



Annual Report

30 June 2005

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

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Accountability on your behalf

Our Vision

We want to be recognised for excellence in the provision of independent public sector audit services and as a result our Vision is

“Excellence in Audit Services”.

Our Purpose

To provide Parliament with independent opinion, advice and recommendations on the performance of the Tasmanian Public Sector (including local government and State-Owned Entities).

Our Strategic Objectives

- Public confidence in the performance of public sector entities.
- Improved service delivery by public sector entities.

Our Values are:

Accountability

- We will safeguard the interests of the community, the Parliament and its laws.
- We hold ourselves accountable for managing our resources efficiently and effectively.
- We will be responsive to the needs and expectations of our clients although we must manage expectations.

Client Service

- We will seek to understand our clients' risks and business environments.
- We value service that meets the needs of each client or stakeholder.
- We will seek to continuously improve our client service.

Our People

- We value diversity and respect individual rights and freedoms.
- We will respond to the needs and aspirations of our staff.
- We value teamwork and will encourage each other to fulfil our potential.

Professionalism

- We will act honestly, ethically and fairly with an independent and unbiased attitude.
- We value our professional skills and promote the pursuit of excellence.
- We value creativity and will develop innovative solutions for service delivery

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28 October 2005

Hon Paul Lennon MHA
Treasurer

Dear Minister

In accordance with the requirements of section 36 of the *State Service Act 2000* and section 27 of the *Financial Management and Audit Act 1990*, I am pleased to submit, for presentation to Parliament, the Annual Report of the Tasmanian Audit Office for the year ending 30 June 2005.

The report has been prepared in accordance with the provisions of the *State Service Act 2000* and the *Financial Management and Audit Act 1990*.

Yours sincerely



Mike Blake
AUDITOR-GENERAL

Snapshot of the Office

Our History

The first Auditor-General of Tasmania was George Boyes. He took office on 21 November 1824 and was known as the Colonial Auditor.

Since then there has been 19 Auditors-General with Mike Blake being the current incumbent.

Enabling Legislation

Several statutes govern the responsibilities of the Auditor-General. The main statute that establishes our responsibilities is the *Financial Management and Audit Act 1990*. This legislation governs the appointment and independence of the Auditor-General and defines the powers and responsibilities of the Auditor-General.

Audit Responsibilities

At 30 June 2005, the Auditor-General was responsible for:

- o Auditing the Budget Outcomes Statements and the Public Account Statements within the Treasurer's Annual Financial Report and the Consolidated Financial Statements for the State of Tasmania;
- o Conducting financial statement audits for 146 State public sector entities, including Parliament, government departments, public bodies, state-owned corporations and local government entities; and
- o Undertaking wide ranging performance audits concerned with the economic, efficient and effective use of public resources and compliance audits to ensure compliance with legislation and policies.

Available Resources

At 30 June 2005, we:

- o Had 37 in-house staff (34 at 30 June 2004);
- o Engaged 5 external audit service providers (4 during 2003-04);
- o Received \$0.980m funding from the Government for performance and compliance audits (\$0.744m in 2003-04); and
- o Raised \$2.331m in revenue from financial audit services (\$2.325m in 2003-04).

Reports Tabled

During the 2004/05 financial year the Auditor-General tabled nine (2003/04, six) reports in Parliament being:

- o Special Report Ex-Gratia payment to the former Governor Mr R W Butler AC;
- o Special Report No. 51 – Special Purpose and Trust Funds;
- o Special Report No. 52 – Internal Audit in the Public Sector;
- o Special Report No. 53 – Follow up Audits;
- o Special Report No. 54 – Compliance Audits (covering three matters);
- o Special Report No. 55 – Gun Control in Tasmania;
- o Special Report No. 56 – TT-Line: Governance Review; and
- o Report on the Audit of Government Departments and Public Bodies – November 2004 and June 2005. The June 2005 report includes the Forestry Land Swap report.

We exceeded our requirements within the Tasmania *Together 2020* framework.

Highlights of 2004-05

Parliamentary report and services

- Presented 7 performance and compliance audit reports to Parliament (2003/04 - 4 reports) (see page 15).
- Continue to brief Members and issue press releases on our reports presented to Parliament (see page 37).
- Assisted the Public Accounts Committee (see page 37).
- Achieved a satisfaction level of 96 per cent from Members of Parliament (see page 26).
- Achieved a satisfaction level of 68 per cent from our performance audit clients (see page 30).

Audit reports on financial statements

- Issued 133 audit opinions on financial statements (2002-03 audit cycle - 121 audit opinions). 79 per cent were completed within the specified timeframe (see page 43).
- Achieved a satisfaction level of 76 per cent from our financial audit clients (see page 46).

Managing our Office

- Reviewed our corporate planning processes (see page 55).
- Adopted a balance scorecard approach to measuring performance from 1 July 2005 (see page 55).
- Achieved a satisfaction level of 70 per cent from the staff (see page 75).
- The Office actively participated in raising funds for charitable organisations during the year (see page 76).
- The Office provided sponsorship for the University of Tasmania Award for students undertaking studies in auditing (see page 76).

Financial performance

- Our net financial result for the year was a loss of \$0.416m (2003-04 – surplus of \$0.018m) (see page 79).
- Audit fee revenue of \$3.487m (2003-04 - \$3.173m) (see page 80).
- Our net assets decreased to \$0.313 as at 30 June 2005 (2003-04 - \$0.737m) (see page 81).

Auditor-General's Report

Our Planning Framework

In December 2004 the Tasmanian Audit Office reviewed its corporate strategy and in doing so adopted a revised statement of purpose being:

“To provide Parliament with independent opinion, advice and recommendations on the performance of the Tasmanian Public Sector (including Local Government and State-owned entities)”.

Strategic objectives and critical success factors were developed to assist in assessing our performance in achieving this statement of purpose. Our financial and performance audits and investigations are conducted with these objectives in mind.

I am pleased to report that surveys of Parliamentarians, Secretaries and other heads of entities indicate that to date we are progressing strongly towards the achievement of these objectives. Informal feedback suggests to me that we are conducting performance and compliance audits on matters of relevance to Members of Parliament and that our reports are proving useful to them. It is essential that this continue.

Complexities in Financial Reporting

Reporting entities throughout Australia are adopting Australian Equivalents to International Financial Reporting Standards, a process which effectively commenced on 1 January 2004, and will only conclude on 30 June 2006. Significant changes have already been made to accounting standards and still further changes are anticipated. Impacts vary from entity to entity.

In the main there is little impact on local government councils, government departments or on smaller government entities but this is not the case for some Government Business Enterprises and State Owned Companies. Users of financial reports should anticipate that during this process of change, the operating results and financial position of some of the State's large GBEs and SOCs could fluctuate although cash flows should not be affected.

At 30 June 2005 all entities prepared their financial statements in accordance with existing Australian accounting standards and were required to document in the notes to their financial statement details of the impacts on their financial results of the new standards. This required that entities, where possible, quantify the financial impacts. In all cases this information was provided and in most cases the requirement to quantify financial impacts was satisfied. The information reported in these notes indicate that implementation of the new accounting standards will

result in significant variations to the following balances in financial statements to be presented at 30 June 2006:

- o Deferred tax balances – liabilities for deferred income taxes will increase thus reducing net equity;
- o Unfunded superannuation – provisions for this liability will increase also reducing net equity;
- o Carrying values of non-financial assets – impacts will vary although the extent of variation will depend on the accounting policies adopted. Entities adopting a “cost” policy may see little change whereas entities adopting a “valuation” approach may see greater levels of fluctuation in balances because revaluations will need to be much more frequent; and
- o Financial instruments – the impact on entities of the new standards has still to be assessed because implementation was delayed by one year.

Matters internal to TAO

Peer review of TAO

I am pleased to report that a former Auditor-General has been appointed to conduct a peer review of the operations of the TAO. This review will be completed prior to 30 June 2006 and relevant outcomes will be included in the 2006 annual report.

Compliance unit

TAO operates a small unit within its Performance Audit function focusing on the conduct of compliance audits. I reported in 2003-04 that this was a temporary arrangement that I hoped would become permanent which has occurred.

Staff survey

The annual staff survey was completed in May 2005. The reviewer reported significant improvements in a number of aspects relevant to TAO staff but highlighted the need for continuous improvement. Plans to address concerns raised by staff have been developed with their input. This includes a need to revisit selected position classifications and the development of an industrial agreement unique to TAO staff. Both of these projects are underway.

Mandate

Following representation to the Treasurer, changes to the Auditor-General's mandate have been proposed. This deals with the current limitation whereby the Auditor-General cannot conduct performance audits of State-Owned Companies that are not also public bodies.

Financial performance

As indicated previously, I am pleased with progress being made in satisfying stakeholder and legislative requirements relating to TAO's core auditing and investigative functions. However, our financial results are poor and this is being addressed.

Period of change and my thanks

2004-05 has been an extraordinarily busy year for all of us at the TAO. We have tabled more reports than normal, adopted a revised planning framework, implemented an integrated financial and time recording system, run seminars on the new financial reporting standards, commenced reviews of our position classifications and taken steps to move to new offices. All staff responded positively to these events for which I thank them and I look forward to their ongoing support as we tackle further change in the years ahead.



HM Blake
Auditor-General
28 October 2005

Role and Corporate Objectives

The Role of the Auditor-General.....

The Office is part of the accountability framework where we assist the Parliament in holding the Government accountable for fulfilling its responsibilities.

The Government is obliged to account to the citizens of Tasmania, through the Parliament, for its management of public funds and in the achievement of agreed outputs. It must ensure that funds are properly raised, protected from loss and spent with maximum efficiency and effectiveness for the purposes approved by the Parliament. This duty to account is discharged in part by the production of annual financial statements. The information in these statements needs to be examined by a suitably qualified independent person to ensure that it is sound, accurate and complete. The Auditor-General is responsible for ensuring that this is done.

Is Enshrined in Legislation.....

The *Financial Management and Audit Act 1990* is the main legislation governing the appointment, tenure, duties, responsibilities and authority of the Auditor-General. This Act provides the legal basis for the Auditor-General's access to all government information and the freedom to report findings arising from audits to Parliament.

The Auditor-General is responsible for audits under the *Financial Management and Audit Act 1990*, *Government Business Enterprises Act 1995*, *Local Government Act 1993* and other relevant legislation such as the *Corporations Act*. The Auditor-General also has audit responsibilities in respect of Commonwealth grants and payments to the State under Commonwealth legislation.

The Tasmanian Audit Office is a government department established to assist the Auditor-General in meeting his statutory requirements. The Auditor-General is the administrative head of the Office and the Auditor-General may engage private sector firms as his agents.

That Ensures His Independence.....

The Audit Office is responsible for the administration of the *Financial Management and Audit Act 1990* in so far as it relates to audit matters and it is not part of the Government itself. This independence from the Executive Government of the day is vital if the Audit Office is to perform its work effectively and make independent and unbiased judgments.

The Auditor-General is an independent Officer appointed by the Governor and is not subject to control or direction either by the Parliament or the Government.

The independence of the Auditor-General is assured by wide powers assigned by legislation. This independence ensures that findings that arise from a range of financial and wider performance audits are communicated regularly to the Parliament without interference.

And Defines His Mandate...

The Auditor-General has a broad-scope mandate for comprehensive auditing that embodies the components generally referred to as financial audit, compliance audit and performance audit. The areas subject to examination under these audit components can include the management of financial, human and other resources. The Auditor-General must report the results of all audits directly to Parliament.

The Auditor-General must provide an audit opinion on the annual financial statements of all audited agencies, on components of the Treasurer's Annual Financial Report and on the Consolidated Financial Statements of the State. The Auditor-General may also investigate instances of waste, impropriety or lack of financial prudence in the use of public resources, and has the power to investigate whether the government and its agencies effectively, efficiently and economically use public resources.

And His Corporate Objectives

The State of Tasmania applies an output based management system that underpins the allocation of funds from the State Budget. While the Office is largely a fee for service operation it is still a government department and it operates within the budgetary system. The Office's outcome is to have:

"Stakeholders, including Parliament, who are well-informed and who value the Tasmanian Audit Office as a source of independent audit advice and assurance on the performance and accountability of public sector entities".

The sole output of the Office is "Public Sector Management and Accountability" and this output encompasses our products and services (sub-outputs) which are:

- o Parliamentary reports and services (see page 14); and
- o Audit reports on financial statements (see page 40).

The following diagram links the planned outcomes with various products and services that the Office delivers under these sub-outputs. The diagram also shows the relationship of those products and services with our legislative mandate.

Following a series of planning workshops that commenced in December 2004 the Office's business plan was refined. The key objective was to build on past successes, existing strengths in particular the strengths of our people and to take advantage of external resources where gaps exist or where there is a need to compare and benchmark our activities.

An outcome of this process has been to redefine our Purpose and Critical Success Factors (CSF) within a Balanced Scorecard (BSC) framework. There are two principal reasons for this:

- Firstly, to reinforce our commitment to our key client, the Parliament of Tasmania; and
- Secondly, to implement a reporting framework that will assist in measuring whether or not we are achieving our objectives.

To achieve the Office's purpose, it has developed two strategic objectives and ten critical success factors. Each of the latter are addressed in every Business Plan along with Key Performance Indicators (KPIs) that are used to measure progress towards achievement of the CSFs and, therefore, of the strategic objectives.

Our two strategic objectives and related CSF

1. Strategic Objectives

- Public confidence in the performance of public sector entities; and
- Improved service delivery by public sector entities.

2. Critical Success Factors and Objectives

Providing Value for Money

- Improved public sector entity accountability, outcomes and processes.
- Efficient and effective Audit Office operations.

Highly satisfied Parliament (representing the community) and Clients

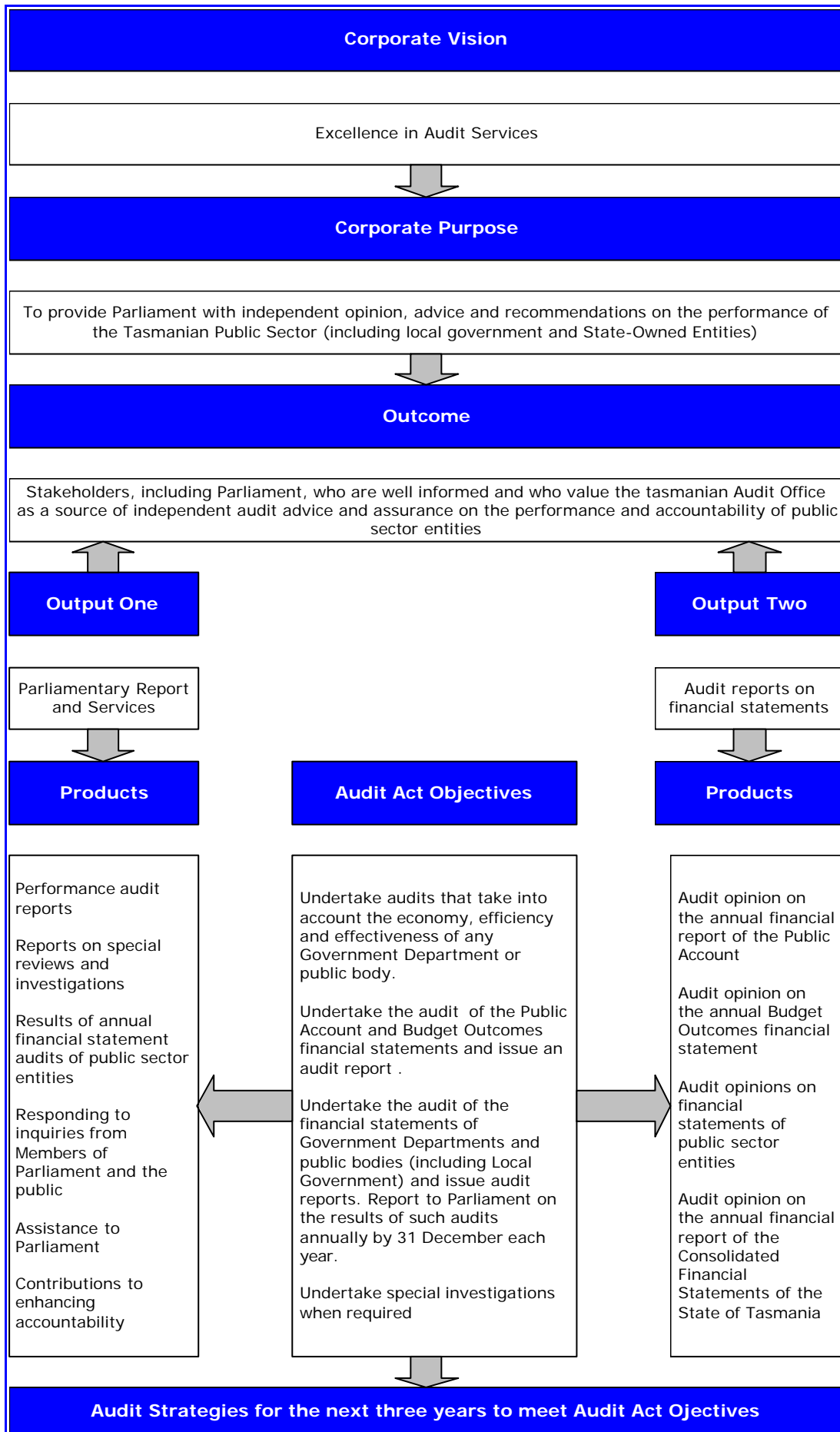
- Appropriate reports.
- Positive, action focused, independent advice.
- Audit role and scope to match current and emerging need.

Rigorous methodology and process relevant to context

- Appropriate delivery, methodology and processes.
- Optimal resource planning and allocation.
- High quality business decisions and processes.

Strongly performing teams

- Skills profile matches needs.
- People engaged with objectives and values and motivated to perform.



Summary of Outcomes

Objective	Strategies	Performance Criteria
Undertake high quality independent audit activities	<ul style="list-style-type: none"> o Complete all audits within agreed timeframes; o Utilise best practice audit methodologies and practices for all our audit activities; o Provide quality training and support to audit staff; o Establish practices that are specifically aimed at improving the efficiency and timeliness of audit services; and o Implement highly effective and efficient quality assurance mechanisms for all audit processes. 	<ul style="list-style-type: none"> o Satisfaction from audit clients with the efficiency and timeliness of the audit process; o Timeliness of opinions expressed on financial statements of clients; o Assessment of all audit methodologies by peer review every 3 years with results reported that includes confirmation of best practice status of methodologies and practices; and o Post-audit quality assurance reviews applied annually to a set percentage of audits, with all resultant recommendations acted upon.
Produce reports for Parliament on the performance and accountability of public sector entities	<ul style="list-style-type: none"> o Implement well-structured and highly effective strategic audit planning processes across all elements of our public sector audit responsibilities; o Target our audits to areas offering greatest potential for the Office to contribute to improved performance and enhanced accountability in the public sector; o Actively seek the views of key stakeholders on potential audit topics; o Introduce continuous improvement to the structure and content of reports, and to our methods of communicating audit results to Parliament; and ensure that all planned reports are presented to Parliament in accordance with identified timeframes. 	<ul style="list-style-type: none"> o Feedback from the Members of Parliament on their satisfaction with the relevance of audit topics and the quality and usefulness of our reports; o Surveys indicate other key stakeholders see value in, and are satisfied with, our reports; o Timeliness of reports to Parliament; and o Produce the legislated reports and the minimum number of reports as defined in <i>Tasmanian Together 2020</i>.

Summary of Outcomes

Measure	Result
<p>Assessed as being Good to Very Good (≥ 75)</p> <p>Completion of all audits within 30 days of receiving signed financial statements.</p> <p>Completion of all financial statement audits for agencies and government business enterprises by 15 October each year and within four months of balance date for all other clients.</p> <p>Favourable overall assessment.</p> <p>Favourable overall assessment.</p>	<p>Achieved</p> <p>Not achieved. 79% completed within target range.</p> <p>Not achieved. 78% completed by 15 October.</p> <p>Not undertaken. To be assessed by comprehensive peer review in 2005-06.</p> <p>Not achieved. Currently underway.</p>
<p>Assessed as being Good to Very Good (≥ 75)</p> <p>Assessed as being Good to Very Good (≥ 75)</p> <p>Report on Government Departments and Public Bodies tabled by 15 November each year.</p> <p>Reports on Performance and Compliance Audits within eight months of commencement.</p> <p>Table one legislated report and four other reports annually.</p>	<p>Achieved.</p> <p>Not Achieved. 68% of our clients were satisfied.</p> <p>Achieved.</p> <p>Partially Achieved.</p> <p>Achieved.</p>

Summary of Outcomes (Continue)

Objective	Strategies	Performance Criteria
Meet the needs and expectations of our stakeholders	<ul style="list-style-type: none"> o Maintain a productive working relationship with the Parliament and with Parliamentary committees, in particular the Public Accounts Committee; o Establish sound professional working relationship with other stakeholders in order that we have an understanding of their needs and they fully appreciate our capacity and power to respond to such needs; o Be effective in our professional relationships with our audit clients through timely and well co-ordinated communications and pro-active identification of audit issues and emerging developments; and o Identify and pursue opportunities to raise awareness of the accountability enhancing features of our audit activities and the reports that flow from our audit processes. 	<ul style="list-style-type: none"> o Positive assessments provided by the Parliamentarians and committee members on the timeliness and quality of our dealings with them over the period of the Corporate Plan; o Annual Feedback via surveys indicating our audit clients are satisfied with our working relationship; o Periodic feedback from other stakeholders on perceived quality of our interaction with them; and o Feedback on relevance, usefulness and quality of seminars conducted and information provided during the audit process.
Be identified as an exemplary employer	<ul style="list-style-type: none"> o Devise recruitment practices that keep pace with the changing external environment and attract competent and skilled people to the Office; o Implement well-designed annual learning and developments programs for our staff that will assist them to attain high standards of professional skills and performance; o Provide a stimulating work environment for our staff and make available to them up-to-date technology and business processes; and o Manage our people in an exemplary manner in line with corporate values. 	<ul style="list-style-type: none"> o Annual feedback from employee attitude surveys on our commitment to corporate values and wellbeing of our people; o Conduct staff performance assessments bi-annually; and o Trends in a range of employee-related statistics including incidence of sick leave, staff turnover, days lost to workers compensation and percentage of time devoted to staff development.
Manage our business with maximum efficiency and effectiveness	<ul style="list-style-type: none"> o Utilise modern and suitable information systems that support decision-making and maximise the efficiency of Office-wide operations; o Ensure that our corporate governance framework is best practice; o Develop a performance management and reporting framework that ensures external reporting our performance against corporate goals in a clear and transparent manner; o Manage our financial resources with due diligence; and o Maintain effective time and cost management practices across the Office. 	<ul style="list-style-type: none"> o Quality and effectiveness of our corporate and audit information systems; o The Office's financial position is sustainable; o Standard and timeliness of our annual report to Parliament; and o Level of adherence to established time and cost budgets for all our activities.

