



Tasmanian
Audit Office

**Audit of State entities and
audited subsidiaries of State
entities 31 December 2021
and 30 June 2022 (Volume 2)**

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





Introduction

- Report is second of two volumes.
- First volume tabled 24 November 2022, covered:
 - State entities and audited subsidiaries in the General Government Sector, Public Non-Financial Corporations, Public Financial Corporations, and the Total State Sector
 - Other entities including the University of Tasmania.
- Second volume tabled today, focuses on:
 - findings from audit of financial statements of State entities and audited subsidiaries of State entities
 - commentary and analysis on the Local Government sector
 - disposal of firearms and ammunition audit.

Key messages and findings

- Outcomes of 2021-22 financial audits of State entities and audited subsidiaries of State entities
 - 117 audit opinions issued to date, with no qualifications
 - 3 audits are still being undertaken or to be dispensed
 - 47 audits completed outside legislative timeframes.
- Across the 117 audits, 221 new audit findings were raised.
- Entities need to improve the actioning of previous findings:
 - 166 findings raised in previous periods are yet to be resolved
 - 9 high risk findings have been unresolved for over a year.

Key messages and findings

- Accounting for child sexual abuse claims
 - Sensitivity and complexity associated with the measurement and recognition of claims of this nature
 - Tasmanian Government's approach to managing civil litigation in this area is evolving.
 - Currently, claims are recognised by the Department of Justice once there is an agreed and signed Deed of Settlement and Release.

Key messages and findings

- Accounting for child sexual abuse claims
 - AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* requires 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.
 - We have recommended actions to increase Government's transparency and compliance in accounting for these payments.

Key messages and findings

- Local government sector
 - Tasmanian 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 have rebounded strongly from the financial effects of COVID-19.
 - Rural councils, however, have not experienced the same improvement, incurring an aggregated underlying deficit of \$7.66 million in 2021-22 compared to a deficit of \$4.57 million in 2019-20.

Key messages and findings

- Local government sector
 - Concerning trend for rural councils, with the average growth in expenses outpacing the average growth in revenue over the past 4 years.
 - Councils are struggling to achieve their capital expenditure budgets, with \$284.00 million spent on capital projects representing 80.0% of their budgeted spend.
 - This capital expenditure gap may be contributing to the declining trend in the aggregate asset sustainability ratio for both urban and rural councils over the past 4 years.




Key messages and findings

- Disposal of firearms and ammunition
 - Auditor-General to annually audit all firearms and ammunition disposed of under the *Firearms Act 1996*.
 - The inability of the system to document whether disposals occurred under sections 149(2)(c), 149(3A) or 104(4) of the Firearms Act means we can't complete the audit.
 - An audit opinion has been issued for 30 June 2023 including a disclaimer of opinion in respect of DPFEM's compliance with these requirements of the Firearms Act.
 - A community consultation process has started that is anticipated to lead to changes to the Firearms Act.

