trust of Australia (Tasmania)	0	1	3	4	2	1	2	5

	Current Year issues				Prior Year unresolved issues			
	H	M	L	Total	H	M	L	Total
Tasmanian Building and Construction Industry Training Board	0	1	3	4	0	1	1	2
Tasmanian Community Fund	0	0	1	1	0	0	0	0
Tasmanian Legal Aid	0	0	3	3	0	0	0	0
Sub-total	**0**	**2**	**10**	**12**	**2**	**3**	**3**	**8**
Grand Total	**18**	**67**	**136**	**221**	**9**	**63**	**94**	**166**

Legend:

H High

M Moderate

L Low

Note: The audits for Aboriginal Land Council of Tasmania and palawa Enterprises Unit Trust were still in progress as at 31 March 2023, and therefore have been excluded from Appendix 2.

<table>
<tr><th>Risk category</th><th>Audit impact</th><th>Management action required</th></tr>
<tr><td>High</td><td>Matters categorised as high risk pose a significant business or financial risk to the entity and have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency.

High risk findings represent a:
control weakness which could have or is having a significant adverse effect on the ability to achieve process objectives and comply with relevant legislation
material misstatement in the financial report is likely to occur or has already occurred.</td><td>Requires immediate management intervention with a detailed action plan to be implemented within one month.

Requires management to correct the material misstatement in the financial report to avoid a modified audit opinion.</td></tr>
<tr><td>Moderate</td><td>Moderate risk findings are matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed as high priority within the current financial year, matters that may escalate to high risk if not addressed promptly or low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.

Moderate risk findings represent a:
systemic control weakness which could have or is having a moderate adverse effect on the ability to achieve process objectives and comply with relevant legislation
misstatement in the financial report that is not material and has occurred.</td><td>Requires prompt management intervention with a detailed action plan implemented within three to six months.</td></tr>
<tr><td>Low</td><td>Matters categorised as low risk are isolated, non-systemic or procedural in nature and reflect relatively minor administrative shortcomings and could be addressed in the context of the entity’s overall control environment.

Low risk findings represent
an isolated or non-systemic control weakness with minimal but reportable impact on the ability to achieve process objectives and comply with relevant legislation
a misstatement in the financial report that is likely to occur but is not expected to be material
an opportunity to improve an existing process or internal control.</td><td>Requires management intervention with a detailed action plan implemented within six to 12 months.</td></tr>
</table>

Acronyms and abbreviations

Audit Act	*Audit Act 2008*
AASB	Australian Accounting Standards Board
COVID-19	Novel Coronavirus disease pandemic
CCI	Council Cost Index
DPFEM	Department of Police, Fire and Emergency Management
FAWD	Firearms and Weapons Data
Firearms Act	*Firearms Act 1996*
Justice	Department of Justice
LRCI program	Local Roads and Community Infrastructure program
LG Act	*Local Government Act 1993*
LGLP	*Local Government Loans Program*
NDRRA	Natural Disaster Relief and Recovery Arrangements
Office	The Tasmanian Audit Office
RTR	Roads to Recovery
TAFR	Treasurer’s Annual Financial Report
TAHL	Tasmanian Affordable Housing Limited
TASCORP	Tasmanian Public Finance Corporation
TasWater	Tasmanian Water and Sewerage Corporation Pty Ltd
The Board	The Legal Profession Board
The Fund	The Solicitors Trust Fund
The Trust	Tas Communication Unit Trust
Treasury	Department of Treasury and Finance

Audit Mandate and Standards Applied

Mandate

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

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

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

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

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

> '(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards
>
> (2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity's appropriate Minister and provide a copy to the relevant accountable authority.'

Standards Applied

Section 31 specifies that:

> 'The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to -
>
> (a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and
>
> (b) the Australian Auditing and Assurance Standards.'

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

Tasmanian Audit Office

Front cover image: Cape Wickham Golf Course
Photography: Adam Gibson, Tourism Tasmania Visual Library

Hobart Office

Phone (03) 6173 0900

Email admin@audit.tas.gov.au

Web www.audit.tas.gov.au

Address Level 2, 144 Macquarie Street
Hobart, 7000

Postal GPO Box 851, Hobart 7001

Launceston Office

Phone (03) 6173 0971

Address 4th Floor, Henty House
1 Civic Square, Launceston