Summary of Outcomes (Continue)

Measure	Result
Assessed as being Good to Very Good (≥ 75)	Achieved.
Assessed as being Good to Very Good (≥ 75)	Achieved.
Assessed as being Good to Very Good (≥ 75)	Not assessed.
Assessed as being Good to Very Good (≥ 75)	Achieved.
Assessed as being Good to Very Good (≥ 75)	Not achieved but a significant improvement
Completed within one month of period being assessed.	Completed but not within timeframe.
A clear positive trend in employee-related statistics.	Achieved.
Assessed as being Good to Very Good (≥ 75)	Not assessed.
The Office records a financial performance that is break even and have a positive cash balance.	Not achieved.
Attain Gold Award status in the Australasian Reporting Awards for our report within the next five years.	Entered for the first time in 2005 but Gold Award not achieved.
Present our annual report to our Responsible Minister within two weeks of the audit opinion being issued.	Not achieved.
All organisational tasks successfully completed within agreed time and cost budgets.	Not achieved.

Sub-Output One - Parliamentary Reports and Services

The Parliament is our main client and our reports and services are aimed at meeting its needs.

Our audit work and reports are designed to assure the Parliament that the public sector resource management practices are efficient and effective and to suggest ways the public sector can improve its performance. These reports provide commentary and advice on contemporary public sector developments to the Parliament, its committees, the Government, public sectors bodies and other external parties.

These objectives are in line with our purpose to provide services that enhance accountability of public sector performance in Tasmania. Set out below are summaries of our performance.

Performance against corporate targets

PERFORMANCE MEASURES	UNIT OF MEASURE	2004-05 TARGET	2004-05 ACHIEVEMENT
Cost			
5.4 The delivery of reports and services are successfully completed within agreed cost budgets (see page 15).	\$million	1.007	1.156
Quantity			
2.4 Produce the legislated reports and the minimum number of reports as defined in <i>Tasmania Together 2020</i> (see page 15).	number	5	9
Timeliness			
5.4 Reports completed within planned timeframes (see page 25).	Per cent	100	37.5
2.3 Legislated reports tabled by prescribed date (see page 25).	Per cent	100	100
Quality			
2.1 Overall level of satisfaction with performance and compliance audit reports (see page 26).	Per cent	75	96
2.1 Overall level of satisfaction with the report on Government agencies and public bodies (see page 26).	Per cent	75	96
2.2 Overall level of satisfaction by other stakeholders in the value of our Reports to Parliament.	Per cent	75	Not assessed

Further commentary explaining the performance measures is included on pages 15 to 39.

Cost targets

The costs of services provided in 2004-05 were:

PRODUCT	TARGET 2004-05 (\$m)	ACTUAL 2004-05 (\$m)
Parliamentary reports		
Performance and compliance audits	.867	0.935
Report on Government Departments and Public Bodies	.140	0.176
Parliamentary services		
Responding to inquiries from Members of Parliament and the public	.000	0.045
Total costs	1.007	1.156

This table indicates that the Office spent more time on performance and compliance audits than originally planned although the difference is minor. The majority of this difference is the costs associated with conducting the audit of the Corporate Governance of the TT-Line. The audit was outsourced due to its specialist nature. The additional costs also relate to a higher number of reports tabled than previously.

Quantity targets

This performance measure relates to the completion of reports to the Parliament. Parliamentary reports result from the conduct of financial audits, performance audits, compliance audits and special investigations. The Office is required to table an annual report on the audit of Government departments and public bodies and at least four reports resulting from performance and compliance examinations to meet the targets within Tasmania *Together 2020*.

The table below details our performance.

TYPE OF REPORT	TARGET	ACHIEVEMENT	COMMENT
Performance and Compliance Audits	4	7	While there is a target in the Tasmania Together framework the Office has planned to table six reports. During the year the Office tabled 7 reports and one of reports contained the results of 3 compliance audits.
Report on Government agencies and public bodies	1	2	This report is required to be tabled in Parliament by the 31 st December each year for the preceding financial year. During the year the Office tabled two reports – one in November 2004 and one in June 2005. The June report included a special investigation into the Forestry land swap.
Total	5	9	

Performance Audit and Compliance Audit Reports

Parliamentary reports focus on areas that offer the best potential for the public sector to improve resource management, and enhance accountability and transparency. These reports result from conducting performance and compliance audits. During the 2004-05 financial year the Office tabled the following seven reports, containing nine audits, in Parliament covering the following areas:

Special Report Ex-Gratia payment to the former Governor Mr R W Butler AC

This report reviewed various matters relating to an ex-gratia payment to the former Governor, Mr R W Butler AC.

Special Report No. 51 Special Purpose and Trust Funds: Department of Health and Human Services

The audit's objectives were to examine compliance with applicable legislation and internal guidelines at the Department of Health and Human Services and to ensure that special purpose and trust monies were being collected, held and expended correctly.



The audit looked at three classes of funds; being donations, industry and research funds, and funds bequeathed to public hospitals in trust deeds. In all, these funds comprised 289 accounts with a total of \$7.4 million in them, at the time of conducting the audit.

We found improvements in the management of the trust funds. Principles of good management were being applied so that trust funds were not confused with the Department's day-to-day operating account.

However, auditors did observe that for some of the accounts original documentation could not be found. As a result, it was not certain that all accounts were operated consistently with their intended purpose. No evidence of funds being used inappropriately was noted.

Eight recommendations were made all of which were accepted.

Special Report No. 52 Internal Audit in the Public Sector

The purpose of internal audit (IA) is to provide assurance to executive management - or a 'governing body' such as a Board - that an organisation's control and risk management systems are working properly.



Active management support for IA was evident at each audited entity. This existed in the form of audit charters, audit committees and access to the Chief Executive Officer or Audit Committee Chair.

The selection of audits for an IA annual work program should be based on assessed risks to the organisation's business. We were satisfied that the four entities reviewed had conducted risk assessments, but found variations as to how and when these assessments were done. Organisational risk assessment and internal audit are separate functions but in three of the four entities that we audited there was no clearly defined linkage to allow their interaction.

The quality of work undertaken by IA was satisfactory. Reports produced by IA were being addressed at appropriate levels and management accepted most recommendations that had been made.

One area where improvements could be made was performance measurement. Only one organisation was using performance indicators that could be accurately measured to assess its IA function. On the other hand, all but one of the entities had peer review mechanisms in place to ensure objective review of IA.

We also reviewed the four Tasmanian government departments that had chosen not to have an IA function and found that two did not have documents to support their position.

In all, our report contained 12 recommendations that may be relevant to all public sector organisations.

Special Report No. 53 Follow-up Audits

The goal of performance audits is to assess the effectiveness, efficiency and economy of activities undertaken by the public sector. Our identification of areas where improvements can be made is one of our primary objectives, together with the client's acceptance and implementation of any resultant recommendations. Using a collaborative approach with our clients, we aim to reach agreement so that audit recommendations are practical and add value to public sector programs or processes. Accordingly, there is an expectation that our recommendations will be implemented.

We collated responses to follow up questionnaires, and were able to gauge with some accuracy the extent to which clients have acted on recommendations made in selected performance audit reports tabled during the period January 2000 to June 2001, namely:

- No. 31: Literacy and numeracy in Government schools
- No 32: Assistance to industry
- No 33: Food safety
- No 34: Procurement in Tasmanian Government departments
- No 35: Software licensing
- No 36: Collection of receivables and loans in Government departments
- Information security and Internet usage (report not tabled)

Literacy and numeracy in government schools

Of 15 original recommendations, the Department of Education had completely implemented 11. Three recommendations had been considered but ultimately were not proceeded with while one was partially implemented. Under these circumstances, we regard the overall rate of implementation (77%) as satisfactory.

Assistance to industry

None of our recommendations were accepted or implemented. However, the Department of Economic Development (formerly the Department of State Development) has instituted some changes in the way that it assists industry in Tasmania. The tenor of these changes is consistent with recommendations in our 2000 report. We stand by our original recommendations on the need for improved documentation of process, and the need for greater public disclosure.



Geoff Fisher

Food Safety

Although the overall rate of implementation was 68% it must be noted that one particular recommendation, concerning performance indicators, skewed the overall score. However, we are satisfied that Councils had taken steps to implement the key recommendations that dealt with risk-based assessment of food premises and the need to be able to demonstrate accountability and transparency in relation to inspections performed.

Procurement in Tasmanian Government departments

Since 2000 when we originally reported our findings, there has been significant activity by Departments to implement the recommendations of the original report. Overall, we found that 91% of all recommendations had been implemented to some extent. Of 31 individual recommendations made, only two had not been implemented at all. Departments are now making greater use of guidelines or contacting Treasury directly, either for assistance or to seek exemptions.

Software licensing

There were three recommendations that organisations had fully implemented. In all three cases there was only one organisation involved. We stand by our 2001 recommendation that public sector entities should require all staff to sign an Employee Compliance Statement indicating their agreement to legal software use. Aurora Energy had not implemented recommendation eight as they consider their current arrangements as being more suited to their business needs.

Collection of receivables and loans in Tasmanian Government departments

One Department had put into operation all recommendations from our reports whilst another two had achieved better than 90% implementation. For those entities where there was a lesser extent of implementation, various reasons were cited, e.g.:

- Policy constraints; and
- Timing problems.

Some responses indicated that recommendations will continue to be considered but this seems unlikely, as some years have already passed without action.



Donna Powell

The issue of performance indicators requires greater impetus from senior management. Agencies should increase the use of debt collection targets and performance indicators, and then better assess the results obtained from these activities. The audit showed the Department with the lowest degree of implementation, the Department of Primary Industry, Water and Environment, still had a rating of 61%.

Information security and Internet usage

Since the original report was prepared, international terrorism and increasing sophistication of computer viruses, worms, Trojan horses etc, have provided an impetus to raise the profile of IT security. Both Departments have put our recommendations into force, either partially or completely.

However, in the light of the seriousness of security problems revealed by our audit we are concerned that Department of Health and Human Services had not achieved a higher degree of implementation.

Special Report No. 54 Compliance Audits

This report contained three compliance audits that were completed between January 2004 and February 2005.

Infrastructure funds

The audit's objective was to ensure infrastructure funds were being correctly expended in accordance with the purposes for which they had been provided and appropriately reported in Departments' financial statements. Our audit examined the management and control of infrastructure fund expenditure within eight departments that had been allocated infrastructure funds by Treasury.

We were satisfied that funds were properly controlled and spent in accordance with the purpose for which they had been provided. We had initial concerns that some of the projects for which infrastructure funding had been provided did not meet the strict definition of 'infrastructure'. However, following subsequent discussions with Treasury our general conclusion was that all transactions tested related to infrastructure projects and had been classified accordingly.

We observed that there was a lack of consistency in reporting infrastructure funding in Departmental annual financial statements. Our report contained two recommendations to enhance accountability.

Members' and Ministers' travel claims

Elected members of Parliament are entitled to have certain travel expenses reimbursed. Travel expenditure includes such items as air travel, taxi hire, private motor vehicle allowance and meal and entertainment allowances.



Don Bailey

The audit's objective was to gain assurance that Members' and Ministers' travel expense claims and invoices provided in support of travel claims, were properly reviewed and authorised before payment occurred.

We reviewed payments made during the 2003 - 2004 financial year by the Legislative Council, House of Assembly and Department of Premier and Cabinet (where Ministers' travel entitlements are processed).

We were satisfied that legislative and other relevant requirements governing procedures for the reimbursement of claims by Members and Ministers were met.

Corporate credit cards



Stephen Hoyle

The terms and conditions for the use of corporate credit cards (Tasmanian Government Card (TGC)) by government agencies is prescribed by Treasurer's Instruction No. 520 (TI 520) and related policies. These documents provide a framework for agencies to issue their own detailed instructions covering policies and procedures specific to their own business environment.

In conducting this compliance audit our objective was to establish whether the operation of the TGC by agencies was in accordance with TI 520 and/or agencies' internal policies and guidelines.

The audit examined management and control of TGC arrangements including a review of card transactions in five government agencies.

The audit found that where issued, Agencies' in-house policies and procedures did not deviate widely from TI 520. However, our audit revealed a variety of instances of non-compliance and high error rates that reached 60% at one agency. The most common problems that the audit revealed were:

- Improper authorisation (including approving own transactions);
- Inadequate supporting documentation (incomplete or missing vouchers or receipts, payment made on photocopied invoices); and
- Inappropriate card use (Internet purchases, personal use and fuel).

We recommended that non-compliance could be reduced by more rigorous and regular review combined with reinforcement of existing procedures. In all our report contained eight recommendations.

Special Report No. 55 Gun Control in Tasmania

Following the Port Arthur tragedy in 1996, a national re-think on gun control led to revised legislation in all jurisdictions. The Tasmanian Government tightened access to and ownership of guns through the *Firearms Act 1996*. Tasmania Police has the key responsibility for administering this Act.

The objective of the audit was to determine whether the Tasmania *Together* goal of 'Safer communities' was being furthered by gun control and to identify any areas for improvement. Specifically, it examined:

- The extent to which the implementation and enforcement of the *Firearms Act 1996* in Tasmania has reduced the number of firearms as well as its impact on gun crime and gun trauma; and
- Whether there are problems regarding enforcement of the Act.

This audit showed that since 1996 there has been a substantial decline in the use of firearms whether to commit violent crime or suicide. Additionally, there has been a parallel reduction in hospital admissions for firearm trauma, particularly as a result of accidental shootings. The audit found that access to guns is now much tighter. As well, the number of guns in the state has greatly reduced. Since 2001, the Police Department have destroyed almost 6 000 surrendered guns.



The *Firearms Act 1996* imposes a large administrative burden on the police, particularly in gathering and managing data on firearm registration and the licensing of shooters. Overall, we found that the Police Department effectively fulfils its obligations. However, we identified a number of areas where improvements could be achieved, especially in managing the firearms database.

The report contains eight recommendations aimed at providing increased effectiveness. For example, more inspections should be done to confirm owners' gun storage conditions. This is vital because safe storage is essential in limiting access to guns. Also, police should review licensing procedures to ensure current legal requirements to assess applicants' mental condition were being met. Other recommendations concerned police follow-up and management of information about licence holders and their guns.



Brendon Thomas

Special Report No. 56 TT-Line: Governance Review

The objective of this audit was to examine the corporate governance and decision-making processes of TT-Line to gain confidence that these processes are consistent with best practice governance principles and standards. This review was requested by the two stakeholder Ministers.

The review focused on processes within TT-Line in relation to corporate governance and decision-making. We did not assess or comment on decisions made. The review incorporated all decision-making processes, both operational and those of a capital nature. The review covered the period 1 January 2001 to March 2005.

This review identified a number of governance-related weaknesses such as the need for strategic risk assessments, improved timeliness and quality of information provided to directors and for the directors to seek independent advice when significant decisions are being made. The recommendations are aimed at assisting the Board to enhance its governance and decision-making practices as it manages TT-Line through its current difficult financial circumstances.



TT-Line fulfils an essential role in Tasmania's transport infrastructure and in the tourism industry in both Tasmania and Australia. Whilst not a focus of this review, we believe that TT-Line carries out this role effectively.

A section of the report was devoted to the many operational areas of its business that TT-Line does well.

Parliamentary Reports on State Finances

In accordance with the statutory requirements of the *Financial Management and Audit Act 1990 (FMAA 1990)* the Office tabled two reports in Parliament dealing with our financial audit mandate.

Government Departments and Public Bodies 2003-04 – November 2004

The *FMAA 1990* requires the Auditor-General to table in Parliament a report on the audit of Government departments and public bodies for the financial year. A report for the 2003-04 audit cycle was tabled on 16 November 2004. This report is a four volume set and provides a detailed financial analysis of the financial statements of Government departments and public sector bodies.



Christina Buell

The report also details significant items that arose from the conduct of financial audits including:

- Prepayment for contract works for the new Risdon Prison;
- Consolidation of accounts by the Hobarts Port Corporation in relation to the Hobart International Airports Pty Ltd;
- Valuation of non-current assets out of date – Southern Regional Cemetery Trust;
- Audit Qualification for National Trust of Australia (Tasmania); and
- Return on equity from Local Government Water Authorities.

Other issues raised in the report were:

- Timeliness of Annual Reports;
- Implications of new financial reporting framework;
- Reporting on Non-Financial Performance; and
- Administered versus Controlled transaction in financial statements.

The report also included recommendations in relation to long-lived assets as follows:

“On 27 May 2004, in response to a review of the *Local Government Act 1993*, I made the following recommendation to the Local Government Division of the Department of Premier and Cabinet:

- All Local Government Authorities be required to adopt a fair values when accounting for long-lived assets with useful lives of 10 years or more;
- A date of effect of 1 July 2005 was recommended for adoption of this measure, in conjunction with the adoption of International Financial Reporting Standards issued by the Australian Accounting Standards Board; and
- This requirement was recommended for implementation by Regulations issued under the *Local Government Act 1993*.

In relation to Government Business Enterprises and Government Departments I recommend that:

- The “fair value” option for valuing non-current assets be mandated by Treasurer’s Instructions for long-lived infrastructure assets with useful lives greater than 10 years, before the implementation of International Financial Reporting Standards takes effect on 1 July 2005.

Similarly, in relation to State-Owned Companies I recommend that the shareholding Ministers mandate the adoption for fair values by State-Owned Companies when accounting for infrastructure assets with useful lives greater than 10 years.”

Government Departments and Public Bodies 2003-04 – June 2005



Damian Cook

On 14 June 2005 a second report on Government agencies and public bodies relating to 2003-04 was tabled. This report cover those audits not completed at the time of tabling the first report in November 2004 and outcomes of audits which had a 31 December 2004 balance date. Also included in this report was a brief analysis of the Consolidated Financial Statements for the State of Tasmania for the year ended 30 June 2004 and a report on the Forestry Tasmania Land Swap that occurred in 1997.

Timeliness targets

The Office has set performance targets for the completion of reports to Parliament.

Our external target is to have all reports tabled in the planned parliamentary session and also we have internal targets to ensure we achieve these external targets.

While we have met the external timeliness targets we need to improve the achievement of our internal targets.

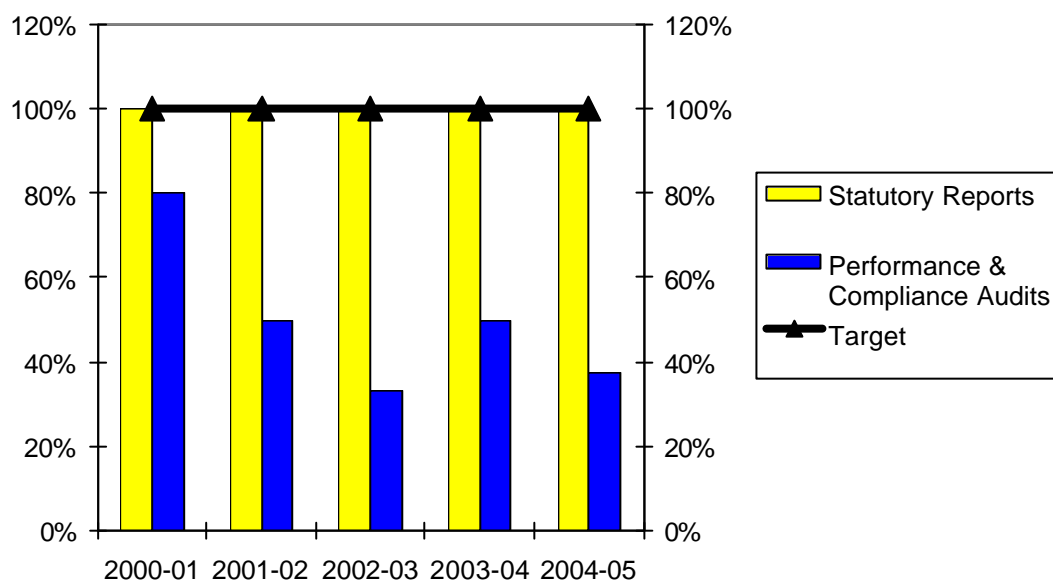


Figure 1 – Timeliness of completing statutory reports within approved timeframes



Debbie Scott

For performance and compliance audits the target measure for timeliness is to complete the audit within eight months. In 2004-05 this target achievement was 37.5%. This was influenced by extended sick leave for some staff in the business unit and difficulties experienced meeting deadlines. The statutory reports met the target dates.

Quality targets

The quality of our products and services is appraised by conducting surveys of two stakeholders groups – Members of Parliament and senior management within audit clients.

During the year the Office engaged ORIMA Research Pty Ltd to conduct independent surveys on our behalf. Previously the Office had conducted these surveys but a decision was made to do these surveys independently and to allow the Office to benchmark itself against other Australian Audit Offices.

Feedback from Members of Parliament

Overall, the vast majority (96%) of Parliamentarians were satisfied with the Tasmanian Audit Office's reports and services – a significant improvement on the overall satisfaction results recorded in the 2001 (59%), 2002 (58%) and 2003 (71%) Parliamentary surveys. The participation rate for the survey was also higher in comparison to previous years with 18 Parliamentarians participating out of a possible 40.