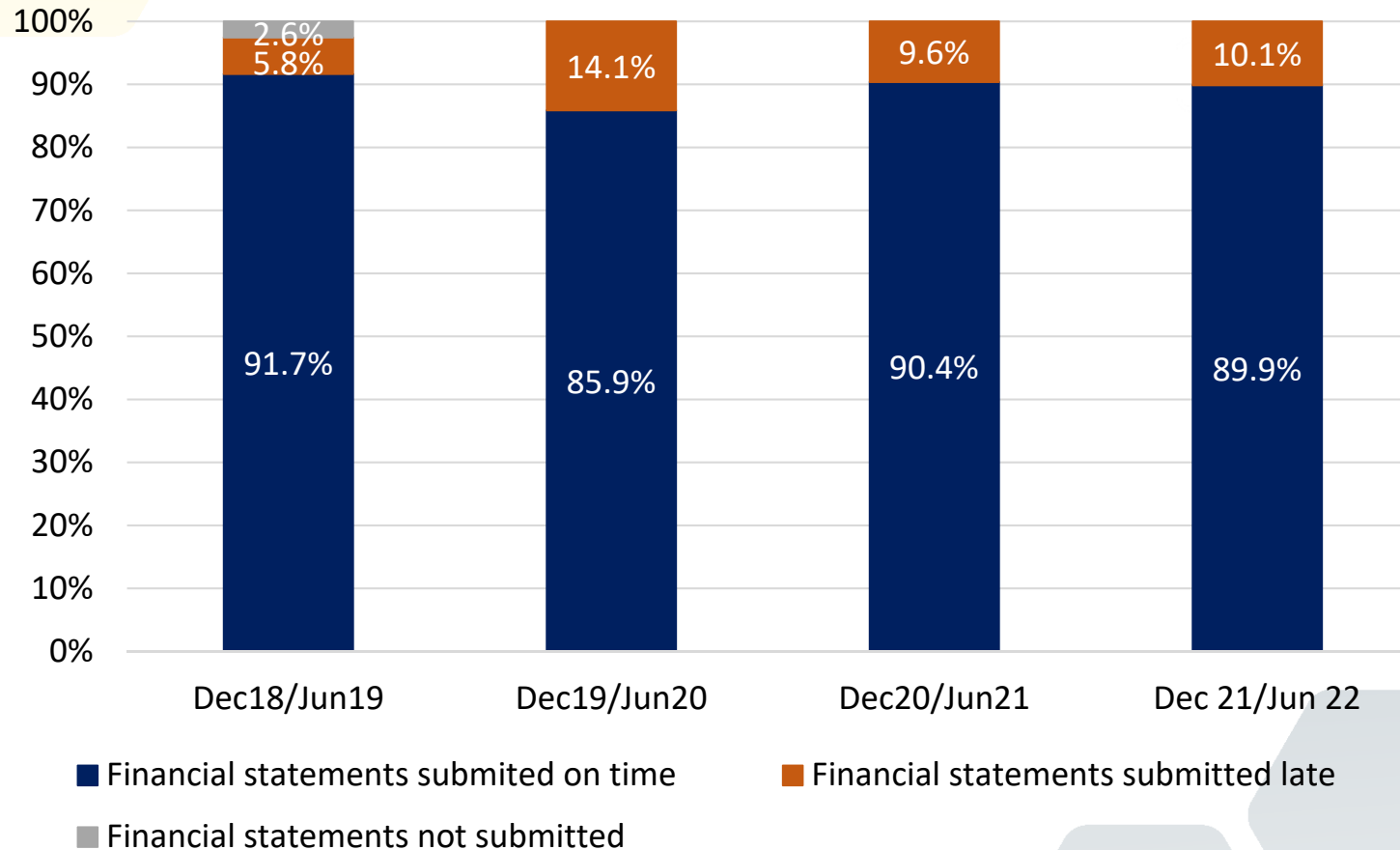
Audit of financial statements

31 December 2021
and 30 June 2022
financial statements

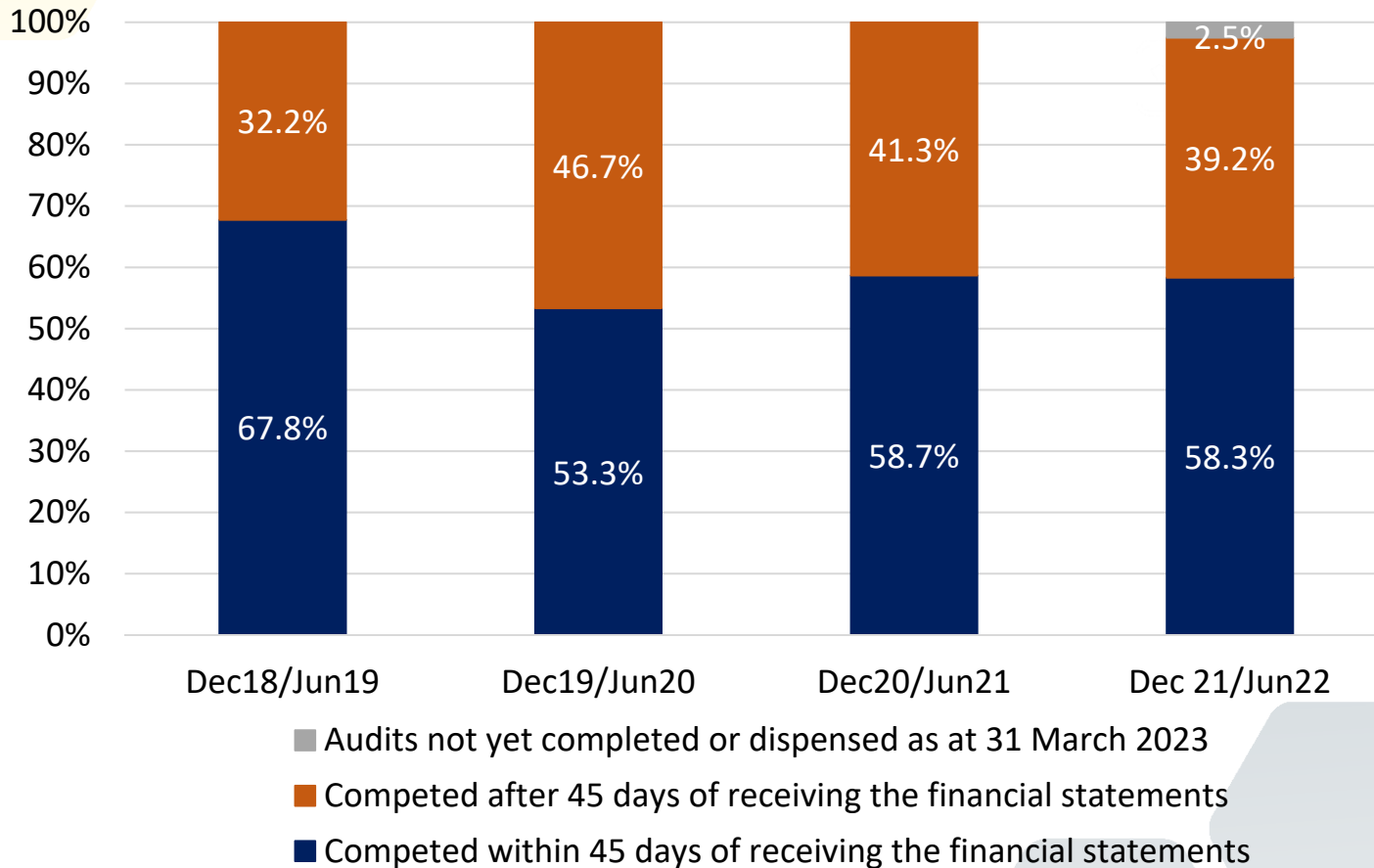
Completion of financial statement audits

158	142 	38
entities with a financial year ending 31 December 2021 or 30 June 2022	financial statements received within 45 days of the end of the financial year	audits dispensed with
70 	47 	3
audits completed within 45 days of receiving the financial statements	audits completed after 45 days of receiving the financial statements	audits in progress or awaiting dispensation

Timeliness of financial statement submission



Timeliness of audit completion



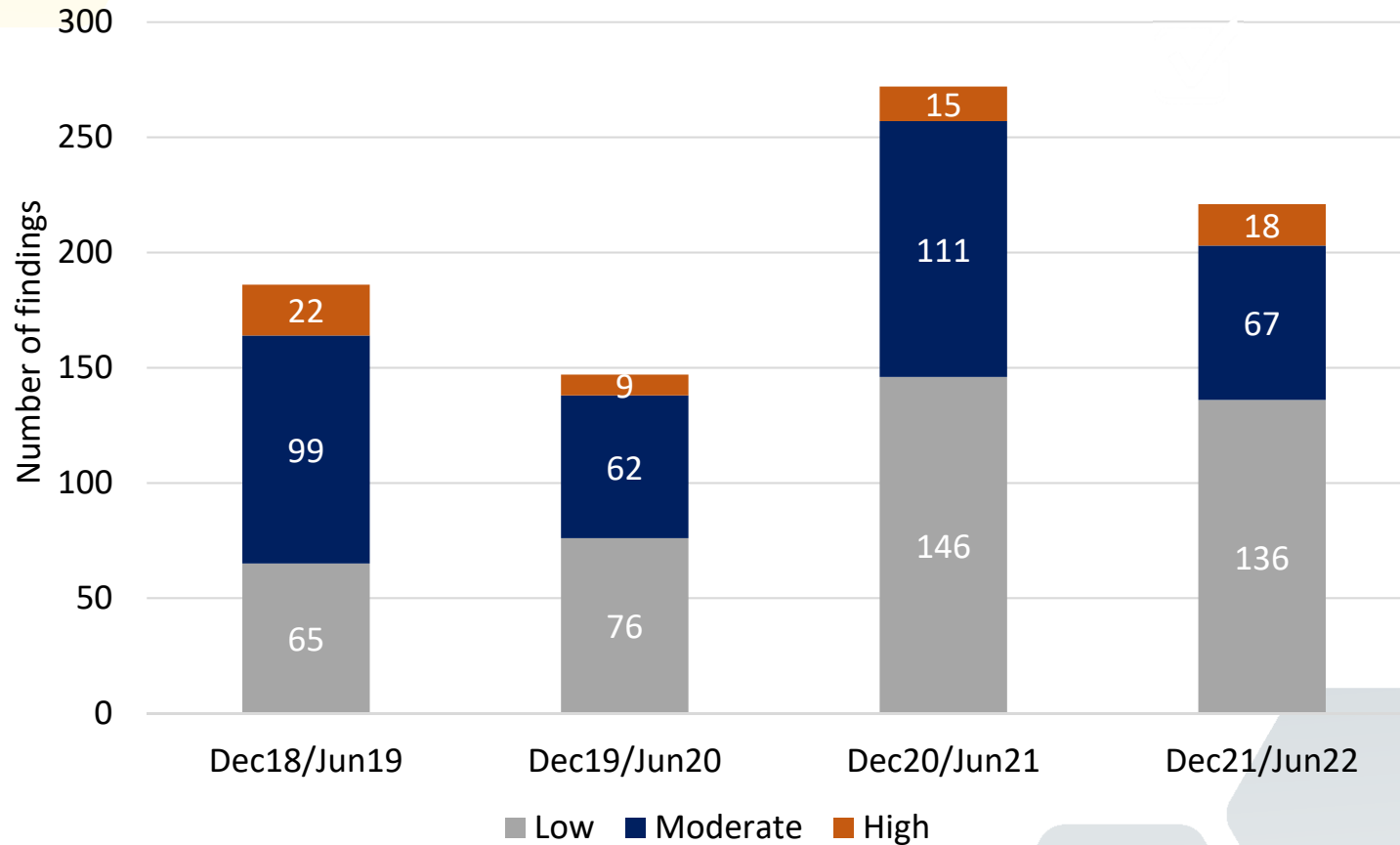


Audit opinions

For audits of the 31 December 2021 and 30 June 2022 financial statements of State entities and audited subsidiaries of State entities:

- 117 audit opinions issued for entities covered by this report
- 2 audit opinions included an emphasis of matter paragraph
- 1 audit opinion was issued with a material uncertainty related to going concern paragraph