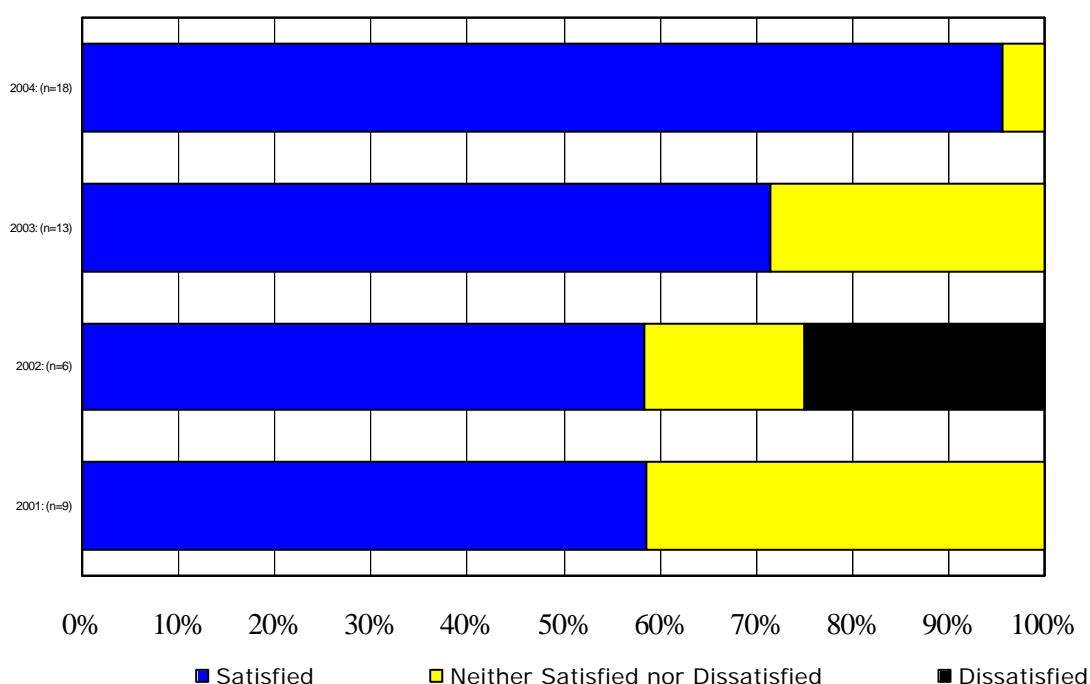


Figure 2 - Overall satisfaction with the Office's reports and services

Parliamentarians' impressions of specific aspects of the reports and services were generally positive. In particular, all Parliamentarians who participated agreed that:

- o Financial audits provided a valuable assurance to Parliament on the quality of public sector financial reports;
- o Reports and services provided valuable information on public sector performance; and
- o Reports and services were generally of a high quality.

The majority of Parliamentarians also agreed that the Office's:

- o Reports and services helped to improve public sector administration (90%);
- o Services in the past 12 months have contributed to improved public sector accountability (91%); and
- o Reports generally communicated issues clearly (88%).

Generally the results were more positive than comparable to previous years.

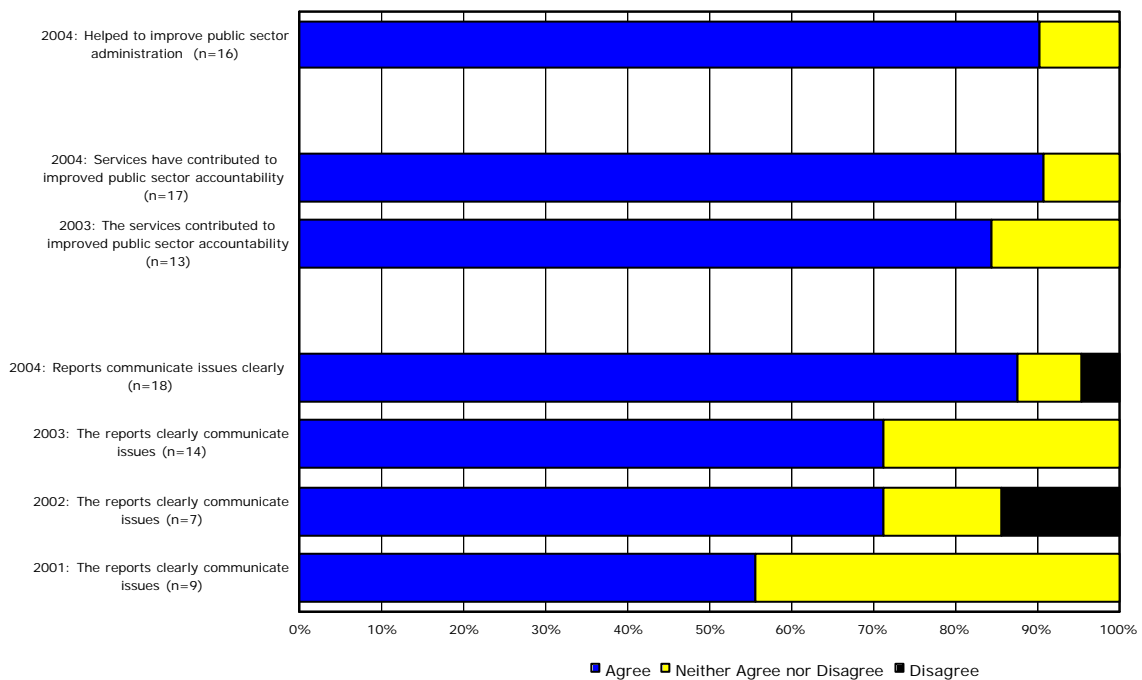


Figure 3 - General impressions of the Audit office's reports and services

In respect of the reports tabled in Parliament relating to financial audits one-in-three Parliamentarians (35%) reported having 'often' or 'very often' accessed the reports on financial audits. Around half of the Parliamentarians (49%) reported accessing this material 'occasionally', with a further 16% indicating that they 'rarely' or had 'never' accessed the information.

Ratings provided by Parliamentarians on various aspects of the Auditor-General's financial audit reports were high in 2005. All Parliamentarians

who had accessed the reports agreed that the reports were effectively presented in terms of their layout and design. Also the following graph indicates a large majority of these Parliamentarians also agreed that the Auditor-General's reports:

- o Were easy to understand (95%);
- o Clearly identified the significant issues and their implications (95%); and
- o Provided a balanced perspective (91%).

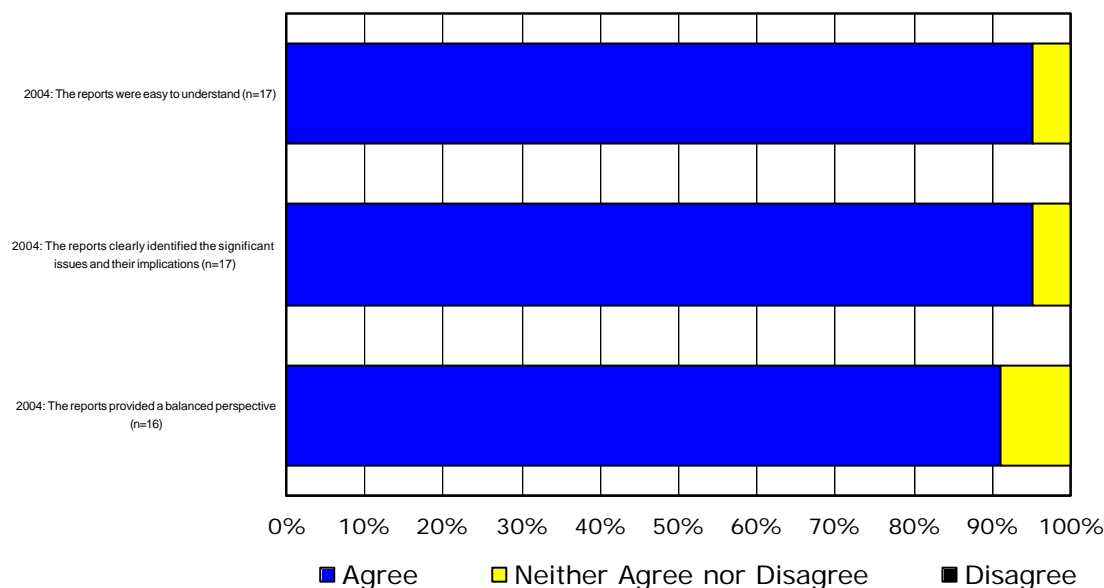


Figure 4 - Parliamentarians' ratings of various aspects of the Auditor-Generals' financial audit reports.

In respect to reports tabled in Parliament relating to performance and compliance audit reports over two-fifths (43%) of Parliamentarians indicated they had accessed information from performance and compliance audits 'often' or 'very often'. A further 44% of Parliamentarians reported accessing such information 'occasionally', while 13% reported 'rarely' or 'never' accessing such information.

In 2005, all Parliamentarians who had referred to performance and compliance audit reports stated that these reports were effectively presented in terms of layout and design. The following graph indicates a large majority of these Parliamentarians also agreed that the Auditor-General's reports:

- o Focussed on important topics (95%);
- o Clearly identified significant issues and their implications (95%);
- o Were easy to understand (91%);
- o Provided a balanced perspective (91%); and
- o Contained appropriate audit conclusions and recommendations (82%).

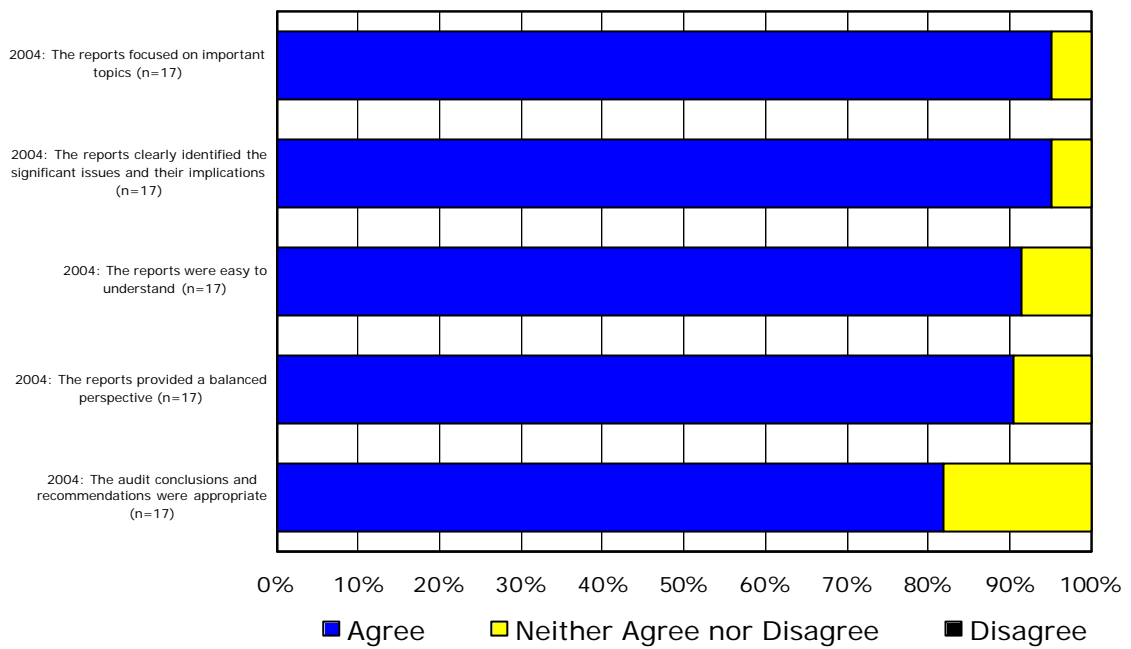


Figure 5 – Parliamentarians’ ratings of various aspects of the Auditor-General’s performance audit reports.

Feedback from our Performance Audit Clients

ORIMA Research Pty conducted an independent survey on behalf of the Office of our performance audit clients. The Auditor-General wrote to the Chief Executive Officers of 21 public sector entities that had been audited as part of a performance or compliance audit that had been finalised (i.e. a report had been tabled in Parliament) in 2004-05 requesting participation of these entities in the survey. Thirteen entities submitted a completed survey this represents a response rate of 62%. Eleven respondents identified were invited to participate in a follow-up telephone interview with aim of obtaining more detailed qualitative feedback on the Office's performance.

The profile of the respondents to the survey is represented in the graph below.

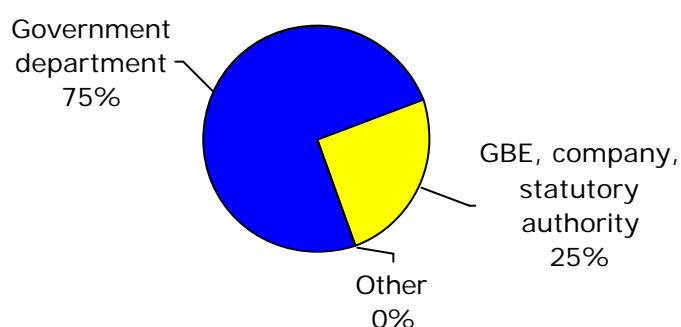


Figure 6 - Sector of respondents' organisations

Overall Performance

The overall performance of the Office is the aggregate of the indices and this is represented in the flowing graph. It indicates that, on average, performance audit clients viewed the performance of the Office favourably in terms of quality of the performance audit process, the quality of audit reporting, the value of the audit services and the Office's overall performance. Average ratings of the value of the performance audit services were a little less positive than ratings of audit process and reporting quality.

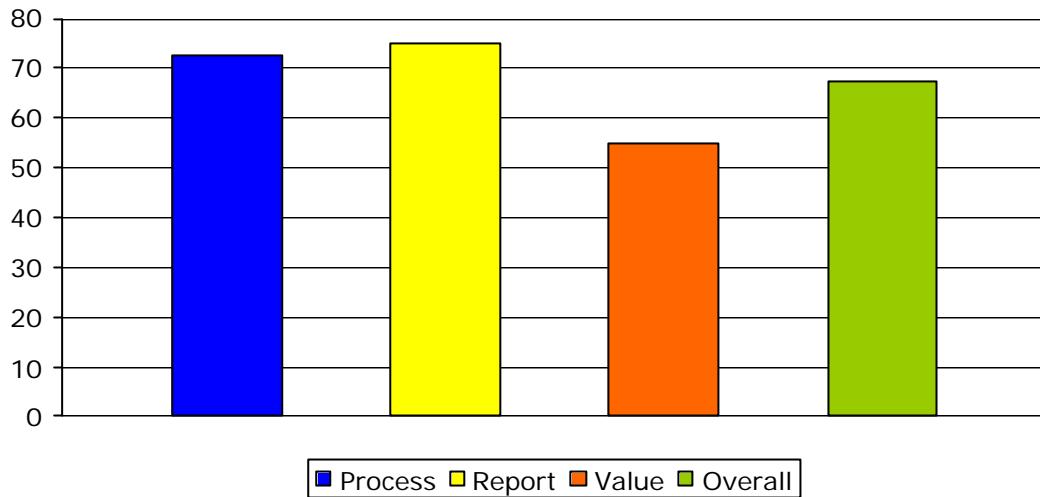


Figure 7 – Overall satisfaction of performance audit clients with the Office's reports and reports

Audit Process

For the 2004-05 financial year all respondents agreed that the auditor's interaction with their staff during the audit was conducted in a professional manner. In addition, more than 90% of respondents agreed that:

- o Communication between the auditors and their organisation was effective (92%); and
- o The auditors clearly explained the audit approach (92%).

A significantly smaller majority (67%) agreed that input from their organisation was considered in the development of the performance audit work plan.

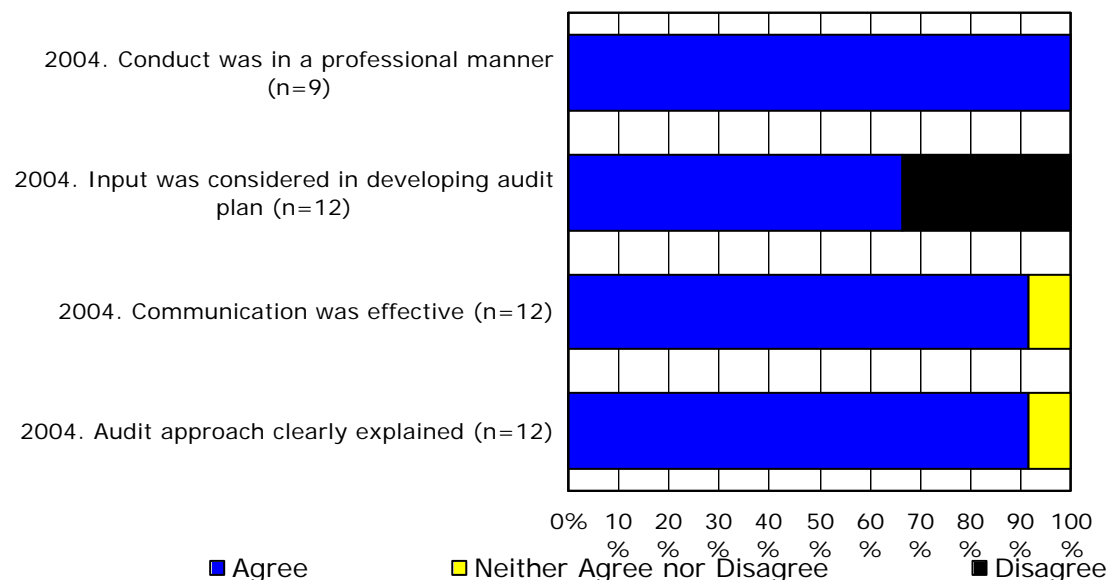


Figure 8 – Proportion of respondents who agreed or disagreed with aspects of the audit process

Figure 9 shows that more than 70% of respondents agreed that:

- o Their organisation was promptly informed of significant issues identified during the audit (75%);
- o The auditors responded promptly to requests and/or concerns raised (83%); and
- o The auditors used their organisation's staff members' time efficiently (73%).

In contrast, just over one-in-two respondents (56%) agreed that the auditors met agreed deadlines.

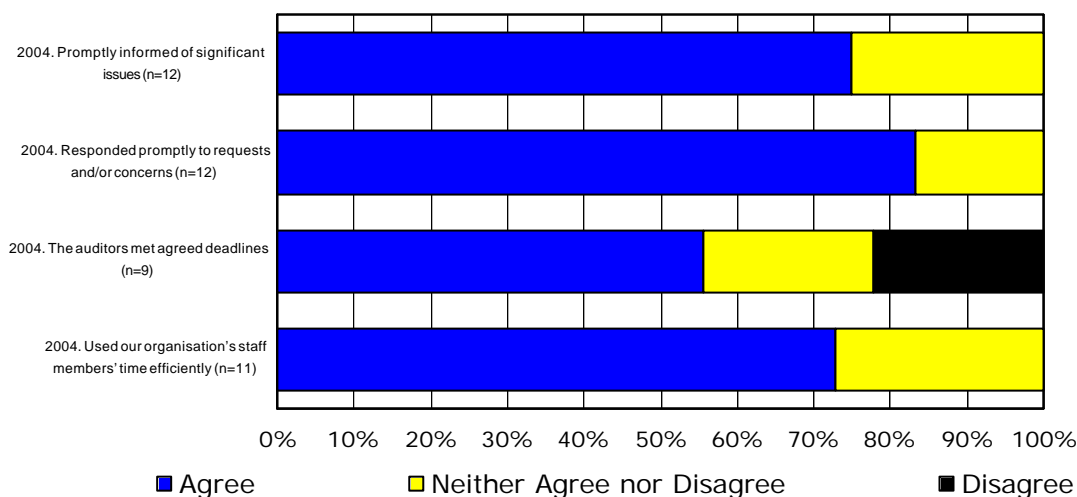


Figure 9 – Proportion of respondents who agreed or disagreed with aspects of the audit process

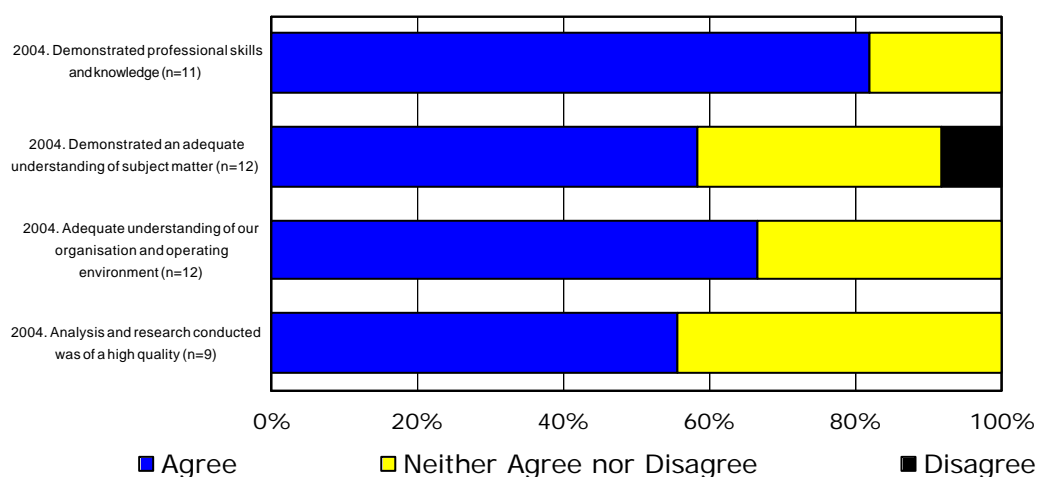


Figure 10 – Proportion of respondents who agreed or disagreed with aspects of the audit process

In addition, 82% of respondents agreed that the auditors demonstrated they had professional skills and knowledge to conduct the audit. A smaller majority agreed that the auditors:

- Demonstrated an adequate understanding of their organisation and operating environment (67%);
- Demonstrated an adequate understanding of the specific subject matter addressed by the audit (58%); and
- Conducted high quality analysis and research (56%).

Audit Reporting

All respondents agreed that their organisations were provided with an adequate opportunity to comment on the audit findings and issues before the finalisation of the audit report. In addition, more than 70% of respondents indicated that:

- The final audit report presented the audit findings and issues in a fair manner (82%); and
- The final report clearly communicated the audit findings and issues (73%).

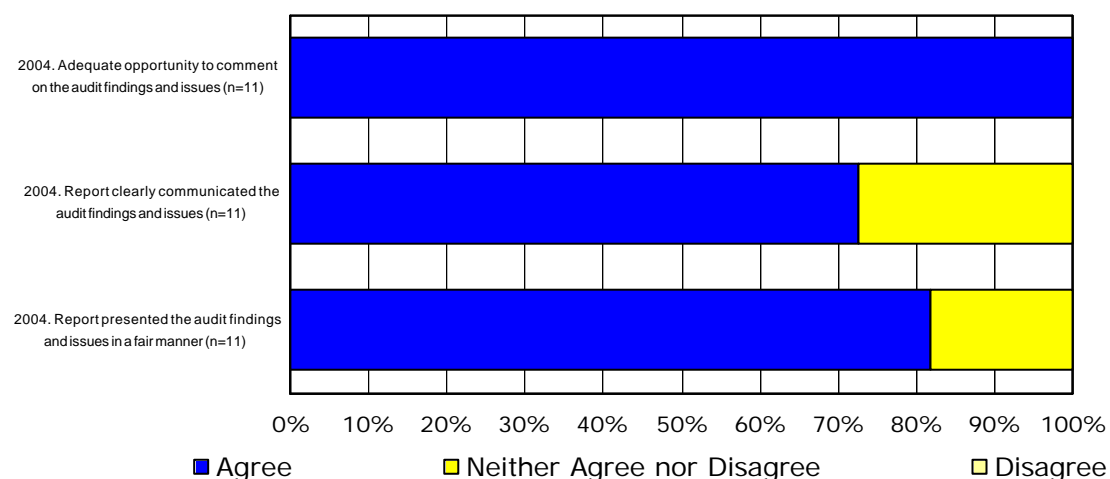


Figure 11 - Proportion of respondents who agreed or disagreed with aspects of the audit reporting

More than four-fifths of respondents agreed that the final report contained 'no surprises' (83%), and that recommendations were practical (82%). A smaller proportion agreed that:

- The benefits of the recommendations in the final audit report were clear (64%); and
- Their organisations was aware of when the final report was to be tabled in Parliament (58%).

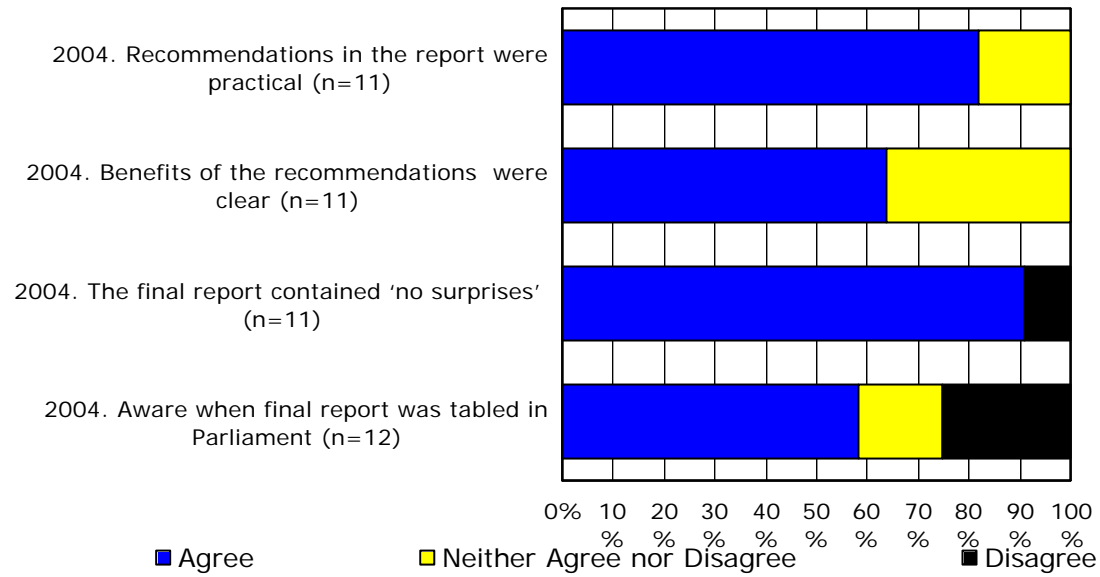


Figure 12 - Proportion of respondents who agreed or disagreed with aspects of the audit reporting

Service Value

Half of the respondents stated that the performance audit had made a valuable contribution by providing their organisation with a sense of assurance regarding the administration of the audited activity. One quarter of respondents disagreed with this statement.

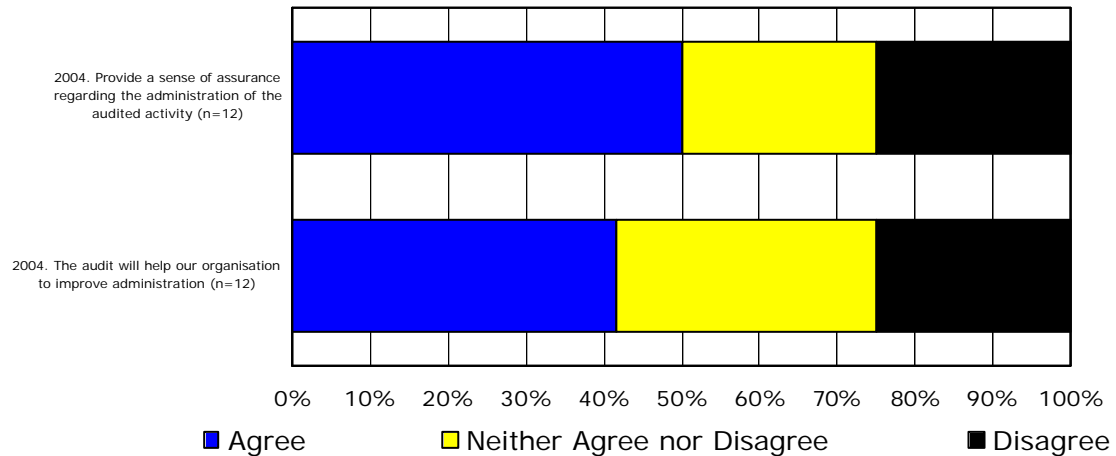


Figure 13 - - Proportion of respondents who agreed or disagreed with aspects of the audit value

Less than half of the respondents (42%) agreed that the performance audit would help their organisation to improve the administration of the audited activity. Also one quarter again disagreed with this statement.

The value of the performance and compliance audit activity from a client's perspective has been measured against the value of the outcomes reported to the major stakeholder, Parliament, who rate the activity very highly.

Qualitative Feedback from Performance Audit Clients

Eleven of the performance and compliance clients were able to participate in follow-up interviews with ORIMA Research Pty Ltd. Overall, eight of the eleven participants interviewed reported that the follow-up interviews was a positive and valuable experience.

The key factors behind the qualitative interviews was for the Office to gain comment from our clients on:

- the intrinsic assurance value of the audit opinion;
- the extent to which the audit identified useful improvement opportunities for the auditee;
- the perceived quality of communication between the audit team and the agency; and
- the extent to which the auditors were perceived to be responsive to agency comments and concerns.

From these interviews the following positive and negative aspects were identified:

Positive Aspects	Negative Aspects
<ul style="list-style-type: none"> ○ Communication between the auditors and the agency was effective; ○ Auditors were open and transparent; ○ Requests for data were clear and reasonable; ○ The agency was given ample opportunity to comment on the audit findings; ○ Audit reporting was fair and contained no surprises; and ○ The auditors had a minimal impact on the work of the agency. 	<ul style="list-style-type: none"> ○ Lack of useful and practical recommendations; ○ Lack of understanding by the auditors of the agency's operating environment; ○ The Audit Office not taking adequate account of the agency's comments/views in the final report; and ○ Lack of timeliness in audit completion.

Other Parliamentary Services

Each year, the Office provides a wide range of services that complement our parliamentary reports. This involves advising and commenting on contemporary issues to those key parties – including parliamentary committees, central government agencies and peak professional bodies – that enhance accountability in public sector management.

As part of the Parliamentary survey conducted during the year the Office sought feedback on other services provided. Sixty-eight percent of Parliamentarians reported having dealings with the Audit Office in the past 12 months other than reading the reports of the Auditor-General. Of these Parliamentarians:

- 54% attended a briefing by the Audit Office after a report had been released;
- 46% stated that a representative from the Audit Office appeared before their Parliamentary Committee; and
- 40% had sought information after reading an audit report.

Other dealings included general discussions with the Audit Office on areas of personal interest and having personal meetings with the Auditor-General. All Parliamentarians who had dealings with the Audit Office other than reading the reports of the Auditor-General provided a positive assessment of:

- the Audit Office's responsiveness; and
- the extent to which the advice and information provided by the Audit Office addressed their needs.

Details of the above feedback are expressed graphically in Figure 14 on next page.

The Parliamentarians also provided some specific improvement suggestions that the Office will act on appropriately. Some of these suggestions were:

- A separate 2/3 page executive summary would bring attention to the report;
- Website needs to be updated regularly and quicker follow up audits;
- Avoid clashes with audit briefings and other Parliamentary committees;
- Advise significantly in advance what reports the Office will be tabling; and
- By providing better follow-up information on whether recommendation and issues highlighted by the Auditor-General are acted on.

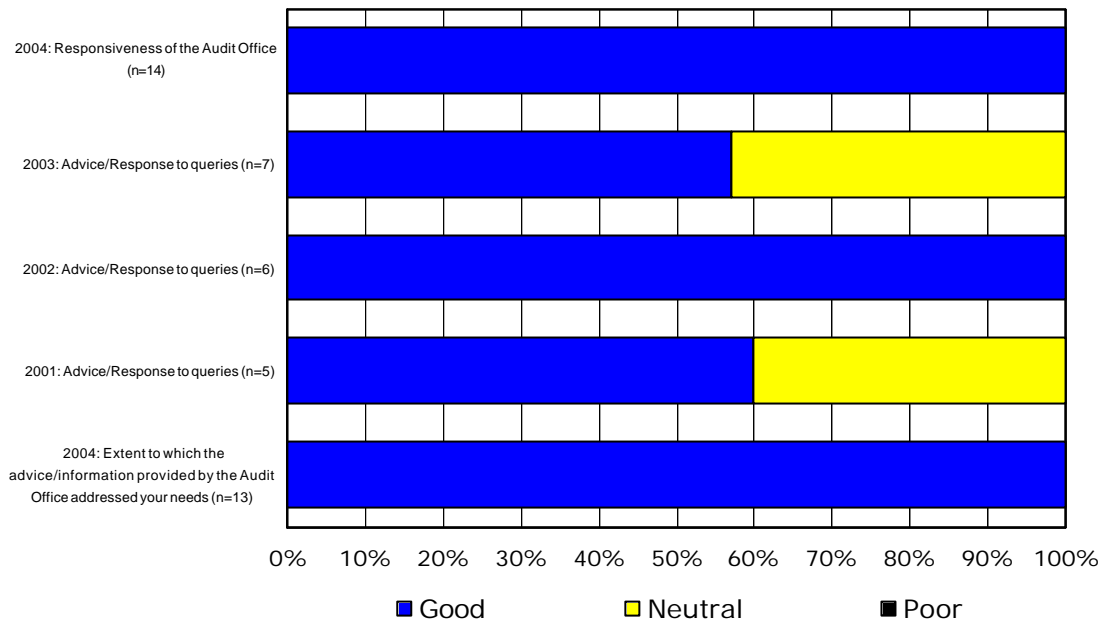


Figure 14 – Parliamentarians' rating of the Office responsiveness to requests.

Assistance to Parliament

Office staff brief Members of Parliament on the day we table reports in Parliament and there has been encouraging attendance at these sessions. Staff have also attended Parliamentary Committees, such as the Public Accounts Committee (PAC) either at the invitation of the Committees or on their own accord.

Towards the end of 2004 we received a request from the PAC to provide them with part-time assistance with an enquiry being conducted into the Administration of the Community Support Levy. The Community Support Levy is an amount taken from the profits of poker machines and redirected into providing gambling support services together, providing funds for other health related issues and financial support to charitable and sporting organisations based in Tasmania.



Simon Andrews

Simon Andrews from the Audit Office worked for the Committee on a part-time basis from December 2004 until the final tabling of the report in August 2005. During his time with the PAC he assisted with:

- Conducting research as directed by the Committee;
- Assisting with the drafting of questions for Members to use when questioning witnesses appearing before the Committee;

- Analysing and commenting on the evidence submitted to the enquiry from interested parties; and
- Writing and re-drafting the report on behalf of the Committee.

At the conclusion of the secondment the Office received a letter of recommendation from the PAC for the assistance received.

Inquiries from Members of Parliament and the public

Each year the Office receives inquiries from Members of Parliament and the public about the actions of public sector agencies and employees. While we cannot always fully satisfy their concerns we aim to respond to their inquiries promptly. Sometimes these inquiries lead to specific audits or investigations that can result in the preparation of individual reports or form part of issues raised in the report on Government departments and public bodies.

Other Internal and External Services

Enhancing accountability in public sector performance



Fabiola Solis

In any one year the Office advises central agencies and individual agencies in such areas as draft legislation, Treasurer's Instructions, accounting standards, new proposals for financial management and in particular this year the implications of the adoption in Australia of the International Financial Reporting Standards (IFRS) framework.

During 2003-04 the Office liaised with the Department of Treasury and Finance on the implications of IFRS.

The Office also:

- Issued newsletters to all our clients outlining the implications of new accounting standards and in particular the implications of the IFRS framework;
- Conducted client seminars to discuss the implications of the IFRS framework. The opportunity was taken to cover the earlier reporting requirements in FMAA 1990 and the Office's expectations of clients in meeting the new reporting dates; and
- As a member of the Australasian Council of Auditors-General assist in responding to accounting, auditing and other exposure drafts.

Interstate organisations and international delegations

Contributions to professional bodies

A number of our senior staff hold positions in a variety of professional bodies, committees and societies. These include the Australian Accounting Standards Board's Urgent Issues Group, Centres of Excellence of CPA Australia, the Public Sector Accountants Committee of CPA Australia, the Tasmanian Divisional Council of CPA Australia, and Standards Australia.



Grant Musgrove

Interaction with the Australasian Council of Auditors-General

Our Office is a member of the Australasian Council of Auditors-General (ACAG) that promotes the development of public sector accounting and auditing through a variety of committees, responses to exposure drafts and quality assurance programs.

Sub-Output Two - Audit Reports on Financial Statements

The Auditor-General has a statutory responsibility to examine the annual financial statements of government agencies and public bodies, and to express an audit opinion on the fair presentation of those financial statements.

Range of audit responsibilities

At 30 June 2005, the Auditor-General was responsible for the audit of the Budget Outcomes Statements and Public Account Statements that are chapters in the Treasurer's Annual Financial Report, the Consolidated Financial Statements of the State of Tasmania and audits of 145 public sector bodies including government agencies and local government.

Type of and number of public sector bodies audited are:

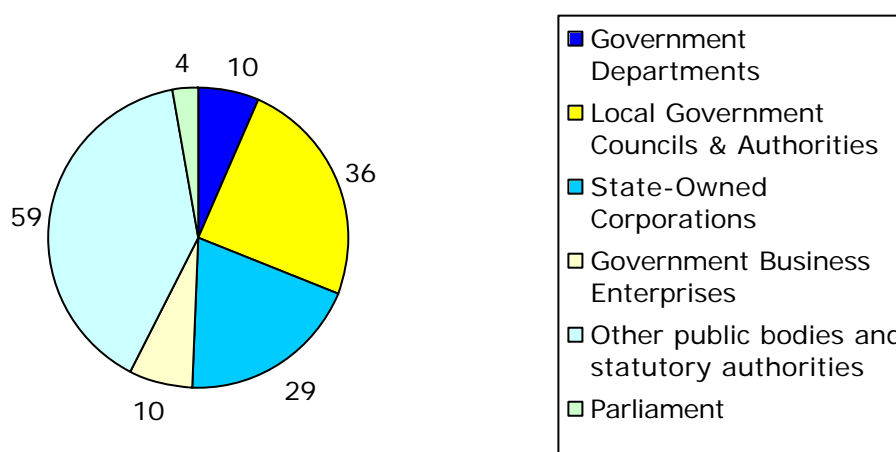


Figure 15 – Financial audit clients by segment

A complete listing of the clients as at 30 June 2005 appears on the appendices of this report.

Performance against corporate targets

The Office's performance for 2004-05, against the four targets of the Audit Reports on Financial Statements sub-output appears below:

PERFORMANCE MEASURES		UNIT OF MEASURE	2004-05 AUDIT CYCLE TARGET	2004-05 AUDIT CYCLE ACHIEVEMENT
Cost				
5.4	The delivery of services within agreed cost budgets(see page 42).	\$ million	2.401	2.313
		Per cent	+/- 5%	- 3.7%
Quantity				
	Audit opinions issued to public sector bodies (see page 43).	Number	134	133
	Audit opinion on the 2003-04 Treasurer's Annual Financial Report	Number	2	2
	Audit opinion on the 2003-04 Consolidated Financial Statements of the State of Tasmania.	Number	1	1
Timeliness				
1.2	Reports completed within planned timeframes (see page 44).	Per cent	100	79
Quality				
1.1	Satisfaction from audit clients with the efficiency and timeliness of the audit process (see page 46).	Per cent	75	76
1.3	Assessment of all audit methodologies by peer review every 3 years with results reported that includes confirmation of best practice status of methodologies and practices (see page 77).		1	0
1.4	Post-audit quality assurance reviews applied annually to a set percentage of audits, with all resultant recommendations acted upon (see page 78).	Per cent	100	50
3.2	Annual feedback via surveys indicating our audit clients are satisfied with our working relationship (see page 46).	Per cent	75	76
3.3	Periodic feedback from other stakeholders on perceived quality of our interaction with them.	Per cent	75	Not assessed

Further commentary explaining the performance measures is included on pages 42 to 54.

Cost targets

The costs of the Audit reports on financial statements Sub-output in 2004-05 were:

PRODUCT	TARGET 2003-04 Audit Cycle (\$m) & (+/- %)	ACTUAL 2003-04 Audit Cycle (\$m) & (+/- %)
Audit reports on financial statements		
Audits conducted with internal resources	2.219m +/- 5%	2.136m - 3.8%
Audits involving external audit service providers as agents of the Auditor-General	0.138m +/- 5%	0.143m + 3.6%
Audits involving external audit service providers for local government authorities	0.010m +/- 5%	0.008m - 21.7%
Audit of the Treasurer's Annual Financial Statements	0.014m +/- 5%	0.008m - 42.9%
Audit of the Consolidated Financial Statements of the State of Tasmania	0.020m +/- 5%	0.018m - 10.0%
Total cost and outcome	2.401m +/- 5%	2.313m - 3.7%

The above table indicates that for the 2003-04 audit cycle that was completed during the 2004-05 financial year the Office exceeded the performance measure target by 3.7% overall.

For the 2003-04 financial audit cycle the total cost of providing audit opinions on financial statements decreased to \$2.313m (\$2.316m for the 2002-03 financial audit cycle).

The Office's financial audit services business unit operates on a fee for service basis and thus charges all clients fees for audit services provided and these funds are paid into a Special Deposits and Trust Fund within the Consolidated Fund. The resulting revenue for the 2003-04 financial audit cycle was \$2.401m (\$2.178m for the 2002-03 financial audit cycle). This resulted in a profit for the financial audit cycle of \$0.088m or 3.7% (\$0.138m or 6.3% loss for the 2002-03 financial audit cycle).

The graph below indicates the level of profit or loss incurred for the audit cycle. The audit cycle result differs from the financial year result in that the audit cycle is from 1 November to 31 October and thus in any given financial year there are segments of two audit cycles. The Office has a performance measure that it will operate within a band of 5% profit and 5% loss on any audit cycle. The graph below indicates that the Office has fallen outside this band twice - for the 2001 and 2003 audit cycles. After the 2003 audit cycle the Office reviewed the audit fees for clients and made recommendations to increase the level of fees.



Geoff Morffew

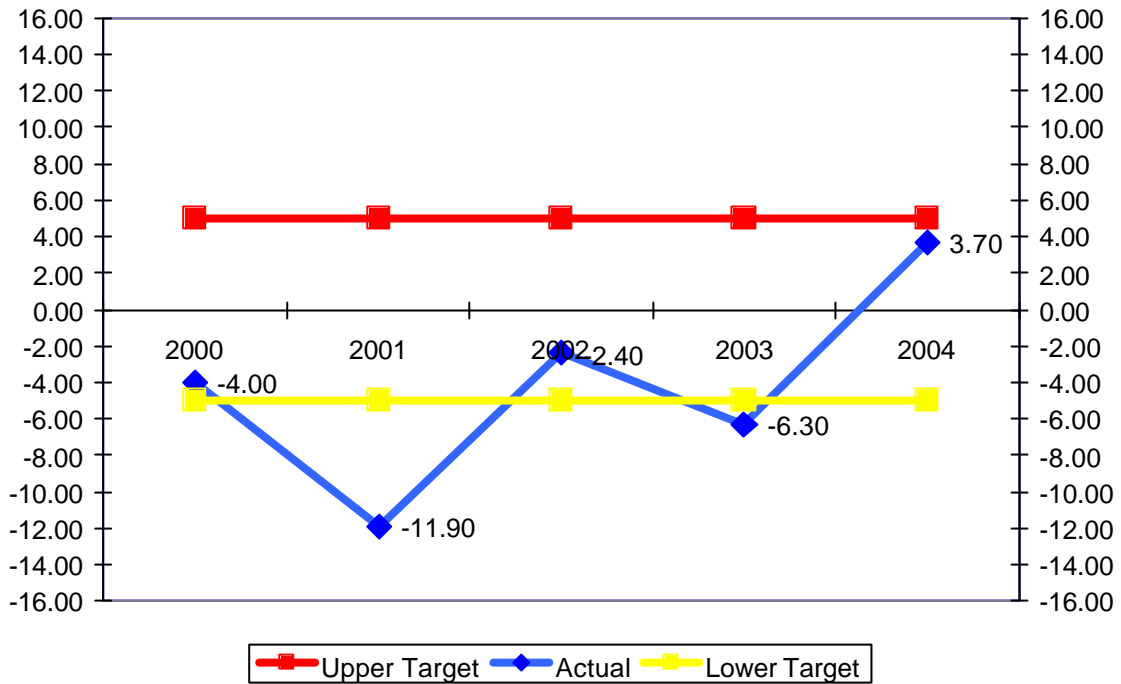


Figure 16 - Audit Cycle profit and loss results

Quantity targets

The graph below shows the number of audit reports issued and the extent of qualified reports as a percentage of the total number of audit reports.