Comparison of audit findings by risk rating



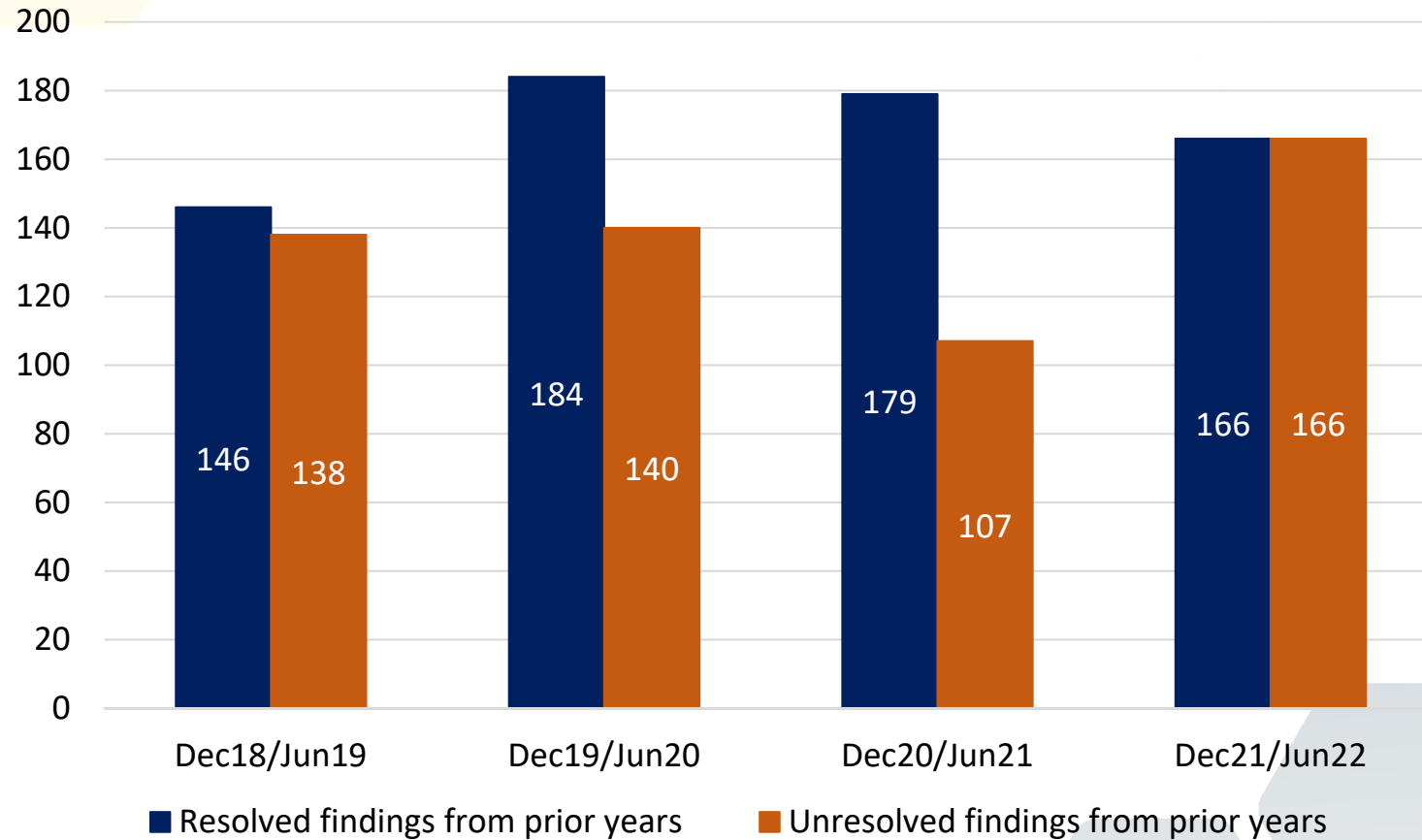
Classification of audit findings

Classification	High Risk	Moderate Risk	Low Risk	Total
Financial reporting	11	20	46	77
Internal control	7	46	85	138
Non-compliance with Laws or Regulations	0	0	2	2
Other significant matters	0	1	3	4
Total	18	67	136	221

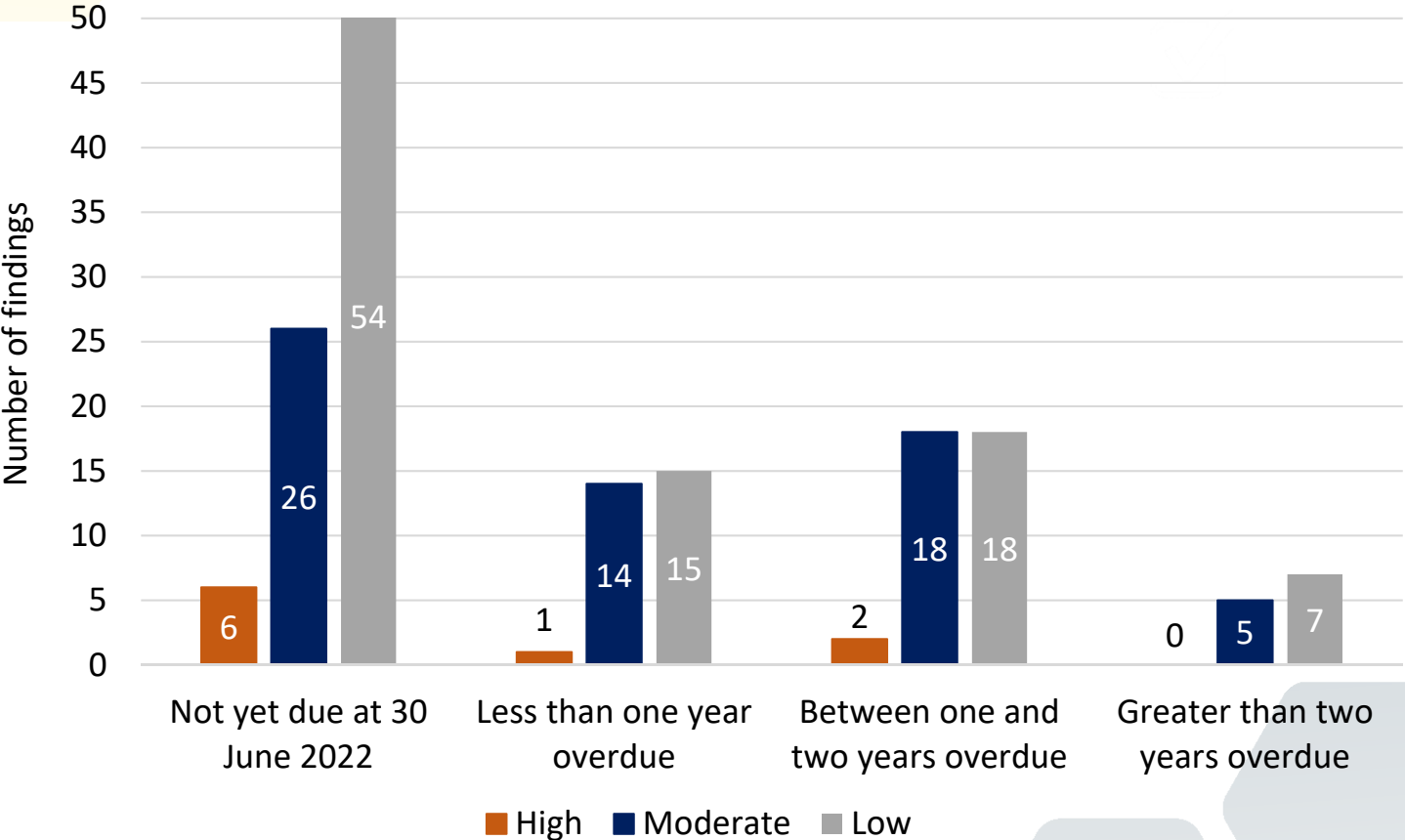
Audit findings by sector and risk rating

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

Prior years' audit findings



Unresolved findings aging analysis



Note: Findings yet to be resolved are from date corrective action was due

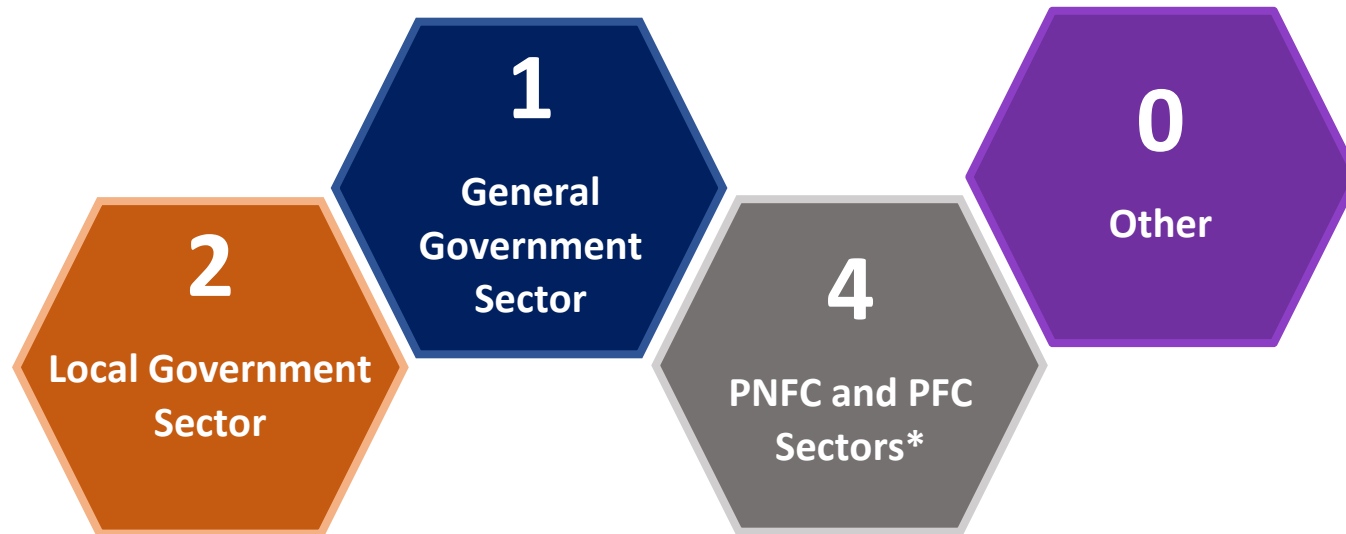


Misstatements

Item	Assets \$'m	Liabilities \$'m	Equity \$'m	Revenue \$'m	Expenses \$'m
Corrected misstatements	44.6	(27.2)	25.8	18.6	(61.8)
Uncorrected misstatements	26.7	(10.9)	(29.9)	9.3	4.8
Total	71.3	(38.1)	(4.2)	27.9	(57.0)

Note: Positive numbers are debits and negative balances are credits.

Prior period errors



Local Government

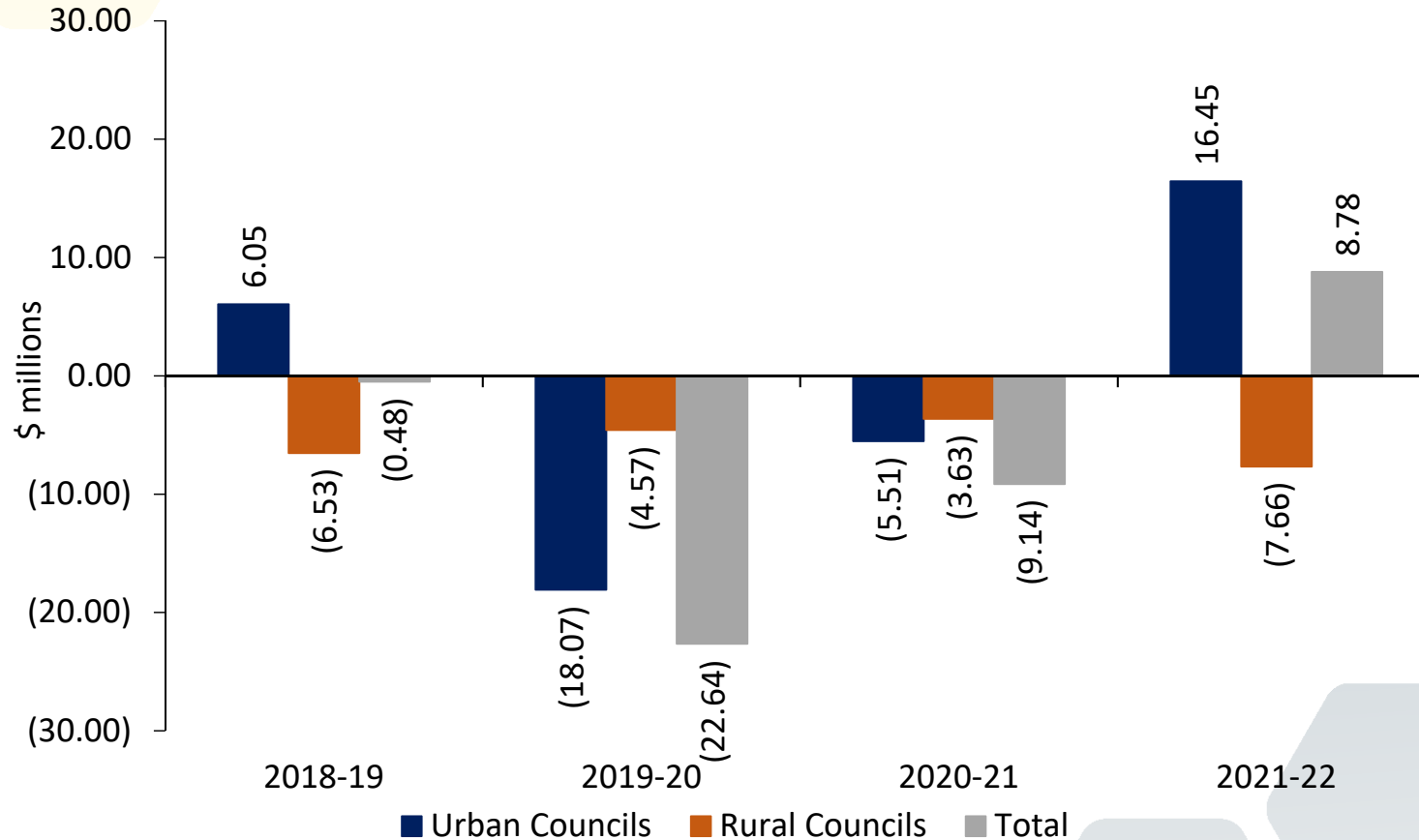


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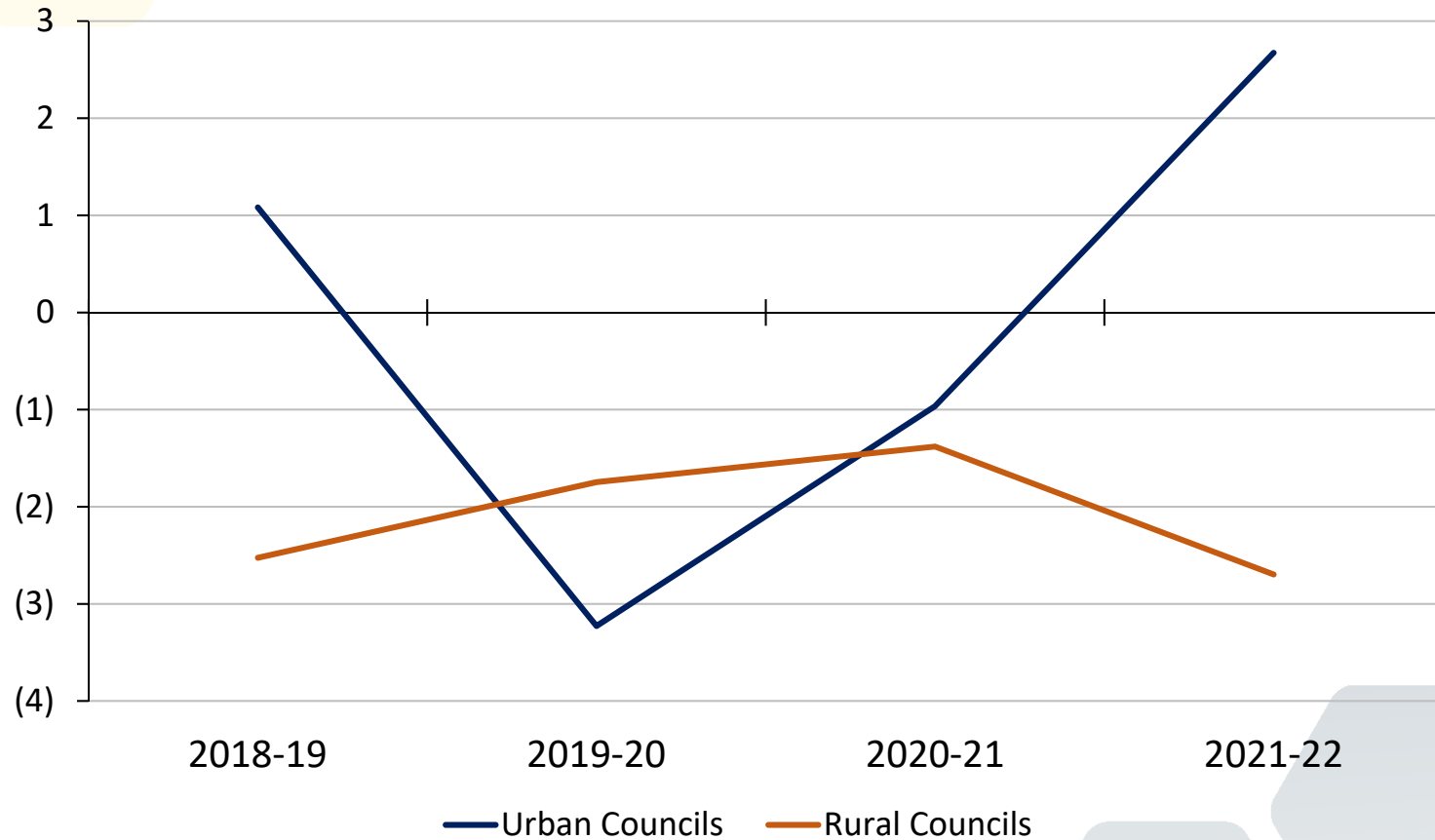
Sector developments in 2021-22

- Local government sector developments regarding:
 - Local Roads and Community Infrastructure program
 - Current status of *The Future of Local Government Review*
- Significant developments impacting a selection of individual councils and Tasmanian Water and Sewerage Corporation Pty Ltd