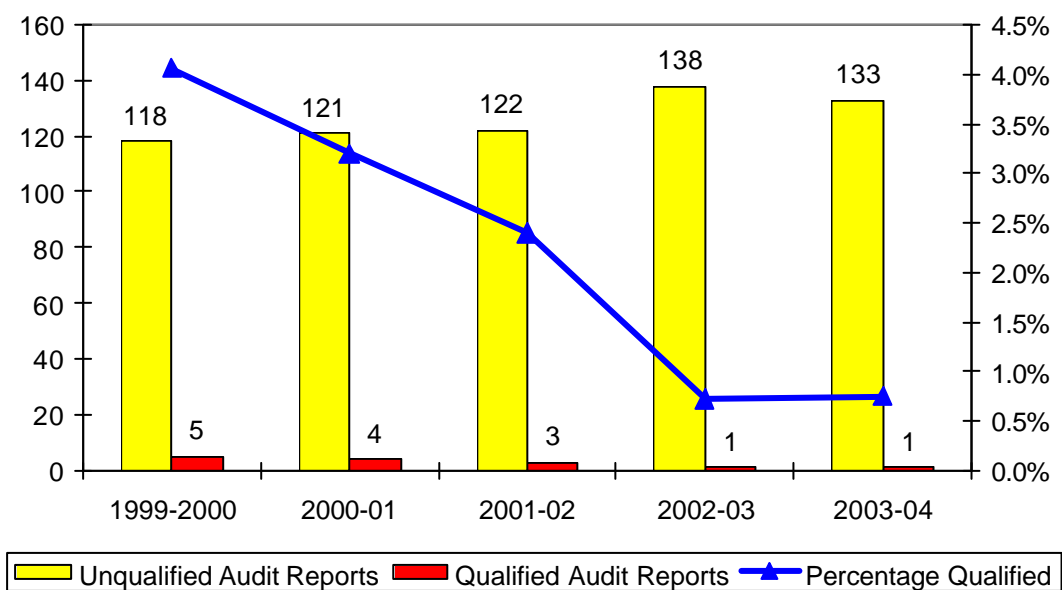


Figure 17 – Audit Reports Issued and ratio of Qualified Audit Reports

The number of audit opinions issued each year varies from the number of clients because some clients have multiple opinions issued for financial statements. This matter is illustrated below:

	1999-00	2000-01	2001-02	2002-03	2003-04
Total Number of Clients	137	127	127	137	145
Less Dispensed Audit Clients	19	17	17	17	11
Total Number of Clients Audited	118	108	110	120	134
Financial audit reports issued during the year	118	121	122	138	133

Timeliness targets

Audit opinions issued within statutory deadlines

The *Financial Management and Audit Act 1990 (FMAA 1990)* sets out the annual reporting and audit requirements for government agencies and public sector bodies. Under section 28 of the *FMAA 1990* each government agency and public sector body must submit its annual financial statements to the Auditor-General by 15 August each year (within 45 days of the end of the financial year from 30 June 2004). Other public sector bodies are governed by the *Local Government Act 1993*, the *Government Business Enterprises Act 1995* and the *Corporations Law*.

Under section 58(2) of the *FMAA 1990* the Auditor-General must express an opinion on the financial statements so as to allow the government agency or public body to table its annual report in Parliament by 31 October.

While these are the statutory requirements the Office measures its performance using the following measures:

	ACTUAL 2001-02 AUDIT CYCLE	ACTUAL 2002-03 AUDIT CYCLE	TARGET 2003-04 AUDIT CYCLE	ACTUAL 2003-04 AUDIT CYCLE
Number of financial statement audits completed within three and half months of financial statement date for government departments and government business enterprises (for audits prior to 2003-04 audit cycle 4 mths)	62%	71%	95%	79%
Number of financial statement audits completed within 30 days of receiving final signed financial statements	94%	92%	90%	78%

The changes to the *FMAA 1990* to have financial statements submitted to the Auditor-General by the 15 August for those entities covered by the *FMAA 1990* and the earlier tabling of annual reports in Parliament brought tighter timeframes for client and auditor alike. This year we did not meet

our performance target for completing our audits by 15 October for the following reasons:

- o Extensive amendments to statements;
- o Internal resourcing issues to deal with tighter timeframes; and
- o Late submission to the Office of statements.

The Office was unable to meet the target for completing audits within 30 days of receiving final signed statements. Part of the reason was due to the impact of the tighter reporting timeframe and our inability, due to resourcing levels, to devote resources any earlier to these clients.

To turn this performance around the Office has engaged with our clients to clarify the expectations of all parties so most of the auditing effort is completed by 30 June each year and the post 30 June effort is concentrated on verifying the financial statements.

Quality targets

Feedback from our Financial Audit Clients

ORIMA Research Pty conducted an independent survey on behalf of the Office of our financial audit clients. The Auditor-General wrote to the Chief Executive Officers of 73 public sector entities requesting participation of these entities in the survey. Fifty-five entities submitted a completed survey which represents a response rate of 75%. Thirty-two respondents identified as being Key and Large accounts were invited to participate in a follow-up telephone interview with the aim of obtaining more detailed qualitative feedback on the Office's performance. Thirty of these clients were able to participate.

The profile of the respondents to the survey is represented in the graph below.

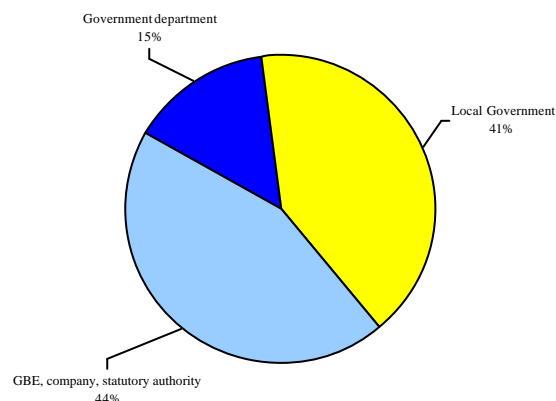


Figure 18 - Sector of respondents' organisations

Overall Performance

The overall performance of the Office is the aggregate of the indices and this is represented in the following graph. It indicates that, on average, financial audit clients viewed the performance of the Office favourably in terms of quality of the financial audit process, the quality of audit reporting, the value of the audit services and the Office's overall performance. Average ratings of the value of the financial audit services were a little less positive than ratings of audit process and reporting quality.

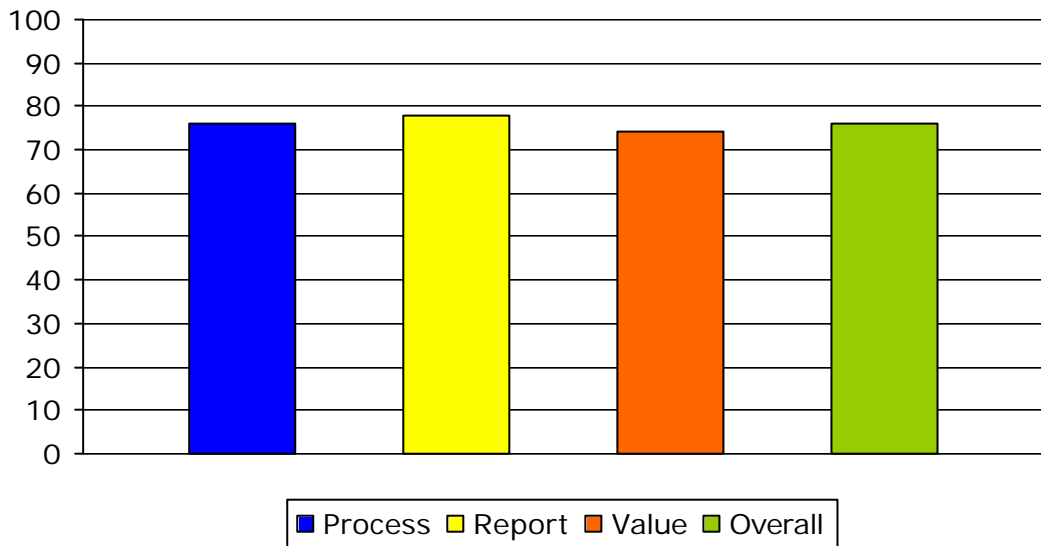


Figure 19 – Overall satisfaction of financial audit clients with the Office's reports and reports

Audit Process

For the 2004 audit cycle a large majority of respondents (96%) agreed that communication between auditors and their organisation was effective (see Fig 20). Over 80% of respondents surveyed agreed that the auditors:

- Conducted themselves in a professional manner whilst interacting with their organisation's staff (93%);
- Clearly explained the audit approach (87%); and
- Demonstrated they had the professional skills and knowledge required to conduct the audit (83%).

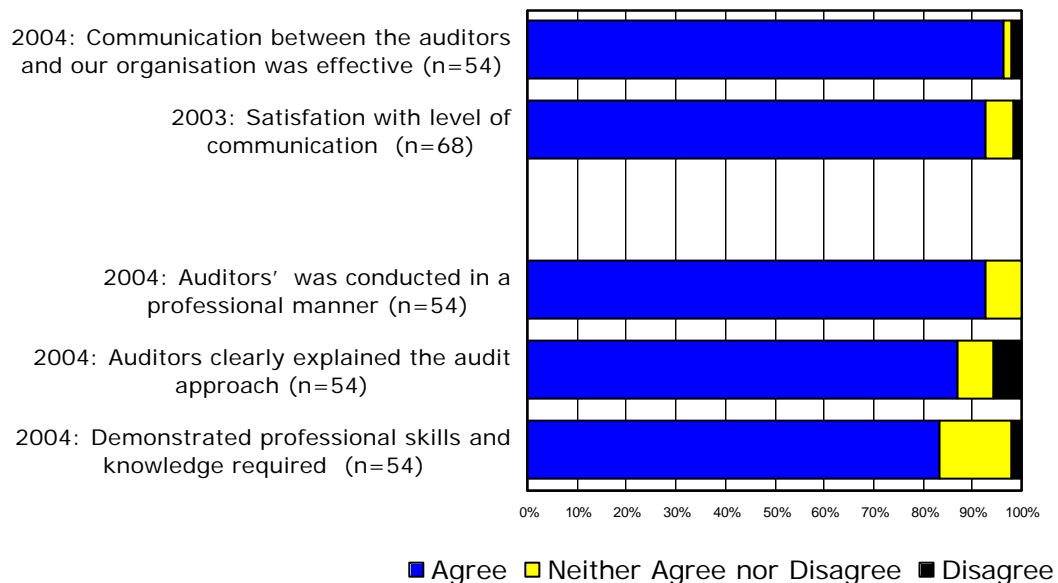


Figure 20 – Proportion of respondents who agreed or disagreed with aspects of the audit process

For the 2004 audit cycle 87% of clients considered that their organisation was provided with adequate opportunity to comment on the audit plan, and almost four-fifths (79%) agreed they were promptly informed of significant issues raised during the audit. Furthermore, over three-quarters of financial audit clients agreed that the auditors:

- Demonstrated an adequate understanding of their organisation (85%);
- Promptly responded to requests and/or concerns raised by their organisation (81%); and
- Met agreed deadlines (76%).

The survey identified that Key/Large clients were more likely than Medium/Small clients to agree that their organisation was:

- Provided with adequate opportunity to comment on the audit plan (91% compared to 80% with Medium/Small); and

- o Promptly informed of significant issues identified during the audit (85% compared with 70%).

Audit Reporting

For the 2004 audit cycle more than 90% clients agreed that the Office's management letters (see Fig 21):

- o Clearly communicated the audit findings and issues (94%);
- o Presented the audit findings and issues in a fair manner (94%);
- o Contained factually accurate information (93%); and
- o Contained 'no surprises' (93%).

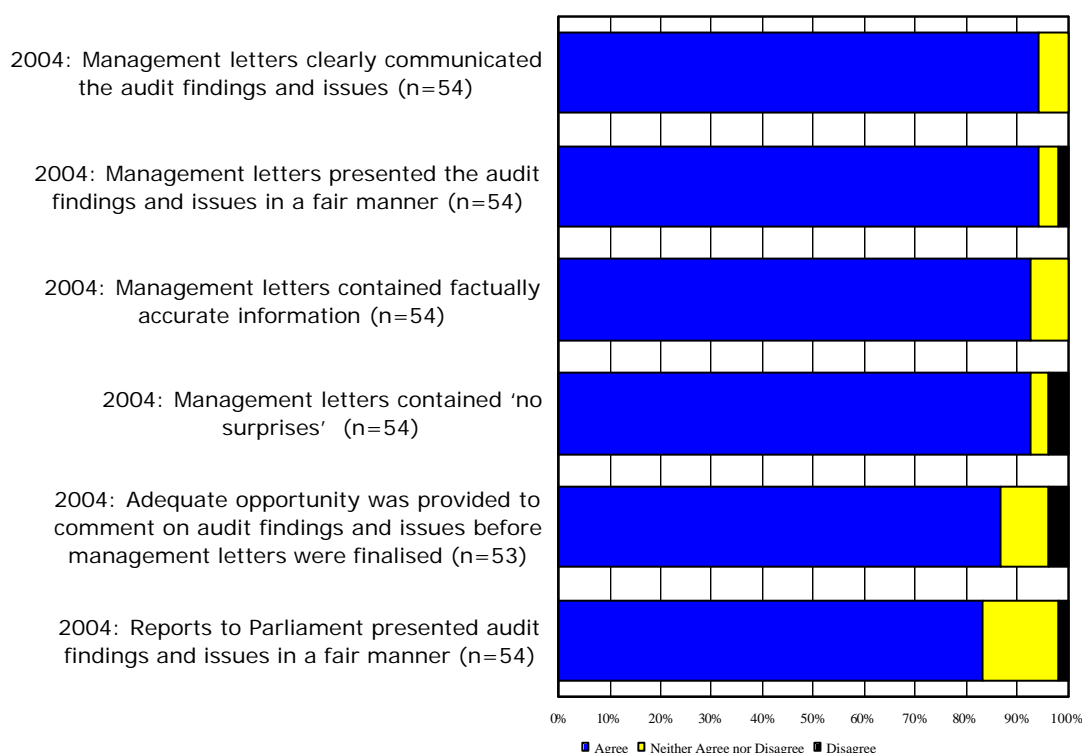


Figure 21 - Proportion of respondents who agreed or disagreed with aspects of the audit reporting

The 2004 audit cycle results in relation to presenting fair findings and accurate information in the management letters were broadly in line with the 2003 results for questions covering similar issues. A large majority of clients (87%) in 2004 also agreed that, prior to finalisation of these management letters, their organisation was provided with adequate opportunity to comment on the audit findings, and over four-fifths (83%) considered that reports to Parliament relating to their organisation presented audit findings and issues in a fair manner.

The survey identified that Key/Large clients were more likely than Medium/Small clients to agree that the Office's management letters were:

- o Finalised after they had been provided with adequate opportunity to comment on the audit findings and issues (91% compared to 80% with Medium/Small);

- o Clearly communicated the audit findings and issues (97% compared to 90%); and
- o Presented the audit findings and issues in a fair manner (97% compared to 90%).

Key/Large clients were also more likely than Medium/Small clients to state that Office reports to Parliament relating to their organisation presented audit findings and issues in a fair manner (88% compared with 75%).

Service Value

For the 2004 audit cycle the respondents' results showed that:

- o 85% of clients indicated that the advice provided by the Office was valued by their organisation;
- o 81% considered the Office's financial audit services made a valuable contribution by providing their organisation with a sense of assurance; and
- o a slightly smaller majority (72%) agreed the Office's observations and/or recommendations had the potential to improve their organisation's financial management.

The proportion of clients providing a positive assessment of the value of the Office's financial audit services was higher in 2003 than in 2004. However, differences in question wording and response scales between the 2003 and 2004 surveys mean that the results are not directly comparable and hence the comparison should be interpreted with caution.

Key/Large clients were more likely than Medium/Small clients to state that their organisation valued the advice provided by the Office (92% compared to 75%). Also, Key/Large clients were more likely to agree that the Office's observations and recommendations had the potential to improve their organisation's financial management (79% compared with 60%).

Qualitative Feedback from Financial Audit Clients



Simone Hopwood

Thirty-two Key and Large clients were invited to participate in a follow-up telephone interview with ORIMA Research with the aim of obtaining more detailed qualitative feedback on the Office's performance. Thirty of the thirty-two clients (94%) were able to participate. Overall, most participants (87%) interviewed reported that the follow-up interviews was a positive and valuable experience.

The key factors behind the qualitative interviews was for the Office to gain comment from our clients on:

- the intrinsic assurance value of obtaining an external audit opinion;
- auditors taking a constructive approach to the audit – looking to add value by making suggestions for improvement and providing technical advice;
- the audit team having a good understanding of the business of the organisation, including its risk environment;
- auditors adopting an open and co-operative audit approach, including informing agencies about issues as they are discovered; and
- the timing of the audit – agencies value early notice of audit processes, flexibility in audit timing (to meet agencies’ reporting requirements and operational constraints), short audit timeframes and adherence to agreed audit timetables.

From these interviews the following positive and negative aspects were identified:

Positive Aspects	Negative Aspects
<ul style="list-style-type: none"> ○ Good communication between the Audit Office and the agencies: ○ auditors were open/transparent; ○ agency was given ample opportunity to comment on audit findings; and ○ requests for information were clear; ○ Auditors had a good understanding of the agency’s business; ○ Auditors added value by giving advice and making helpful suggestions; and ○ Audit timing was flexible and took into account agency’s requirements and constraints. 	<ul style="list-style-type: none"> ○ Audit timing issues: ○ lack of timeliness in completing the audit; ○ failure to meet agreed timelines; ○ lack of notice of audit commencement; and ○ lack of time to respond to information requests; ○ Auditors lacked understanding of the agency’s business; and ○ Auditors could have provided more constructive feedback and suggestions for improvement.

The issues raised by our clients are being addressed in our corporate planning.

Financial Statement Working Paper Awards

The Office presents an award for the best set of financial statement working papers.

The financial statement working papers are a fundamental tool for the preparation of financial statements for financial statement preparers and a valuable resource for auditors to use to verify the transactions and balances presented in the financial statements.

The purpose of financial statement working papers are:

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

There are four award categories:

- Government Departments;
- Local Government Authorities;
- Businesses and Companies; and
- Other Statutory Authorities.

The Awards 2003-04 were awarded to:

Category	Winner	Highly Commended
Government Departments	Department of Economic Development	Houses of Parliament and Office of the Governor
Local Government	West Tamar Council	Glenorchy City Council
Businesses and Companies	Metro Tasmania Pty Ltd	Aurora Energy Pty Ltd
Statutory Authorities	Retirement Benefits Fund Board	Esk Water Authority

Resourcing our financial statements audits

Management of Financial Audits



Jeff Tongs

While the Auditor-General is responsible for auditing all public sector bodies under the *Financial Management and Audit Act 1990 (FMAA 1990)* there is discretionary power as to who will conduct the audits on behalf of the Auditor-General. Under Section 46 of the *FMAA 1990* the Auditor-General discharges his/her responsibility by appointing officers within the Office, or some other suitably qualified persons to carry out the whole or a part of an audit or investigation. The Office outsourced twelve financial audits to the private sector under the supervision of the Auditor-General.

Under Section 41 of the *FMAA 1990* the Auditor-General can dispense with audits after consideration of alternative accountability arrangements for the public bodies concerned. Two of the aspects considered were the materiality of the financial transactions involved and the most cost effective means of conducting audits.

During the year the Auditor-General met with the Solicitor-General to discuss the intent of Section 85 of the Local Government Act 1993 (LGA). The conclusion reached was that:

- o Section 85(1) of the LGA is clear that the Auditor-General is the auditor of local government councils and authorities;
- o In Section 85(2) of the LGA the use of the word "may" provides the Auditor-General with the discretion to approve (allow) outsourcing of Council audits to the private sector; and
- o Where the Auditor-General approves this course of action, (a) he/she can set the terms and conditions under which this outsourcing is to occur; and (b) where in such a case costs are likely to exceed \$50 000, tenders must be called by the Auditor-General.

In the past the Councils have made the decision to outsource their external audit function and where this has occurred the Office has competed with other private sector firms. This no longer happens. Existing contracts under the previous arrangements will continue until expiration then the audit will be undertaken by the Office. The Office will implement an outsourced rotation policy in that up to six Council audits of varying sizes will normally be audited by the private sector on a basis of three plus two years at the end of which the audit will normally revert to being done by the Office for a period of at least two years. For audits to be outsourced, the Office will not tender and a representative from the Office will chair the selection panel. The remainder of the selection panel will comprise a representative of the relevant Council as well as another person from the Office. This selection panel will manage the tender process including the selection from the Office's register of external audit service providers to be requested to tender.

During the year the Office created a register of external audit services providers. The purpose of this register was to allow suitably qualified applicants to be approved to conduct audits on behalf of the Auditor-General. The membership of the register will be reviewed annually when new members may be added. Members of the register will be graded based on the Office's assessment of their local capabilities and resources as evaluated from the registration of interest received. The grading will classify the members on their ability to audit either large, medium or small businesses. The grading will assist the Office in determining which audits are to be offered to registered members.



Jesse Penfold

Following the tender process the following auditing firms were included in the Register of External Audit Services Providers.

Name of Firm	Ranking
Deloitte Touche Tohmatsu – Hobart	Large
KPMG – Hobart	Large
Wise Lord and Ferguson	Large
Deloitte Touche Tohmatsu – Launceston	Medium
Garrott and Garrott	Medium
KPMG – Launceston	Medium
R J Ruddick – Launceston	Medium
WHK Denison	Medium
Horwath – Hobart	Small

Current resource mix for financial statement audits

The table below indicates the mix of audit service providers for the Office's financial audit portfolio:

	2000-01	2001-02	2002-03	2003-04	2004-05
Non local government financial statement audits contracted to private sector audit firms by the Auditor-General	5	5	9	9	13
Local government audits conducted by private sector audit firms	6	6	5	5	4
Audits conducted by the Tasmanian Audit Office	85	91	106	119	120
Audits of public bodies dispensed with	19	19	17	11	11
Total number of audits in portfolio	127	127	137	145	148

Use of external audit service providers in 2004-05

During 2004-05, the Office paid \$0.181m to external audit service providers for financial statement audits. The following table sets out the commitments to external audit service providers for the 2004-05 financial statement audits of clients.

Contracted Financial Statement Audits for 2004-05

Wise Lord and Ferguson (5 audits)	149 905
KPMG (4 audits)	101 825
Deloitte Touche Tohmatsu (3 audits)	86 460
WHK Denison (3 audits)	19 965
Garrott and Garrott (1 audit)	17 000
Total	\$375 155

This includes fees paid by Councils direct to certain contracted auditors.

Managing Our Office

The Office is seen as a role model for public sector management and performance and thus the Office must operate within the paradigm of economy, efficiency and effectiveness just as we expect of those who we audit.

The Office aims to be an exemplary employer that meets the needs and expectations of our stakeholders by managing our business with maximum efficiency and effectiveness. We can only fulfil these expectations if we have the appropriate frameworks in place.



Keith Rylands

During the year the Office has undertaken an extensive review of its operations via independent external surveys with our key stakeholders, our clients and our staff. Throughout the year the Office has also undertaken an internal review of operations. The outcome has been that the Office has redefined its Purpose and developed Critical Success Factors with a Balanced Scorecard (BSC) framework. Within this framework we are ensuring that our operations address the issues and concerns raised by our stakeholders, clients and staff.