Underlying surplus (deficit)

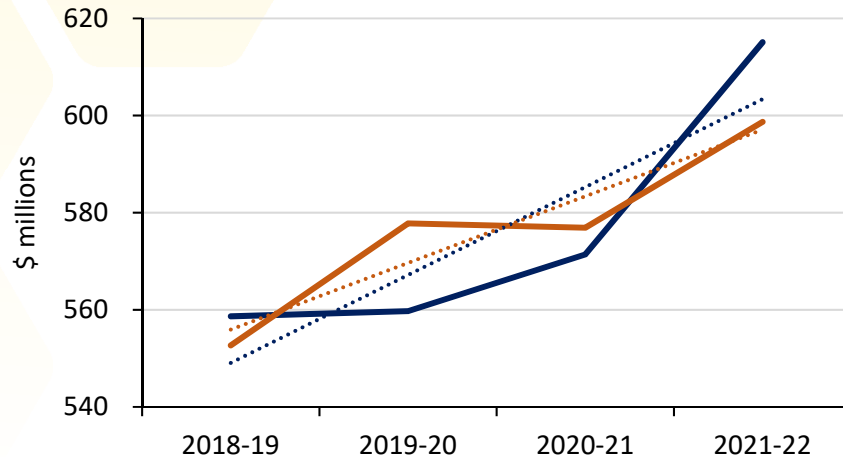


Four-year average underlying surplus ratio



Increase in operating revenue and expenses

Urban councils



— Operating revenue

— Operating expense

..... Linear (Operating revenue)

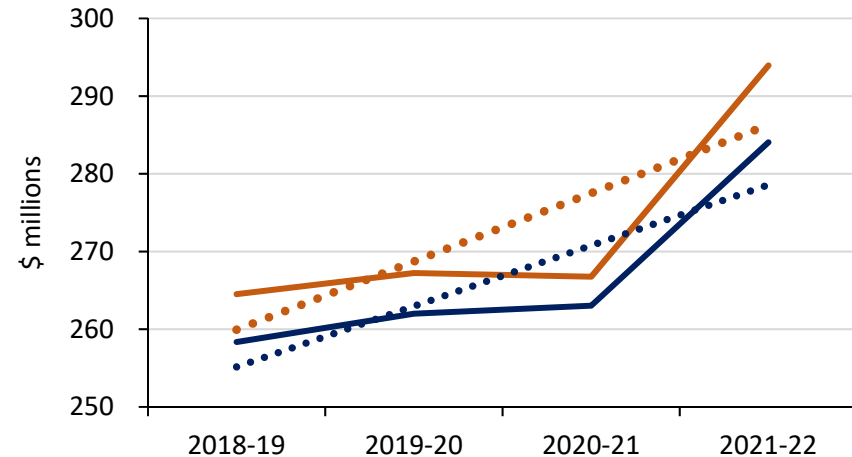
..... Linear (Operating expense)

Over the 4 year period, urban councils experienced:

- 10.1% average growth in revenue
- 8.3% average growth in expenses

In 2021-22, urban councils generated an underlying surplus, after 2 years of an underlying “deficit gap”.

Rural councils



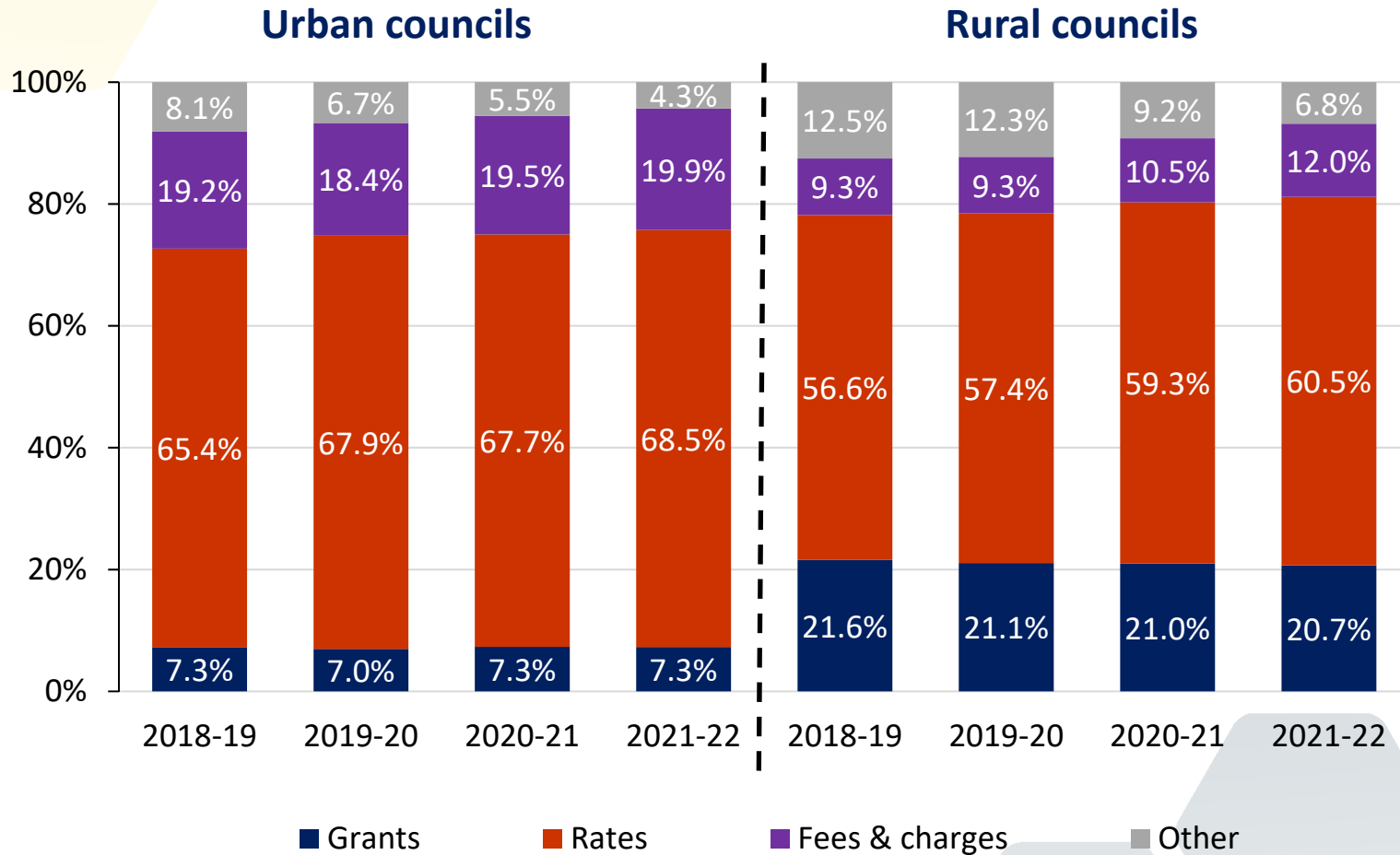
Over the 4 year period, rural councils experienced:

- 9.9% average growth in revenue
- 11.1% average growth in expenses

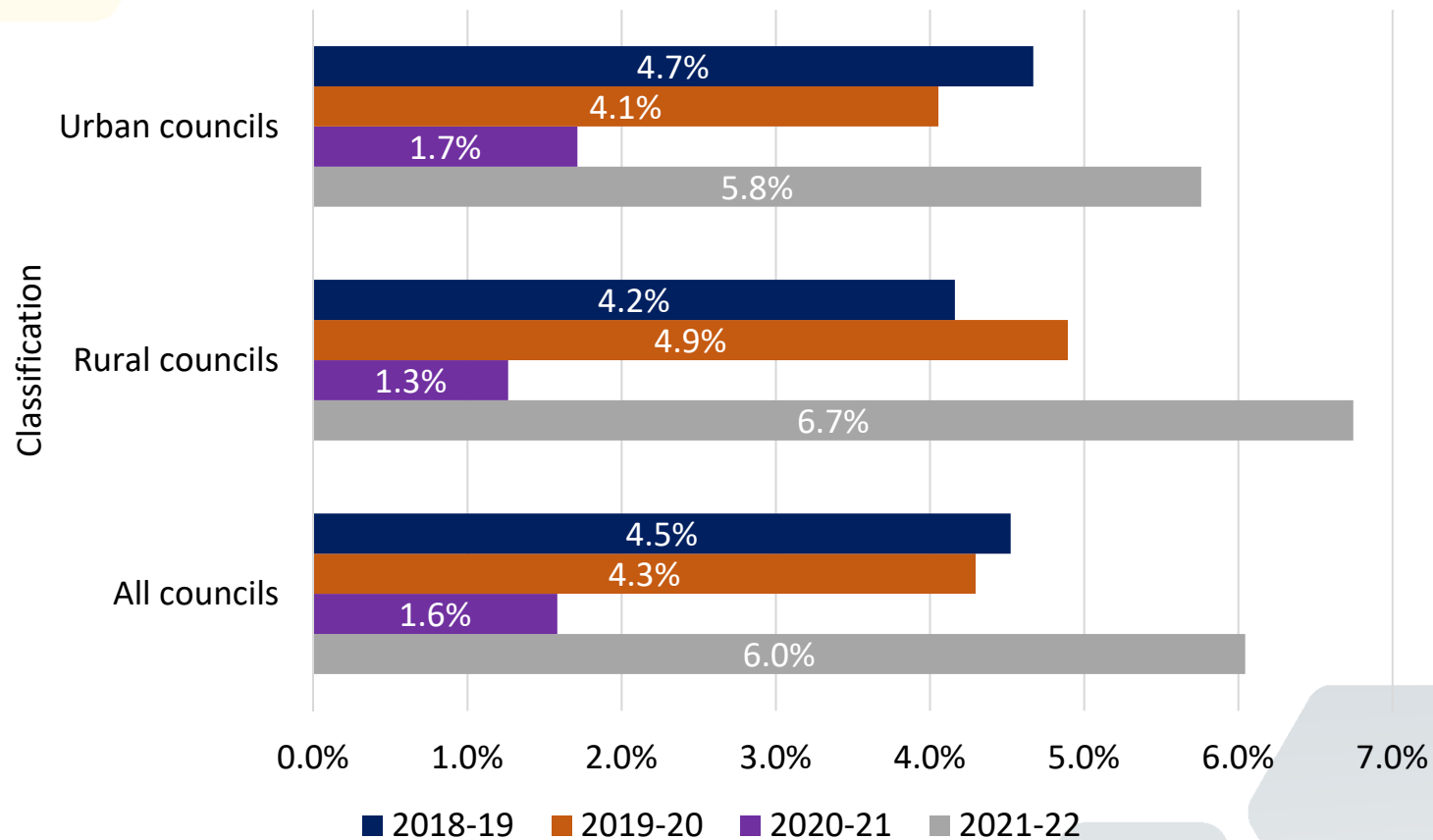
In 2021-22, rural councils generated an increase in their collective underlying “deficit gap”.



Revenue source

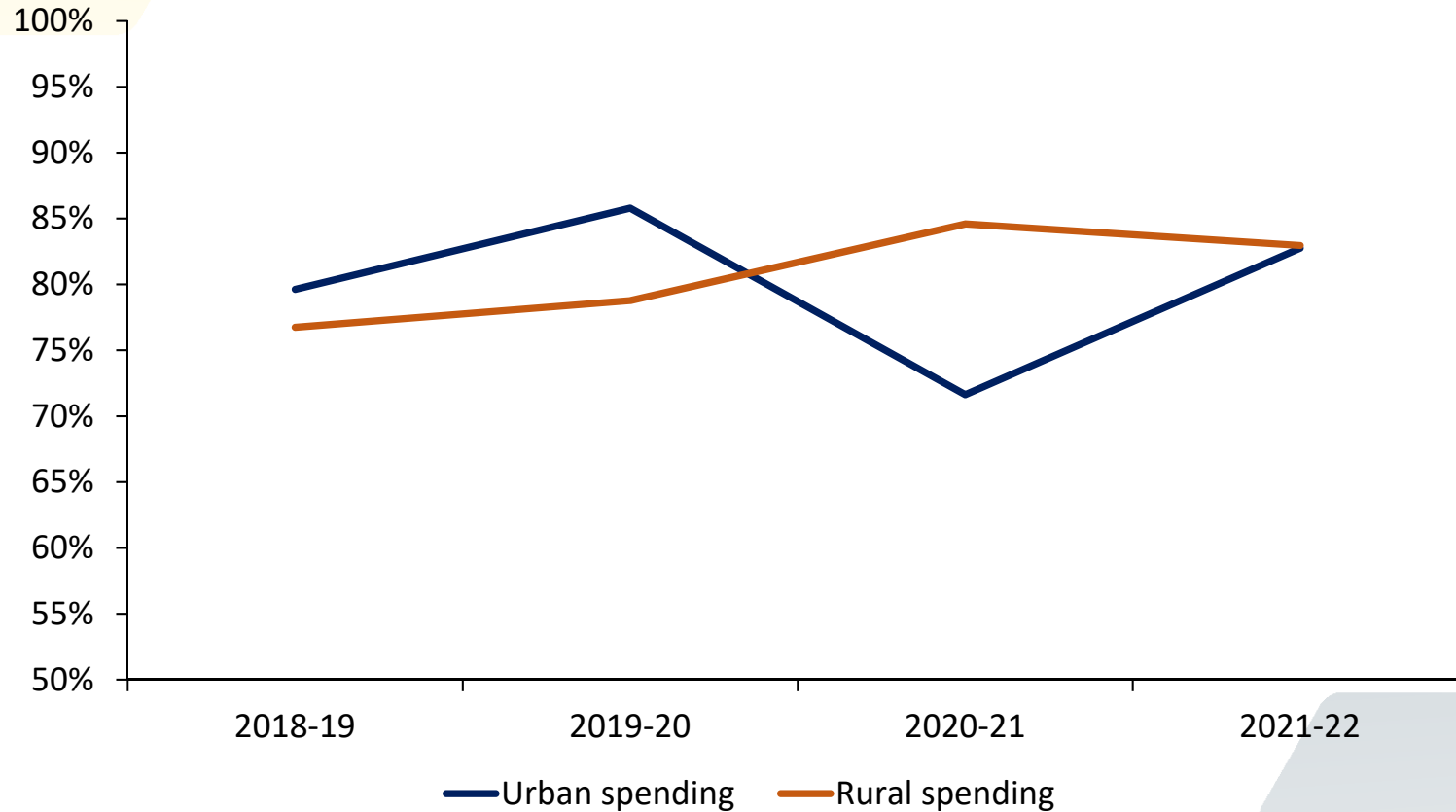


Rate revenue increases 2018-19 to 2021-22

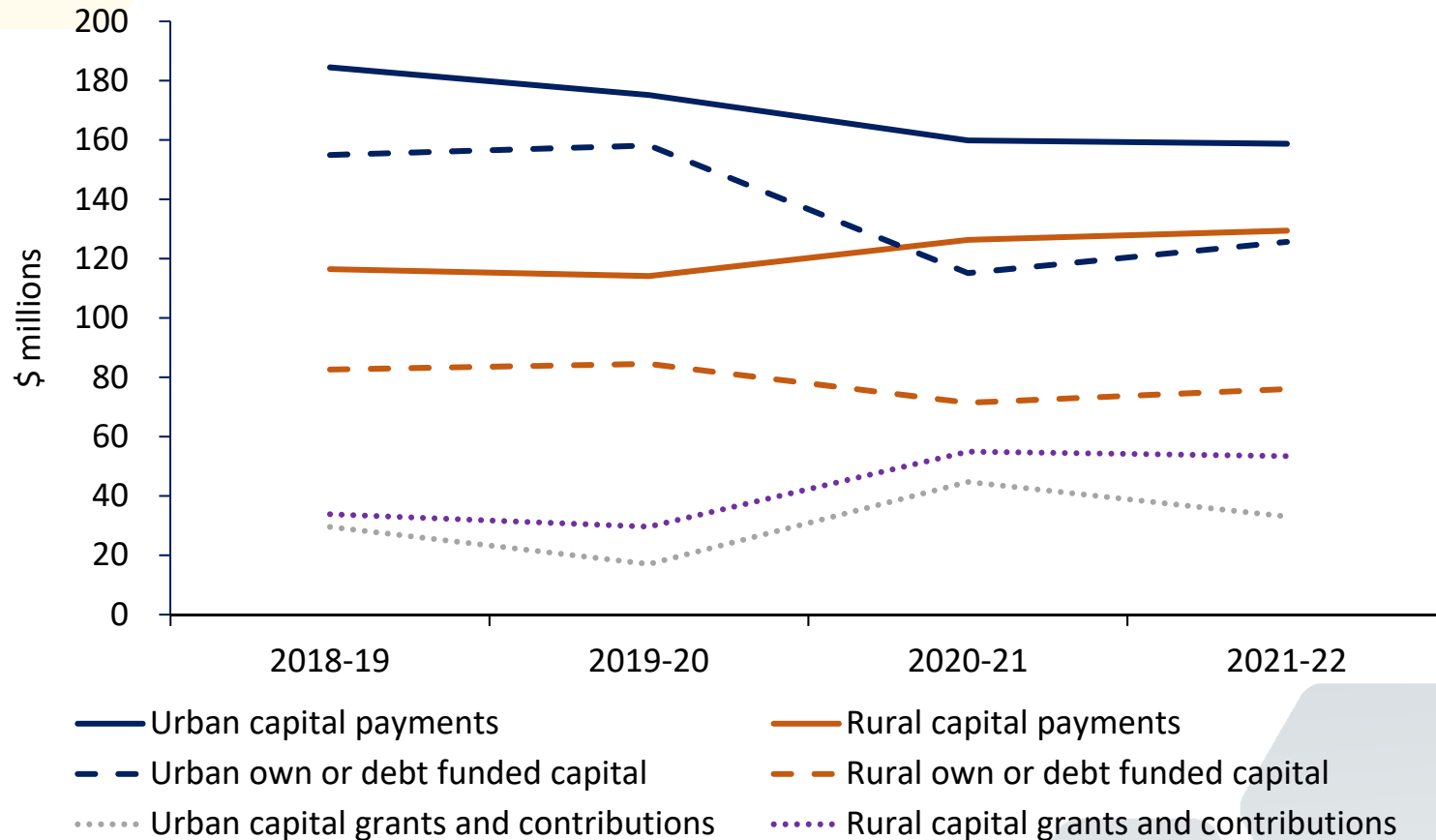


Note: Rate revenue reflects charges for rates and associated charges such as the fire levy

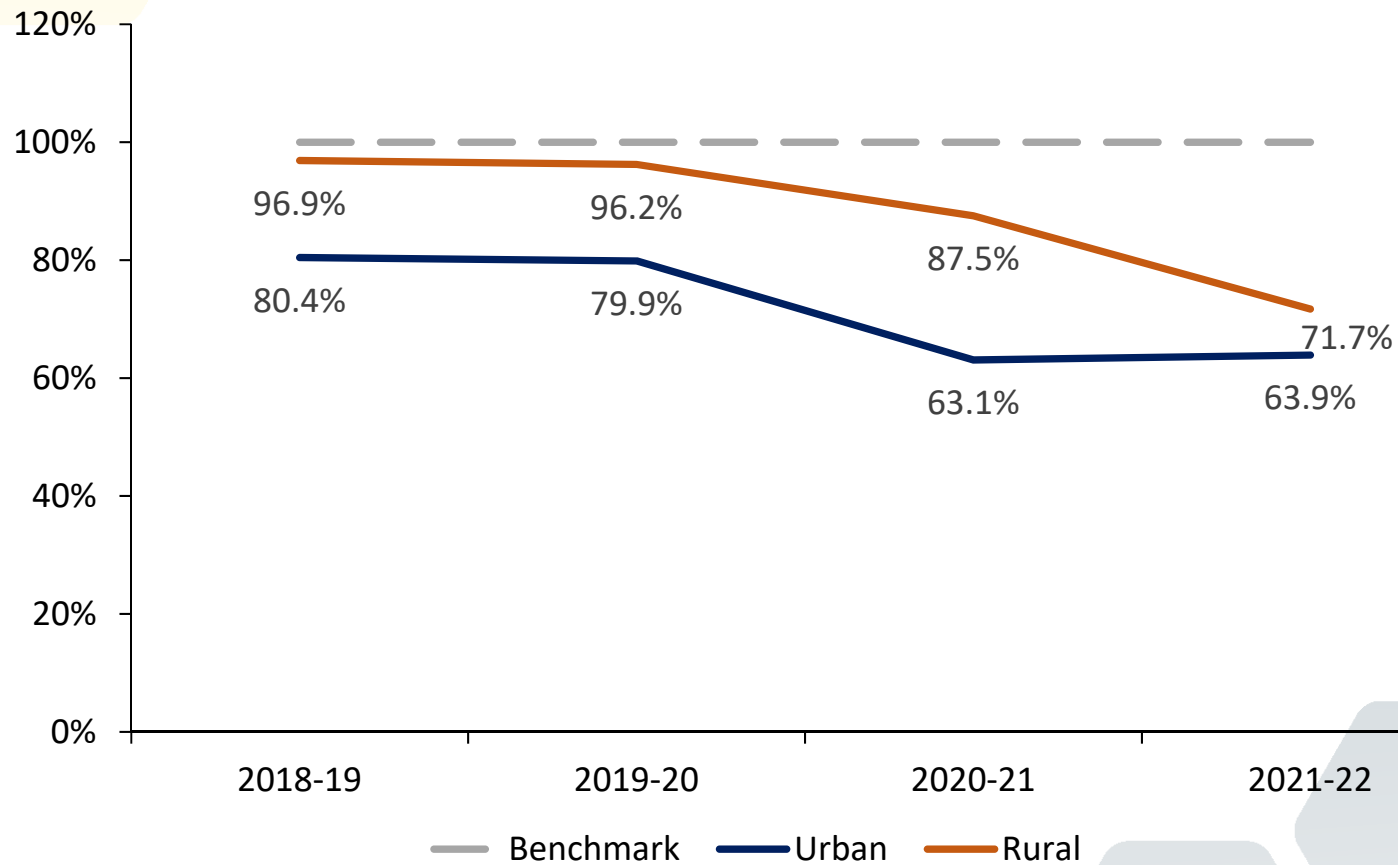
Capital spending as a percentage of capital budget