The Office has sought approval to introduce various initiatives and changes that will assist in the achievement of our strategic objectives both in the short and longer term. These initiatives along with the introduction of the BSC approach and a redefined Purpose will assist the Office to better respond to performance and assurance issues facing public sector entities and will include:

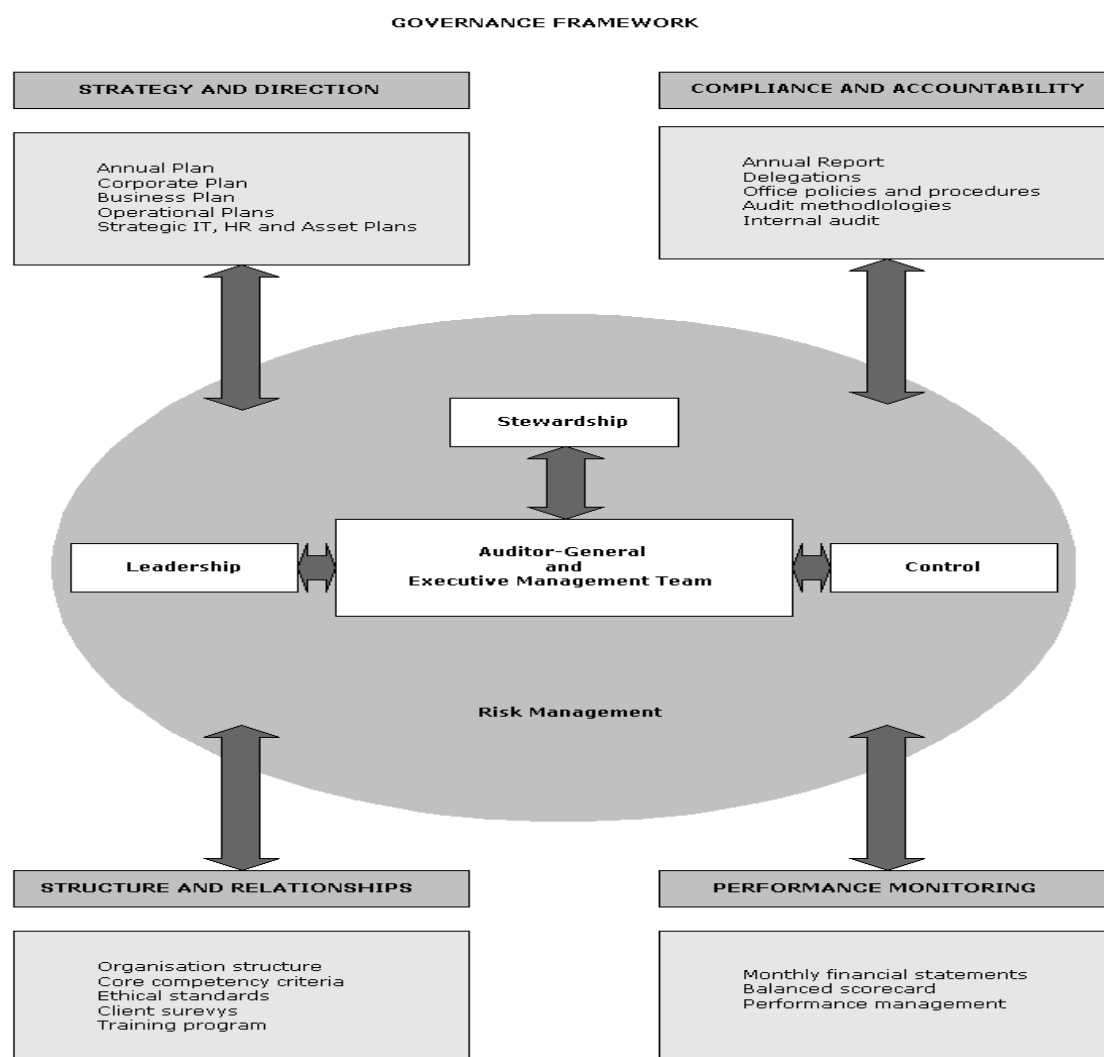
- Changes to our leadership model and associated management structures for how we want to manage our Office;
- Improvements to the manner in which assignments are allocated and acceptance of associated responsibilities within a team environment;
- Empowering staff at relevant levels including responsibility for budget allocations;
- Implementation of a "project management" approach to all areas of the Office;
- Enhancements to our internal reporting arrangements within a BSC framework;
- Continuous improvement to internal documentation such as audit strategy documentation, letters of engagement and audit reports and of our corporate practices;
- Building on our quality assurance processes;
- Building on our already strong technical competence;
- Reviewing our stakeholder feedback arrangements; and
- Reviewing our internal committee structures to ensure a greater focus on our core business.

Corporate Governance

The Office's corporate governance framework comprises four specific elements and these elements are grouped into organisational context and accountability obligations. The elements that constitute organisational context for governance policies and practices are "strategy and direction" and "structures and relationships" while the elements that focus on the accountability obligations arising from the implementation of the policies and procedures are "compliance and accountability" and "performance monitoring".








The central pillars of the corporate governance framework are stewardship, leadership, control, risk management, monitoring and reporting.

The following diagram explains the various components of each element making up the corporate governance framework and how they inter-relate: -



The major components of this framework are addressed in detail on the following pages.

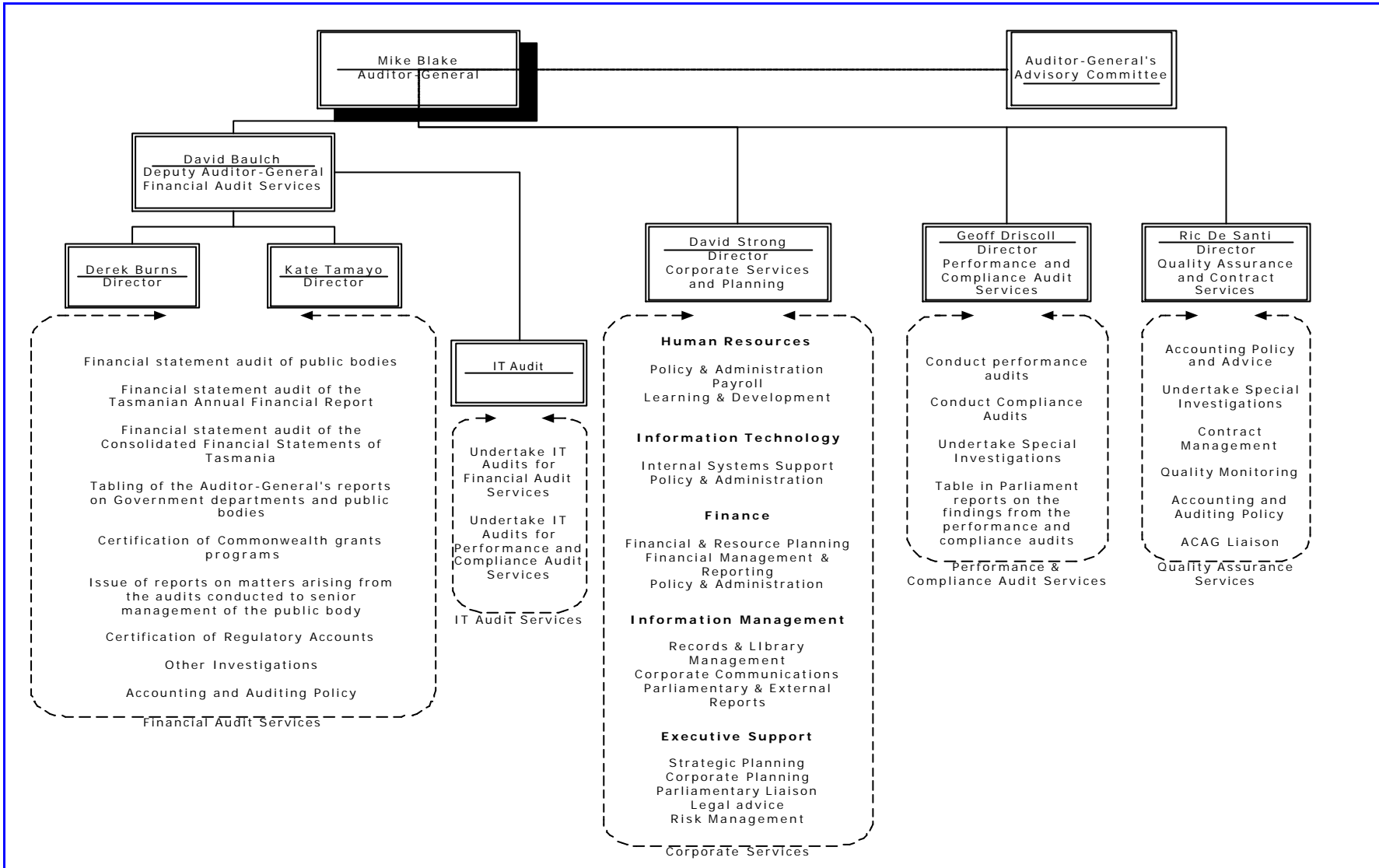
Stewardship

Executive Management Team			DIRECTOR – FINANCIAL AUDIT Kate Tamayo BEc LLB MPA CPA
			DEPUTY AUDITOR-GENERAL David Baulch FCPA
			DIRECTOR – FINANCIAL AUDIT Derek Burns BCom CPA
	AUDITOR-GENERAL Mike Blake BCom FCA FCPA		
			DIRECTOR – PERFORMANCE AUDIT Geoff Driscoll BEc BSc CPA
			
			DIRECTOR – QUALITY ASSURANCE Ric De Santi BBus FCPA
			
			DIRECTOR – CORPORATE SERVICES David Strong BBus FCPA MAHRI MACS

Senior management structure

The following chart outlines our management structure at 30 June 2005. During the year the structure was changed with the responsibilities for quality assurance and contract management being assigned to the new position of Director Quality Assurance. Previously these responsibilities were assigned to the Director Performance Audit and Quality Assurance (now Director Performance Audit) and Director Financial Audit respectively.

Corporate Structure



Committees

During the year a review of the functions of the Office's committees was undertaken with the objective of reducing the number of committees and to establish committees that focussed on our core business that could support the Office's management. As a result of this review the number of committees was reduced from seven to four and these committees are:

Executive Management Team

The Executive Management Team (EMT) is the senior management group that assists in the governance of the Office and it is responsible for the Office's strategic direction, overseeing operational activities, policy formulation, and monitoring performance against corporate goals and milestones.

Information Management Committee

The Information Management Committee (IMC) has responsibility for ensuring that the use and application of the Office's information resource is consistent with the corporate direction and business functions of the Office. It also ensures the efficient and effective deployment of the Office's information technology in the performance of Office business.

Audit Methodology Committee

The Audit Methodology Committee (AMC) provides a strategic role in the maintenance of the financial audit and performance audit methodologies; provides assurance that the methodologies meet the needs of the Office and conforms to professional standards; and reviews the effectiveness of the methodologies.

Human Resources Committee



Kylie Cook

The Human Resources Committee (HRC) will assist the EMT with policy development and with the implementation of policies and practices to ensure the Office's People Management Framework meets the requirements of the Office and staff.

Details of the composition of all of these committees are contained in Appendix 2.

Risk Management

Risk management is an integral part of effective corporate governance. It identifies and assesses risks, and adopts appropriate treatments to reduce risks to acceptable levels.



David Craig

During the year the Office did not benchmark our risk management practices in ComCover's risk management benchmarking report. Previous participation in the ComCover survey assisted the Office to prioritise its risk management practices and to benchmark them against a recognised framework.

During the year the Office finalised its risk register documenting an estimated 180 risks. These risks were compiled through a series of workshops and the management of these risks is reviewed at each monthly meeting of the EMT.

The Office also finalised its Risk Management Policy during the year and every plan – Corporate, Business Unit, Annual or Operational – must address risks.

Internal Audit

There were no internal audits conducted in the year. The external audit of the Office's annual financial statements provides an equivalent opportunity to regularly gain independent assurance on the functioning of internal controls and reporting.

External Review

In day to day matters internal control is provided through management's quality assurance processes, but another accepted practice is peer review. This involves one audit office or firm reviewing another. Benefits of peer review are independence and impartiality as well as transparency.

The Office invites other State Audit Offices to conduct reviews of our financial audit methodology and performance audit methodology on a triennial basis. During 2004-05 a review was due for our financial audit methodology but was not undertaken as the Office is currently reviewing the future direction of our methodology.



Matthew Joseph

A review of our performance audit methodology is scheduled for 2005-06.

During 2005-06 an independent external review of the Office's operations will be undertaken with any resulting recommendations being addressed prior to the end of the financial year.

External Audit

Under Section 45 of the *Financial Management and Audit Act 1990*, the Governor may appoint an independent registered company auditor to perform an audit of the financial statements of the Tasmanian Audit Office.



Neville l'Anson

With the creation of the Register of External Audit Services Providers our appointed auditors Deloitte Touche Tohmatsu, Chartered Accountants, Hobart, elected to join the register. By joining the register they rescinded their contract with the Office as it was a condition of being on the register that they could not also undertake the audit of the Office.

In 27 June 2005 the Governor appointed Hall Chadwick, Chartered Accountants and Business Advisers, Melbourne for a term three years commencing with the audit for the year ended 30 June 2005.

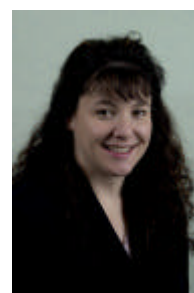
Their audit report is attached to the financial statements contained in this annual report.

Leadership

Leadership comprises the elements that constitute the organisational context for our governance policies and practices and these elements are strategy and direction and structures and relationships. The following commentary focuses on these elements.

Strategy and Direction

As mentioned earlier in this report the Office has reviewed its strategic planning framework to ensure it is consistent with our governance framework. The context of our strategic planning framework is provided by our risk management plan. This plan is reviewed annually to identify and analyse all our business risks and indicate how we will deal with them. This involves carrying out a detailed environment scan that is aimed at identifying emerging public sector developments, and any consequential accountability implications that may impact on our activities. It enables the Office to update its knowledge of international, national and local trends in public sector practices. It also ensures that the Office's audit focus adequately reflects shifts in public sector strategies and operations, including changes in direction of government policy.

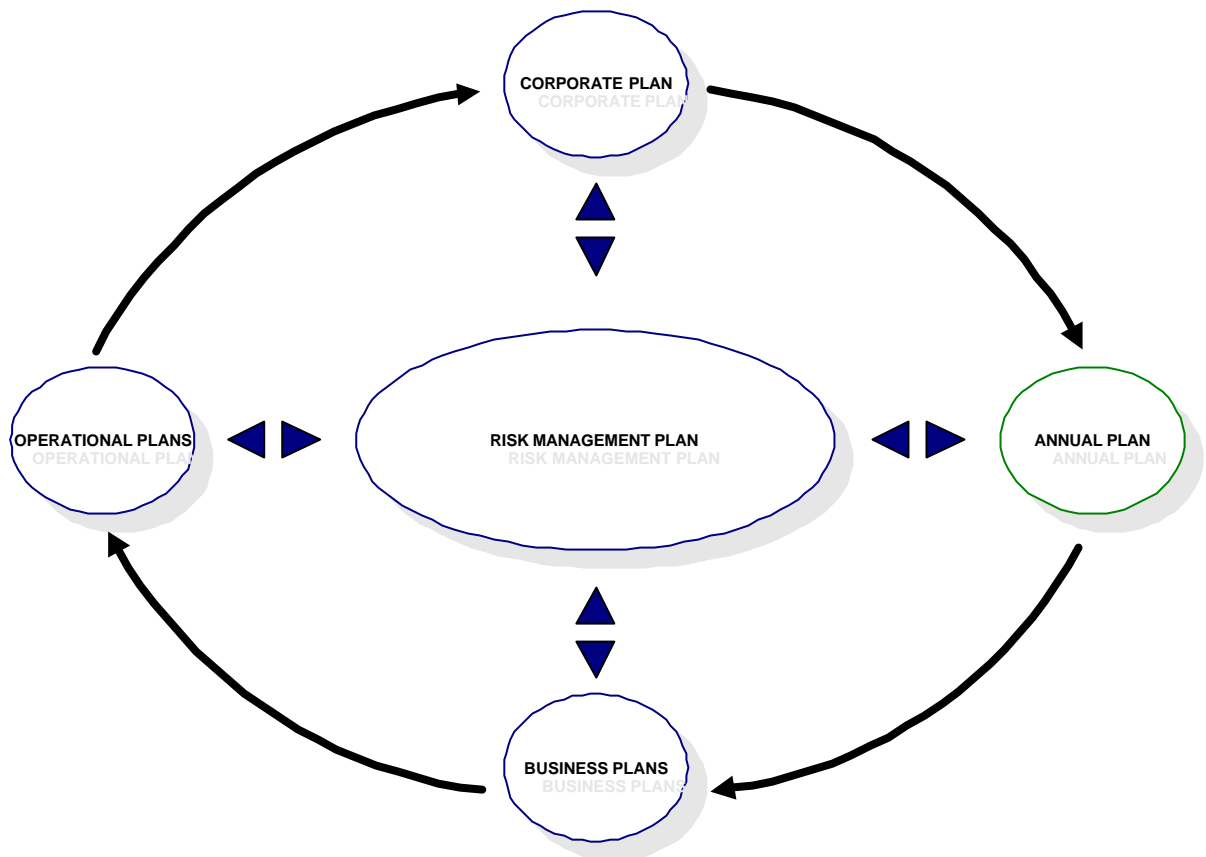


Rachael Burn

During the review of our planning processes the Office adopted the following planning framework to operate in the above context:

- **Corporate Plan** – The Corporate Plan is prepared every three years to outline our vision and values and to describe the strategies against which we will measure our performance.
- **Annual Plan** – The Annual Plan incorporates our scorecard that forms the basis for measuring our success against our strategies and specific initiatives to be taken to achieve our objectives. The Office's Annual Report reports our scorecard results (see pages 10 to 13).
- **Business Plans** – Business units prepare operational plans each year to describe the products and services to be delivered, the resources required, and the KPIs to be used to measure their performance.
- **Operational Plans** – The operational plans are prepared to support the business plans. These plans deal with particular aspects of our business.

Our strategic planning framework can be represented diagrammatically as follows:



In June 2005 after consultation with our key stakeholders, our clients and our staff the Office released its Corporate Plan for the next three years. As referred to earlier in this report it is based on a Balanced Scorecard Framework.

Structures and Relationships

The Audit Office recognises the need to build and retain its corporate knowledge base through a commitment to our people. To transform the Office into a learning organisation relies on attracting and retaining human resources that are team-based, client-focussed, flexible, creative and supportive. An objective of our Corporate Plan is to be an exemplary employer.

Our progress against internal corporate strategies

PERFORMANCE MEASURES	UNIT OF MEASURE	2004-05 TARGET	2004-05 AUDIT ACHIEVEMENT
Cost			
5.2 The Office's financial position is sustainable (see page 79).		Positive Cash Position and Profit/Loss within 5%	Not achieved
Timeliness			
5.3 Annual Report completed within planned timeframes	Per cent	100	50
Quality			
4.1 Satisfaction from our staff as indicated from the annual employee attitude survey (see page 74).	Per cent	75	70
4.2 Conduct staff performance assessments bi-annually within timeframe.	Per cent	100	50
4.3 Positive trend in employee-related statistics (see page 65).	Per cent	100	100
5.1 Quality and effectiveness our corporate and audit information systems.	Per cent	75	Not assessed

Our People

The following charts show our progress against corporate targets and they generally indicate that the Office is progressing well towards these targets.

Professional Development

The Office is committed to achieving its aim of having a well-designed, annual learning and development programs to help our staff attain high standards of professional skills and performance.

During the year as part of the performance appraisal scheme training needs for all staff were identified and these training needs are the basis for the Office's annual learning and development program. This program will be delivered internally and by external providers. The Office is currently working with the Tasmanian Training Consortium to develop the annual program. The Office's performance target is 14 days of training per employee and this was achieved as demonstrated in Figure 22.

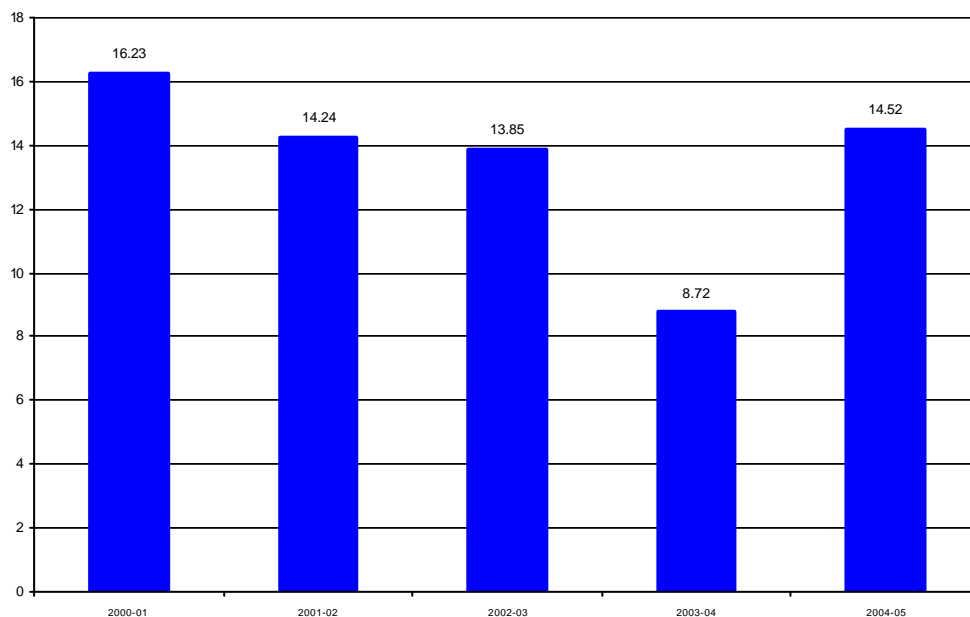


Figure 22 – Average Number of Training Days for staff

Average Number of Sick Leave Days per Employee

The Office allows for five days sick leave per employee in its performance measures. Over the last five years this target has been exceeded.

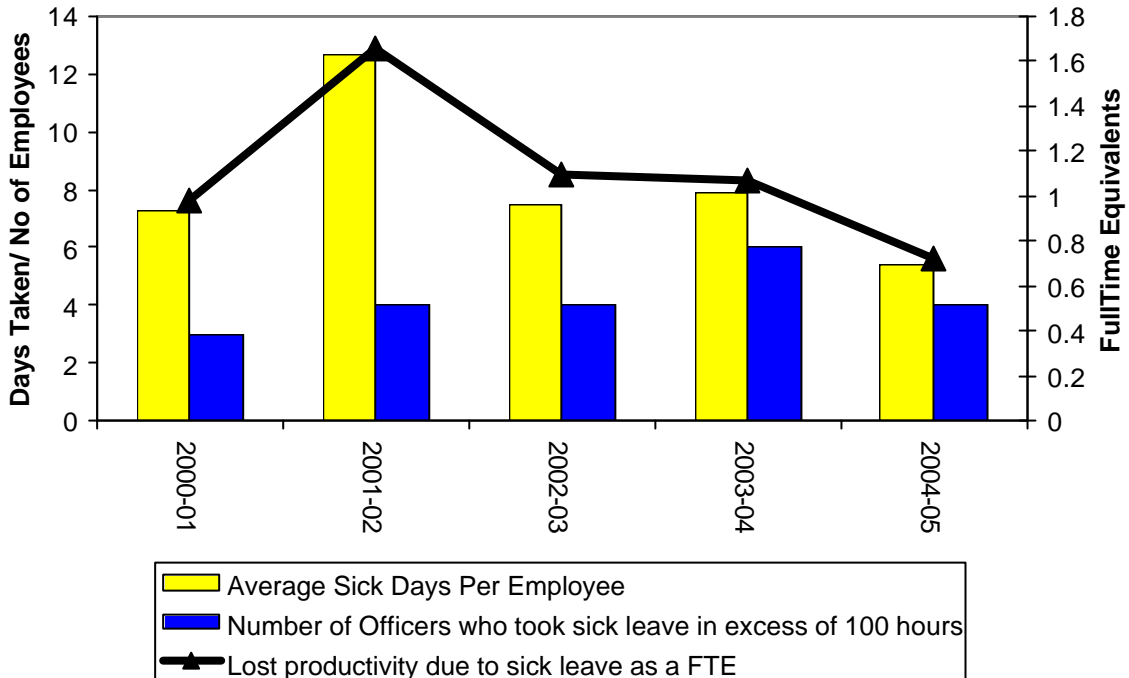


Figure 23 – Sick Leave Statistics

Recruitment – Departures, Turnovers & Commencements

The Office took steps in early 2004-05 to recruit additional financial audit staff for both Offices in Launceston and Hobart.

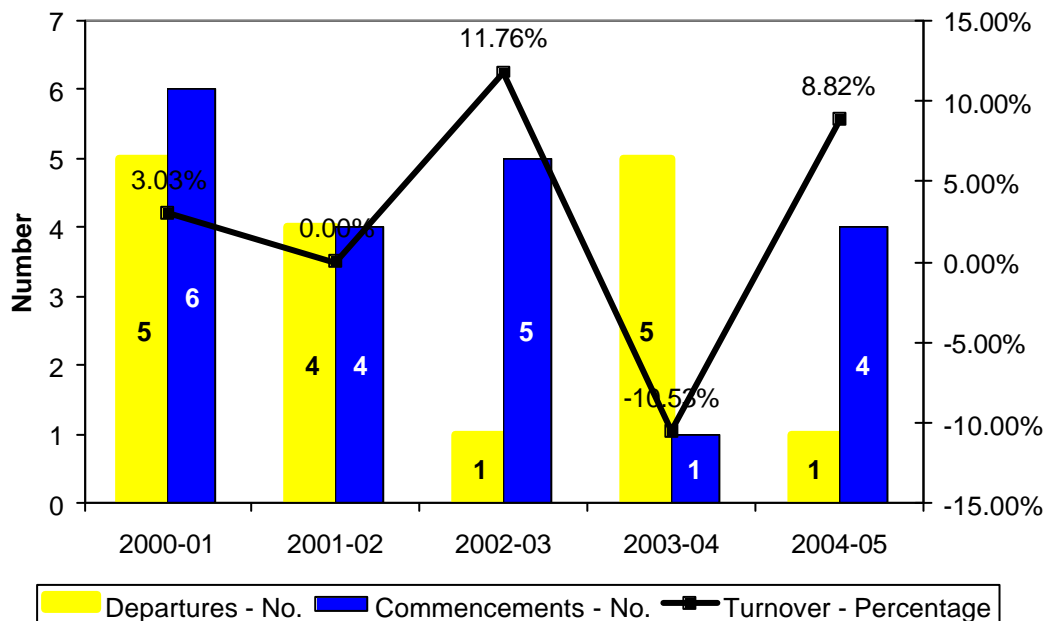


Figure 24 – Recruitment and Turnover Statistics

Our Recruits speak



Ric De Santi on why he wanted work for the Audit Office

"After twenty years working with the Office, out of its Launceston office I left in 1998 to work for a stint with Racing Tasmania and its successor, Racing Services Tasmania, the latter being a division of DIER. However, I always knew that working in Launceston would place limitations on prospects for future advancement so in order to further my career in the field I trained in, I took the opportunity to return to audit but this time relocating to Hobart. I hope that more opportunities for advancement will exist for me as a result. I returned to the Office in January this year.

My role as Director of Quality Assurance is somewhat different from my previous role as a Director Financial Audit but I have enjoyed the challenge. I enjoy working with all the staff and I am impressed by their professionalism.

I look forward to being involved in helping the Office moving ahead and meeting the challenges of the future."

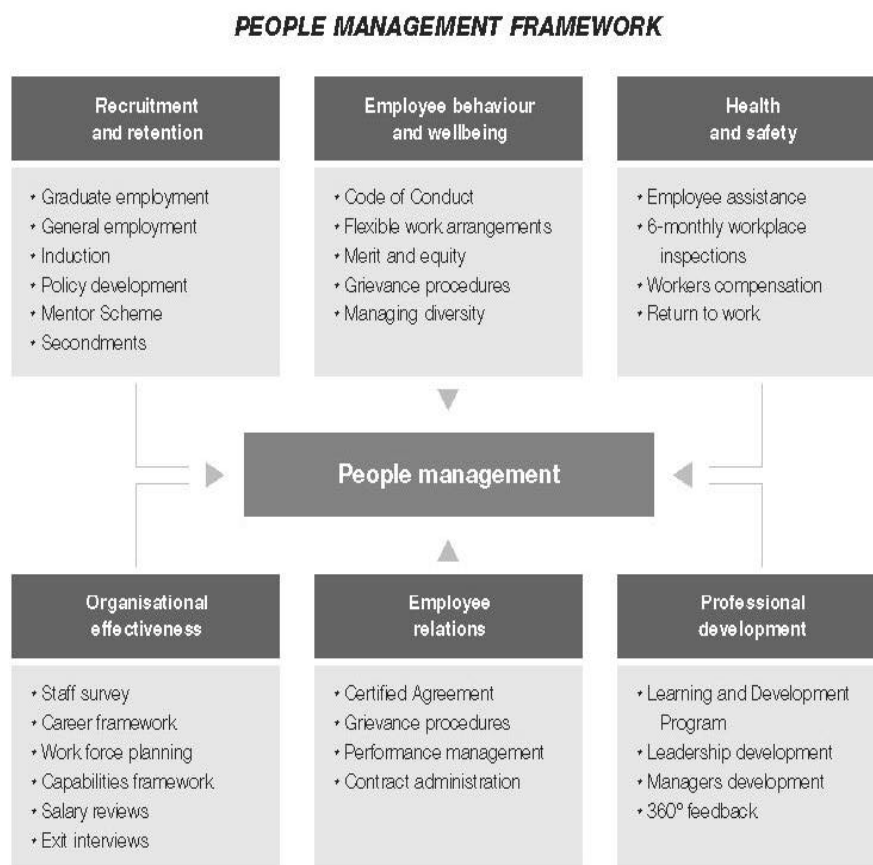


Jara Dean on why he wanted work for the Audit Office

"As a recent graduate of the University of Southern Queensland I was looking for a career opportunity that would allow me to build upon my tertiary education as well as guarantee professional growth. In the relatively short period of time whilst working for the Tasmanian Audit Office I have benefited from exposure to all components of government as varied as government departments, local authorities, and state-owned companies. I am proud of my contribution towards enhancing the financial management and accountability of the public sector in Tasmania."

People Management Framework

The Office's People Management Framework is depicted below.



Recruitment and retention

One of our strategies is to devise recruitment practices that keep pace with the changing external environment and attract competent and skilled staff to the Office.

Recruitment Program

During the year we commenced reviewing all human resources management policies and procedures including our recruitment policy. The responsibility for ensuring our policies and procedures are reviewed regularly and reflect best practice is the newly formed Human Resources Committee.

During the year the Office advertised its cadetship program with one applicant being appointed. The cadetship was offered to Rebecca Clarke who relocated from New South Wales to Launceston to work in our office to undertake financial and compliance audits. Rebecca is undertaking a combined Commerce and Law degree via distance education.

Induction Program

The Office's induction program was modified during the year to reflect the changes in our corporate objectives and will be further refined as the Office's human resources policies and procedures are revised and created.

Graduate Development Program

The Office encourages all recent graduates to undertake the Government's sponsored graduate development program to supplement their degree qualification and induction program. The Office also encourages our graduates to work towards CPA Australia or ICAA membership by providing financial support and coaching opportunities. The Office supports membership of any professional organisation that is aligned to our business objectives.



Narelle Hind

We congratulate Gabrielle Woods on obtaining her CPA status.

Mentor Scheme

The Office has a mentor scheme that allows all staff to have a mentor. The mentor can be a person employed by the Office or someone external to the Office.

Secondments

The Office encourages staff to take secondments to or from other government agencies and other Audit Offices. During this year Simon Andrews was seconded to the Public Accounts Committee.

Employee behaviour and wellbeing

In line with our corporate strategies the Office manages its people in an exemplary manner in line with corporate values. The Office applies a range of codes, policies and initiatives and these include:

- o A Code of Ethics;
- o A Code of Conduct;
- o A Managing Diversity Plan that is currently under review by the Human Resources Committee that commits the Office to promoting and supporting diversity throughout the Office;
- o A Statement of Values;
- o A staff declaration that staff sign indicating their understanding of the Office's codes and policies and declaring conflicts of interest;
- o The induction program for all new staff includes information on anti-discrimination laws and expected behaviours; and
- o The Office has an Employee Assistance Program where staff can seek professional and confidential counselling from an external provider to deal with issues affecting their work whether personal or work-related.

Figure 25 - Staff Profile by Age

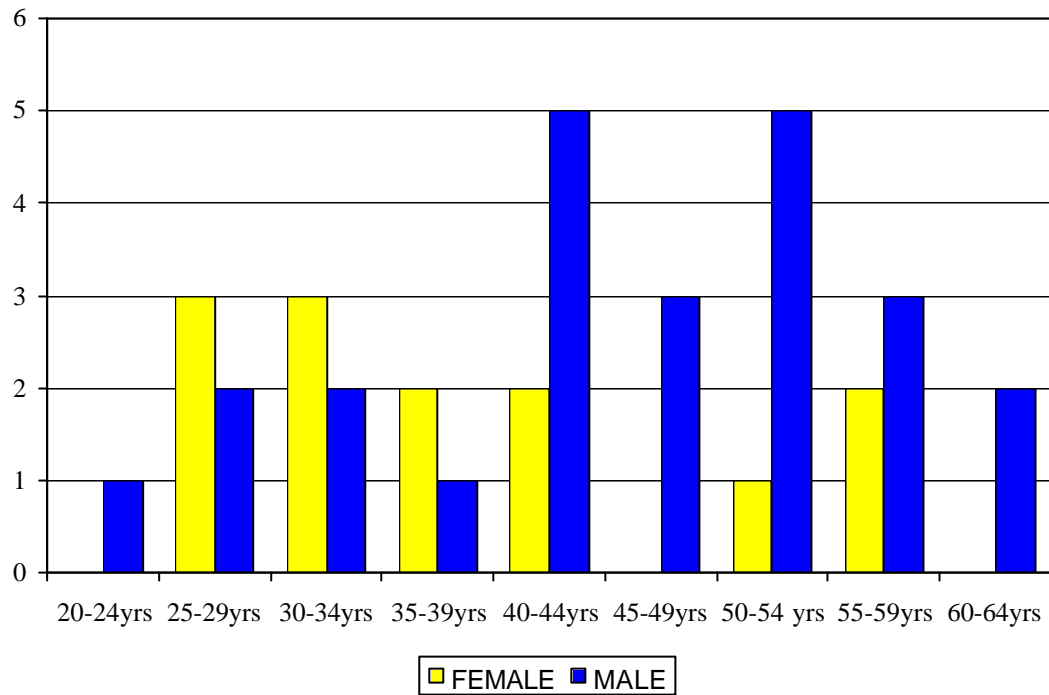


Figure 26 - Staff Profile by Salary

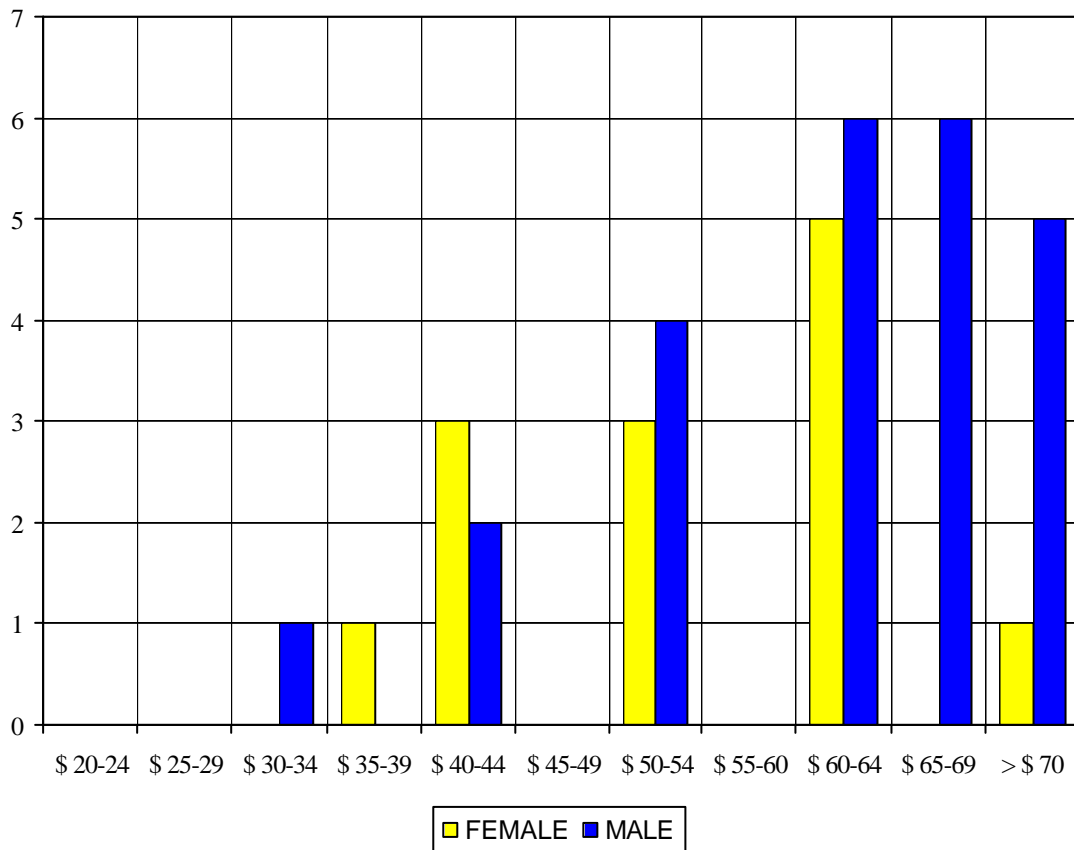


Figure 27 - Staff by Gender

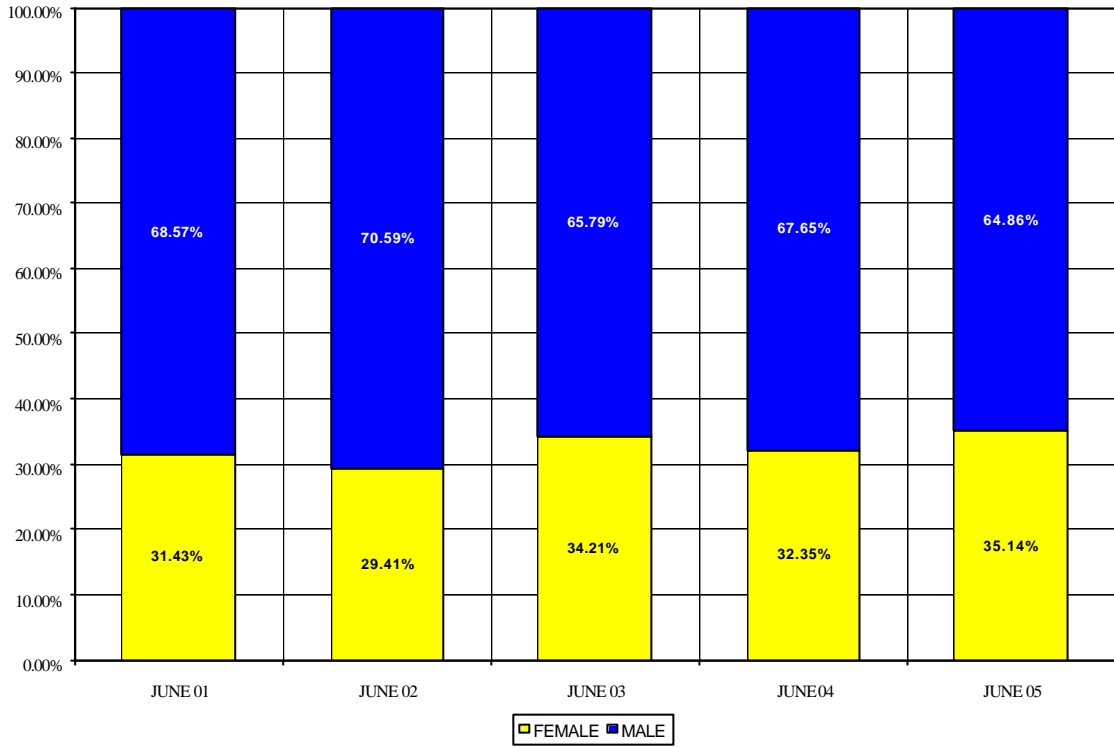
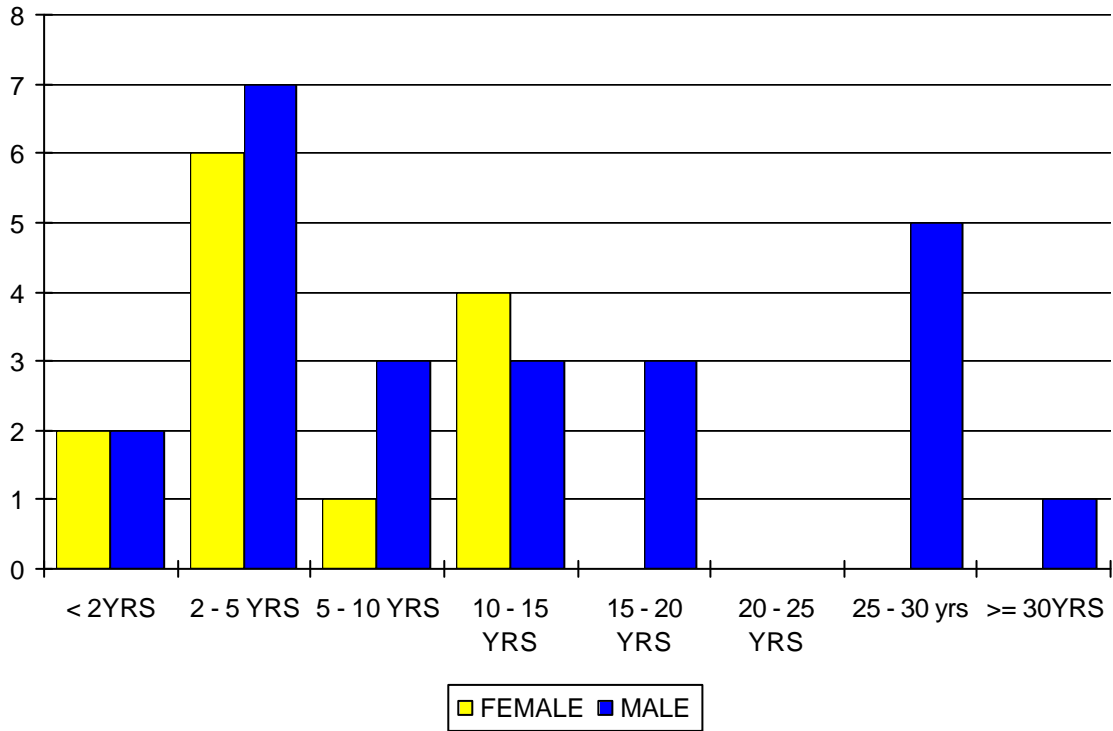


Figure 28 - Length of Service within the Office



Health and Safety

The Office has always had a strong focus on staff safety particularly in relation to providing appropriate ergonomic equipment to staff whether in the Office or in the field. The Office continues to utilise the professional skills of an external consultant to provide independent advice on safety issues.



Wayne Oates

In accordance with the *Workplace and Safety Act 1995* Mike Blake, Auditor-General is the appointed responsible officer.

The following graph illustrates the number of claims per year and the number of claims still open at 30 June each year. There is currently one claim open with no new claims in 2004-05. During the year two claims were closed.

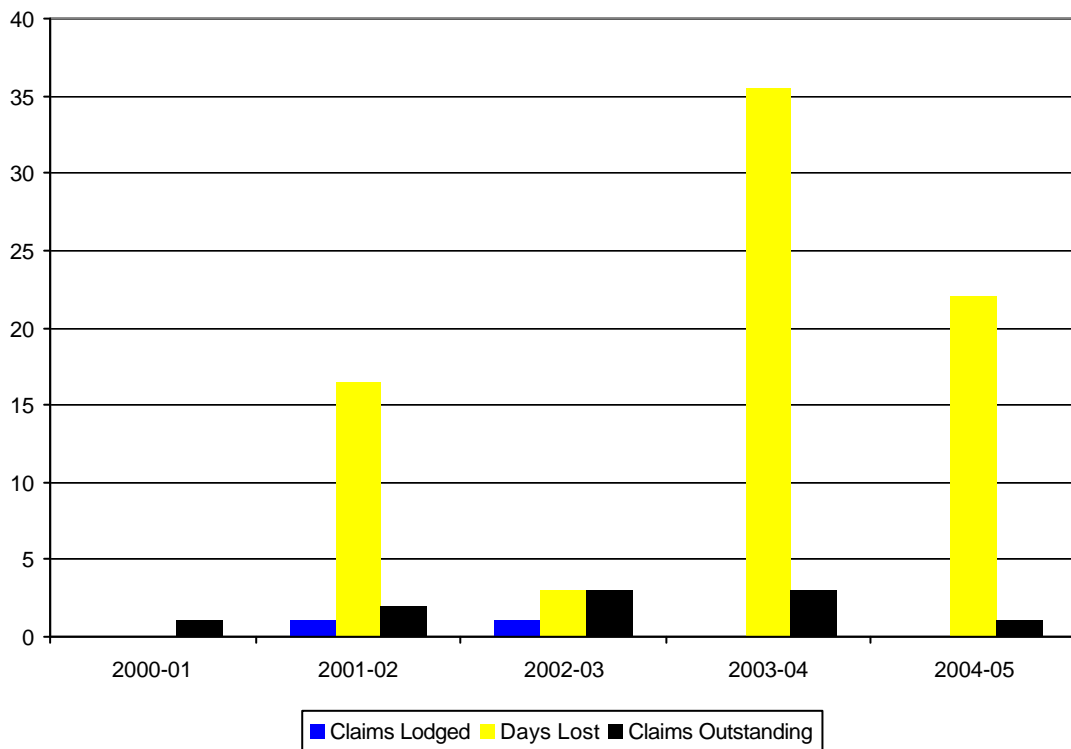


Figure 29 – Workers Compensation Statistics

Due to the number of claims lodged and outstanding, claims management costs have increased and our premium has increased to reflect our claim history. This turned around in 2004-05.