Capital investment funding source

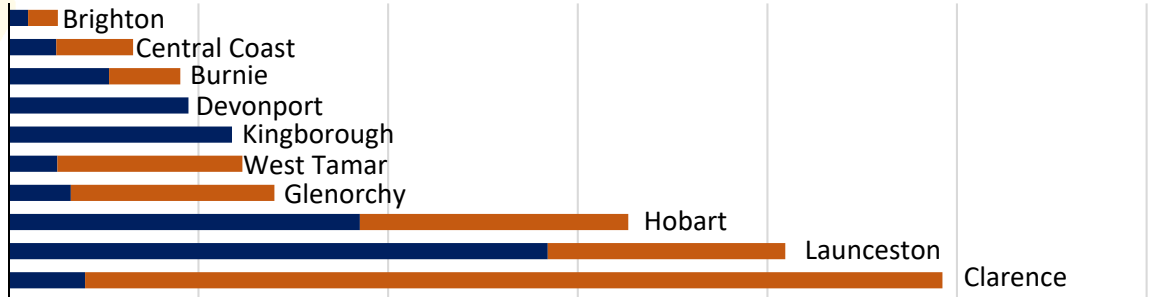


Asset sustainability ratio

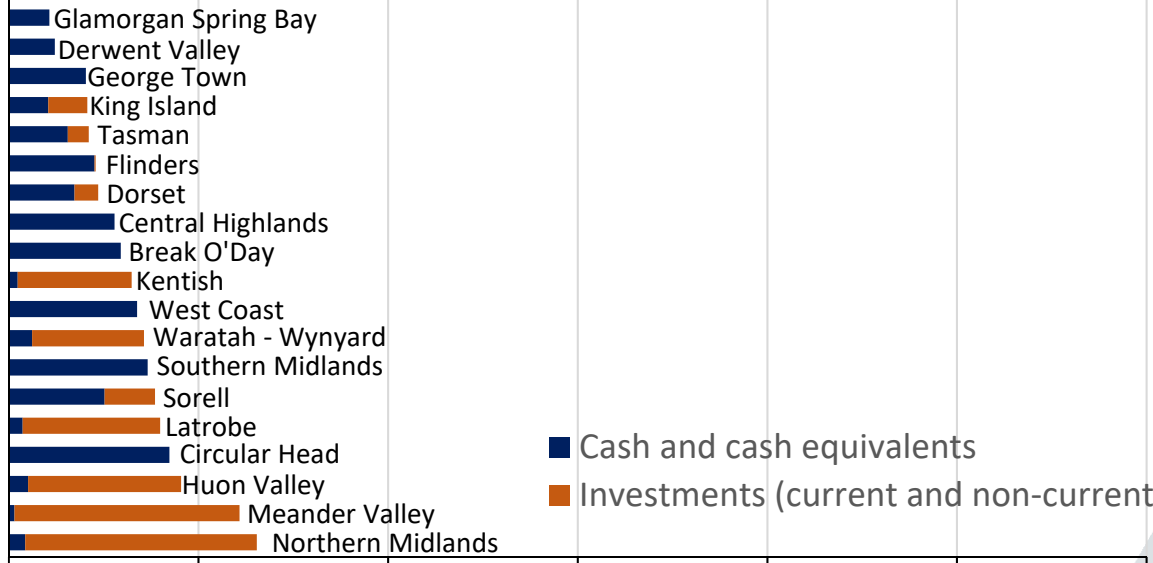


Council cash and investments

Urban councils



Rural councils

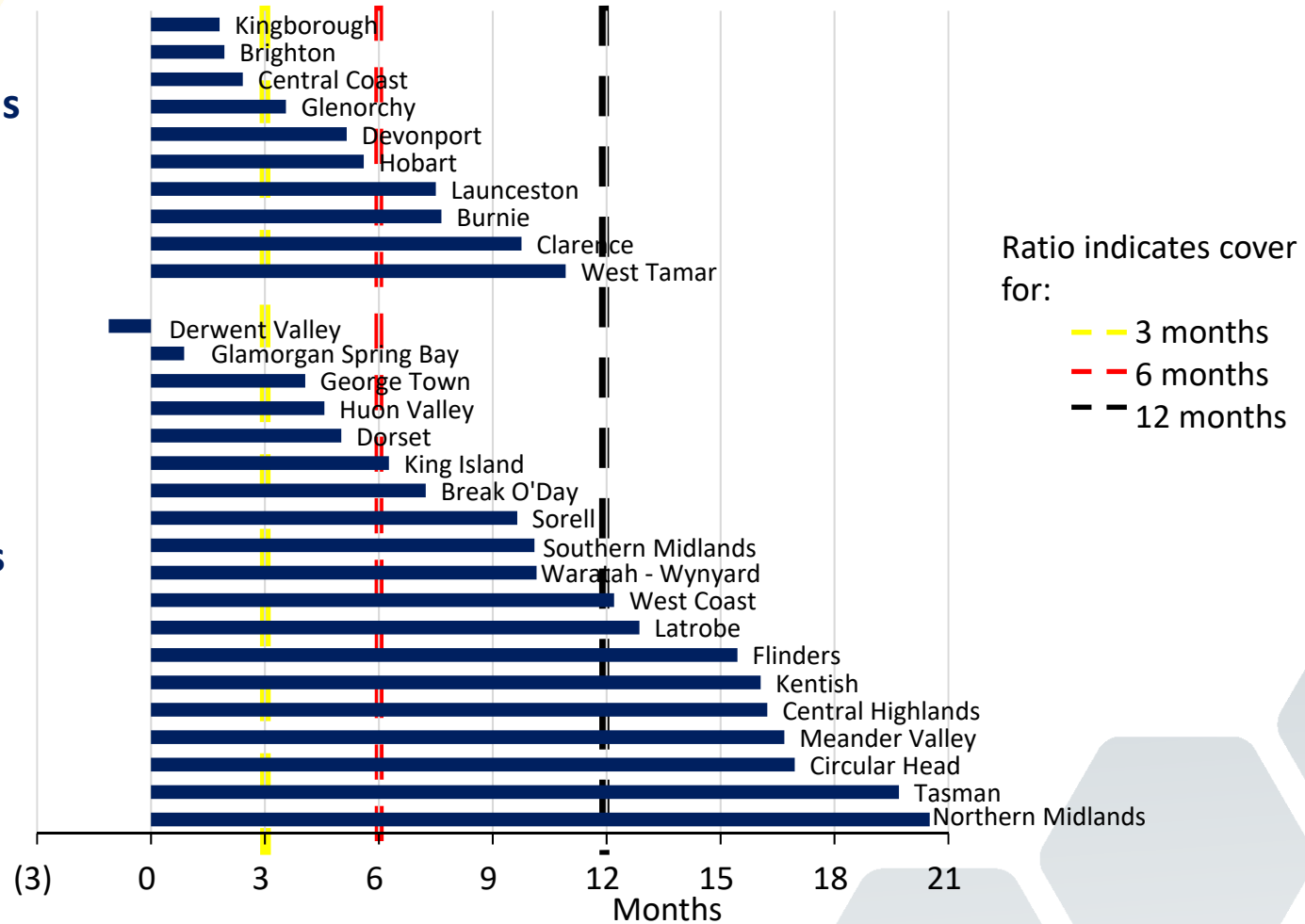


\$ millions

Council expense cover ratio

Urban councils

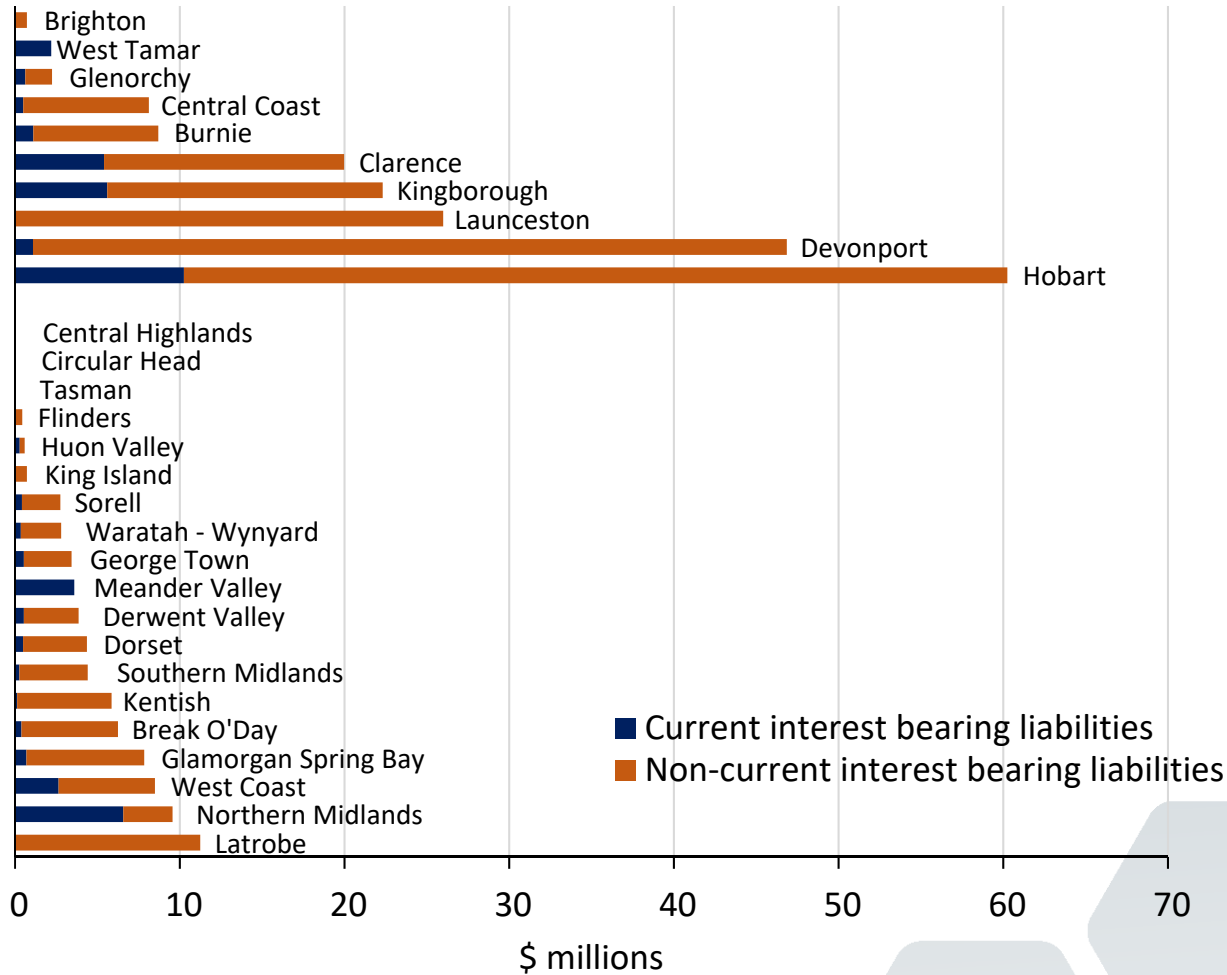
Rural councils



Note: Ratio is based on uncommitted cash held by council at 30 June 2022

Interest bearing liabilities

Urban councils



Rural councils

Note: Interest bearing liabilities includes both current and non-current liabilities held at 30 June 2022