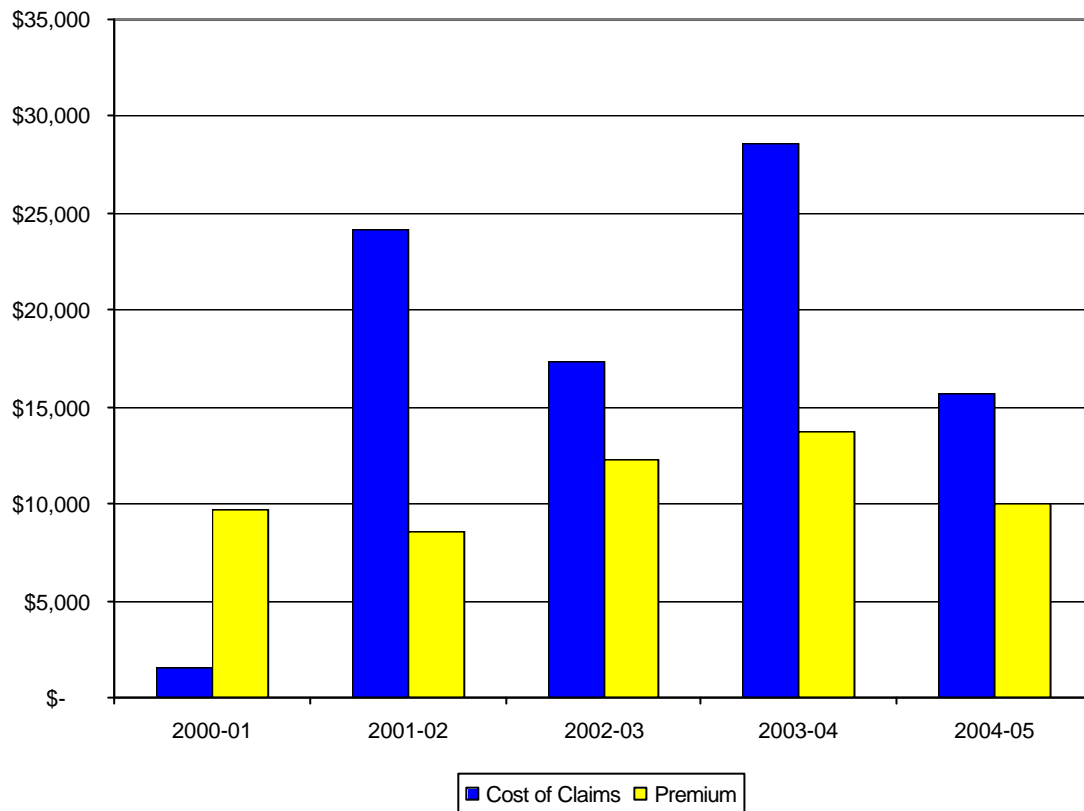


Figure 30 – Workers Compensation Claim Costs vs Premium

Employee Relations



Rob Luciani

One of the Office's aim is to provide a stimulating environment for our staff and one of the important aspects of achieving this aim is employee relations. Our staff have various opportunities to discuss any issues that concern them. This can be during the performance appraisal process, via the Human Resources Committee and in normal staff interaction.

During the year the Office sought guidance and support from key stakeholders in relation to pursuing an Officer specific enterprise bargaining agreement (EBA). As a result of the support received the Office has spoken to the key stakeholders – Staff, Union and a relevant Government Department – about the process to follow. A consultant has been appointed to assist in formulating an enterprise bargaining agreement that can be implemented during 2005-06.

During the year the Office commenced:

- o Reviewing its internal grievance procedures and this process is now with the Human Resources Committee; and

- Reviewing its performance appraisal scheme which will be reviewed as part of the EBA process.

There were no internal grievances reported this year. Performance appraisals were undertaken for all staff during the year but not all appraisals were completed within one month of the review date as per the Office's performance target. The Office is reviewing the process to ensure the performance target is met in the future.

Organisational Effectiveness

The Office recognises that people are the key to improving our overall efficiency and performance. To measure our organisational effectiveness the Office commenced measuring staff satisfaction three years ago and during 2004-05 the Office conducted its annual staff survey.

The survey addresses factors such as alignment, communication and co-operation, ethics, social and environmental responsibility, leadership, motivation, organisational commitment, personal satisfaction, recruitment and selection, rewards and recognition, staff development, supervision and teamwork. The staff participation rate was 90% a slight increase in comparison to last year. The results are represented in the graph on the following page – see Figure 31.

The survey indicated that there are improved ratings for all factors measured and that staff satisfaction with leadership and staff development had improved markedly.

While the survey indicated a positive trend the Office is developing strategies to reach our performance target of 75. The survey indicated that the leadership of the Office has had a positive impact on the direction and focus of the Office. The majority of staff attributed this improved outlook within the Office to management's willingness to engage with both clients and staff in discussing issues of concern. Another positive is the perception that the Auditor-General will appropriately resource the Office to achieve the direction and goals he is instigating. This was noted by staff as being demonstrated through: filling the position of Director Quality Assurance; appointment of new staff; increased training opportunities; support for office renovations and provision of equipment to assist the staff.

As with any survey there are the positives and negatives. The areas raised by staff as concerns were:

- Problems with information technology in particular implementation of new applications;
- Teamwork between business units;
- Providing feedback and managing staff performance;
- Staff structure;
- Promotion and remuneration;
- Role of Corporate Services; and
- Communication.

The Executive Management Team with the staff are addressing these concerns through our corporate planning and human resources practices.

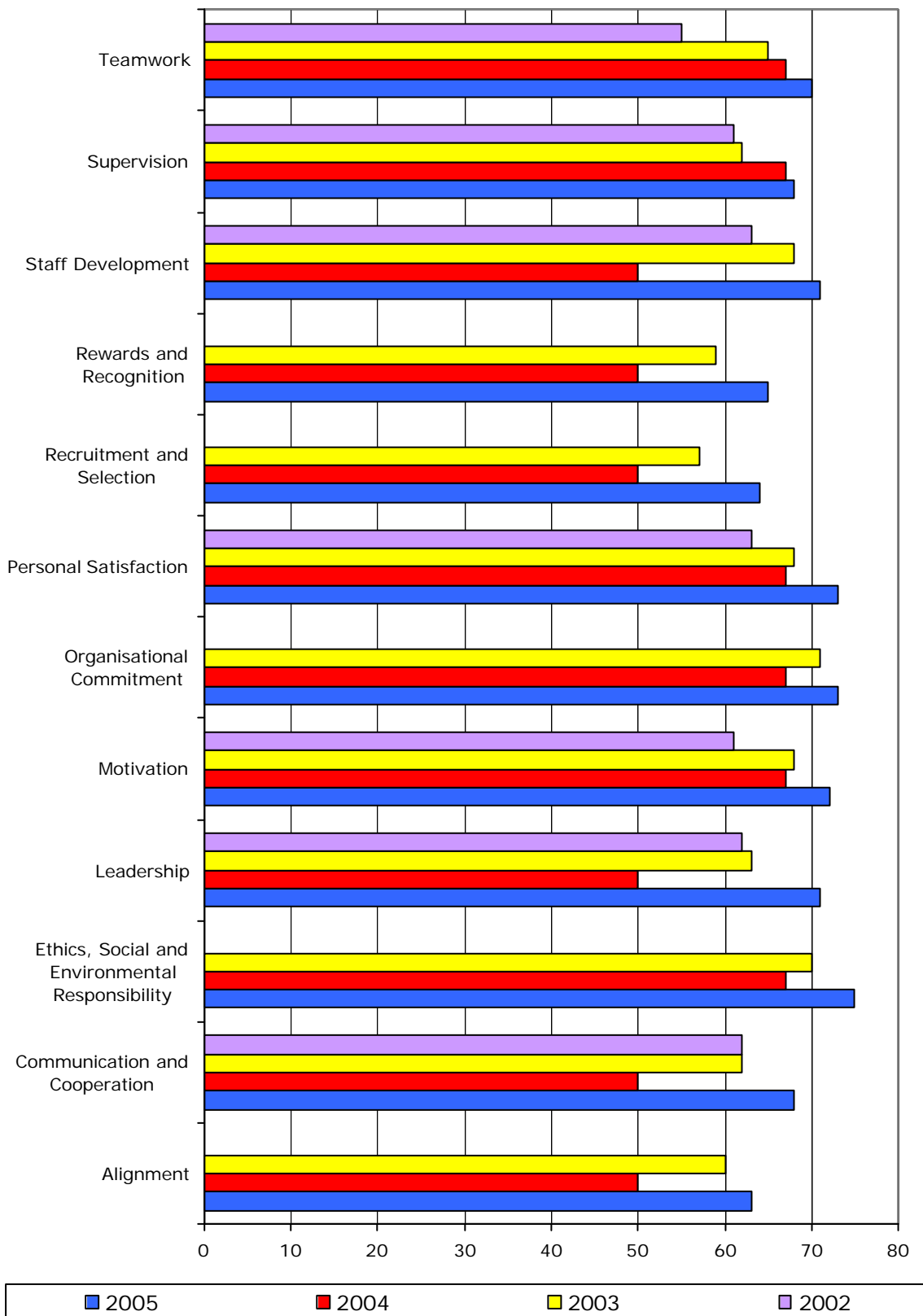


Figure 31 – Staff Satisfaction Survey 2002-05 – ratings expressed in percentages

Staff Participation in Community Activities



Robyn Smith

The Office has participated in fund raising events such as Red Nose Day, Daffodil Day, and similar events. On these days the staff dress down for the day and pay for the privilege by donating money to the cause being supported.

The Office also participated in the Cancer Council's Relay for Life. This occurs in February each year and is an event where teams walk for 24 hours non-stop and raise money via sponsorship for cancer research.

The event was a success and all staff enjoyed the social atmosphere and the chance to work as team in a different environment. The Office has already started fund raising for next year's event in February 2006.



University of Tasmania – Tasmanian Audit Office Prize - 2004

In association with the School of Accounting & Finance, University of Tasmania the Office continues to sponsor a prize for the student with the highest mark in the unit Auditing. For the 2004 academic year there were three students who attained the highest mark, Kate McKinlay, Carly Gourlay and Celeste Coker-Williams. At the Award Evening on 12 April 2005 the Auditor-General presented the awards.

The Office will continue to support the award in future years.

Environment Responsibility

The Office is committed to using recycled products and providing materials for recycling. We produce reports on recycled paper and use recycled printer cartridges, recycle our newspapers, milk and plastic cartons and cans; and encourage staff to print in duplex mode to reduce paper usage.

Control

Control comprises the elements of “compliance and accountability” and “performance monitoring”. The following commentary focuses on these elements.

Compliance and Accountability

Quality assurance practices

As mentioned earlier in this report the Office is seen as a role model in relation to public sector management. The Office strives for best practice in relation to all the activities it undertakes and this is very much the case with the way we conduct our audits. The Office aims to continually raise the standard of our audit activities to meet the needs of Parliament and our clients.

Audit Methodologies

The Office places a high priority on ensuring that it has modern and effective methodologies for all audit activities. This is evidenced by the fact the Office has a dedicated committee, that is responsible for ensuring that our methodologies for financial and performance audits reflects best practice, and by creating within our structure the position of Director Quality Assurance.

A key aspect of our operational activities is to improve our audit policies and methodologies. These policies and methodologies assist with:

- Ensuring compliance with the legislative framework governing the audit environment in which the Office operates;
- Ensuring that the Office complies with standards promulgated by the professional auditing bodies;
- Implementing quality assurance processes for all audit activities; and
- Providing Office staff with appropriate guidance on audit assignments.

During the year the Office reviewed the audit methodology being developed by the Audit Offices of Victoria and Queensland. This has resulted in a working party being formed to evaluate the future direction of the Office’s financial audit methodology.

Financial Audit Policy Manual

The Office’s Financial Audit Manual guides staff in the conduct of financial statement audits. During the year the manual was reviewed and modified where necessary. The auditors in the field can access the manual and other information on the Office’s intranet in a controlled and secure manner.

Performance Audit Policy Manual

The Office’s Performance Audit Manual guides staff in the conduct of performance and compliance audits. During the year the manual was

reviewed and modified where necessary. Like the financial auditors the performance auditors can access the manual and other associated information via the Office's secure intranet.

Adherence to best practice principles and standards

To comply with auditing standards and Office policies and procedures are applied to safeguard the quality of our audits. These procedures include:

- o Involving senior officers in all phases of the audit, including approving the planning memorandum and reviewing significant matter arising on each audit;
- o Implementing key account principles for all audits to ensure high risk audits involve senior officers within the Office; and
- o Quality assurance processes that require senior staff to review audit results so that the audit meets our own professional standards. This involves having a three-tiered review process.

Post-audit quality reviews

In addition to the review processes used during the audit process the Office applies a series of quality assurance reviews to supplement the above measures. This includes:

- o An annual post-audit quality review program by the Director Quality Assurance that involves a detailed review of a sample of completed audits;
- o Clients completing annual surveys that measure aspects of the audit process including their satisfaction with the quality of the audit; and
- o Peer reviews by another Audit Office on financial audit and performance audit processes. These are conducted every three years – the next peer reviews will be dealt with as part of the independent peer review already referred to.

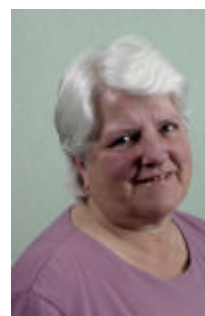
The annual review by the Director Quality Assurance for the 2003-04 audit cycle for financial audit and performance audit at 30 June 2005 is only 50% completed and will be concluded after the 2004-05 audit cycle in November 2005. The delay in completing the review is a result of only filling the position in December 2004 and with the new Director familiarising himself with our methodology.

Freedom of Information

The information gathered during the conduct of audits is confidential and not available to third parties.

The administrative processes of the Office come under the Freedom of Information legislation. There were no applications under the legislation during the year.

The Office's freedom of information officer is Sandra O'Connor, Executive Officer – Records and Finance.



Sandra O'Connor

Compliance with Treasurer's Instructions Issued in accordance with FMAA

The Office ensures that its operational practices comply with the Treasurer's Instructions (TIs) issued in accordance with the *Financial Management and Audit Act 1990* (FMAA).

During the year the Office sought exemption from the TIs in respect of a contract. This exemption was granted for the review of the effectiveness of the governance and decision making of the TT-Line Company Pty Ltd. Exemption was granted because of the short time frame for the review and market research indicated that Wise Lord Ferguson were the only local suppliers without a conflict of interest. The contract value was \$68 000.

Compliance with the Public Interest Disclosure Act

Any member of the public can view a copy of the Office's procedures in respect of public interest disclosures during officer hours.

Performance Monitoring

The Office applies sound performance monitoring practices including: -

- o Preparation of full accrual monthly financial statements for consideration by the Executive Management Team;
- o Budget vs Actual reports on a monthly basis;
- o Variance Analysis reports on job costing on a monthly basis to ensure accurate overhead recovery and full utilisation of staff;
- o Aged analysis reports for creditors and debtors; and
- o Leave entitlement reports which are reviewed quarterly.

Financial performance

Some key indicators of the Office's financial performance during 2004-05 included:

- o A net loss for the period of \$ 0.416m (2003-04, \$ 0.018m profit); and
- o Net assets at balance date of \$0.311m (2003-04, \$0.737m).

The Audit Office is managed on a commercial basis. Revenue from financial audit fees is designed to cover all costs involved in the provision of this service including staff salaries and on-costs, administration, accommodation and equipment charges.

From 1 July 2004 the Office no longer pays an income tax equivalent charge on any profits or a dividend to the Government. This change in policy resulted in a write off of tax assets and tax liabilities of \$ 0.294m.

Performance audits, investigations and the cost of reporting to Parliament are managed on a cost recovery basis from an appropriation from Parliament that is managed by the Department of Treasury and Finance.

The Auditor-General's salary and on-costs are a Reserved-by law item within the State's annual budget.

The following table is a four year summary of the Office's financial performance:

	2004-05	2003-04	2002-03	2001-02
Revenue from operating activities (\$'000)	3 907	3 628	3 389	3 136
Expenditure from operating activities (\$'000)	4 323	3 610	3 464	3 293
Operating surplus/(loss) (\$'000)	(416)	18	(63)	100

Details on movements in revenue and expenditure

	2004-05 (\$'000)	2003-04 (\$'000)	2002-03 (\$'000)	2001-02 (\$'000)
Revenue				
User charges	3 487	3 173	3 078	2 653
Recurrent appropriations	301	362	239	252
Other revenue	119	101	72	231
Total	3 907	3 636	3 389	3 136
Expenditure				
Employee Benefits	2 542	2 542	2 516	2 286
Other expenses from ordinary activities	581	516	461	420
Audit Contractors	181	181	91	164
Information technology	117	184	130	159
Accommodation	176	153	153	143
Depreciation	146	117	113	121
Written down value of disposed assets	11	7	0	0
Income tax equivalence	294	8	(12)	(257)
Total	4 323	3 618	3 452	3 036
Operating Surplus/(Deficit)	(416)	18	(63)	100

The Office has steadily increased its revenue over the last four years and this has been matched by increases in expenditure. During 2004-05 the Office experienced an increase in employee related costs due to increased salaries as a result of the new State Services Wages Agreement (SSWA) and an increase in the number of staff employed. The accommodation related expenses increased as a result of increases in car parking costs and electricity costs. Depreciation expense increased as a result of increased capital expenditure on computer hardware and software. With the Office no longer paying income tax equivalence charges and a dividend this meant there was a write-off of tax assets and liabilities against equity of \$ 0.294m.

The increases in revenue relates to a higher chargeable output from staff due to increased staff numbers and earlier commencement of jobs. The recurrent appropriation decreased relative to the previous year because the previous year included recovery for relocation expenses.

The increase in ordinary expenses is related to additional costs of producing reports, consultants and increased operational expenses.

Financial position

	2004-05 (\$'000)	2003-04 (\$'000)	2002-03 (\$'000)	2001-02 (\$'000)
Assets				
Current assets	823	879	1 197	1 476
Non-current assets	260	577	526	479
Total assets	1 083	1 456	1 723	1 955
Liabilities				
Current liabilities	364	322	572	677
Non-current liabilities	408	397	432	396
	772	719	1 004	1 073
Total liabilities				
Net Assets	311	737	719	882

The Office's net assets declined by \$0.426m primarily due to the loss for the year. Net working capital remains strong at \$0.459m (2003-04 - \$0.557m) although funds tied up in debtors and work in progress increased causing a small bank overdraft of \$618.

During the year the Office has struggled to raise invoices in a timely manner as a result of complications with the implementation of the Office's new job costing system. This system was introduced without a dedicated staff resource which added to delays. Also the Office has not regularly followed up on outstanding debts and this together with raising invoices has resulted in poor inward cash flow. The Office is addressing these issues.

The variation in non-current assets compared to the previous year is due to the write-off of the income tax equivalence tax assets. The slight increase in the provisions for employee entitlements is a result of increases in salaries and staff employed.

Performance management

Another element of performance monitoring is performance management against output targets that has been dealt with elsewhere in this annual report.



Financial Statements

For the Financial Year Ended
30 June 2005

Tasmanian Audit Office

Financial Report for the Year Ended 30 June 2005

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Tasmanian Audit Office Statement of Financial Performance for the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
Revenue form Ordinary Activities			
Revenue from State Government	1.4(a), 2.1	301	362
User charges	1.4(b), 2.2	3 487	3 173
Other revenue from ordinary activities	1.4(c), 2.4	119	101
Total revenue from ordinary activities		3 907	3 636
Expenses from ordinary activities			
Employee entitlements	1.5(a), 3.1	2 681	2 318
Payroll Tax		136	134
Depreciation and amortisation	1.5(b), 3.2	146	117
Loss incurred on the disposal of assets	1.5(c), 2.3	11	7
Audit Contractors		181	181
Accommodation		176	153
Information technology		117	184
Materials and Supplies		192	132
Other expenses from ordinary activities	1.5(d), 3.3	389	384
Total expenses from ordinary activities		4 029	3 610
Net operating surplus (deficit) from ordinary activities before Taxation			
		(122)	26
Write back future income tax benefit/income tax expense		(294)	(8)
Total changes in equity other than those resulting from transactions with the Crown in its capacity as owner	7.1	(416)	18

This Statement of Financial Performance should be read in conjunction with the accompanying notes.

Tasmanian Audit Office Statement of Financial Position as at 30 June 2005

	Notes	2005 \$'000	2004 \$'000
Assets			
Current assets			
Cash and deposits	1.6(a), 5.1	(1)	121
Receivables	1.6(b), 5.2	550	609
Work in progress	1.6(c), 5.3	208	40
Other current assets	1.11, 1.12, 5.6	66	109
Total current assets		823	879
Non-current assets			
Computer and office equipment	1.6(d), 5.4	260	321
Other non current assets	1.12, 5.6	-	256
Total Non-current assets		260	577
Total assets		1 083	1 456
Liabilities			
Current liabilities			
Employee entitlements	1.7(b), 6.1	256	170
Payables	1.7(a), 6.2	108	107
Other current liabilities	6.3	-	45
Total current liabilities		364	322
Non-current liabilities			
Employee entitlements	1.7(b), 6.1	408	338
Other non-current liabilities	1.11, 1.12, 6.3	-	59
Total Non-current liabilities		408	397
Total liabilities		772	719
Net assets		311	737
Equity			
Contributed capital		1 168	1 168
Accumulated deficits		(857)	(431)
Total Equity	7.1	311	737

This Statement of Financial Position should be read in conjunction with the accompanying notes.

Tasmanian Audit Office Statement of Cash Flows for the year ended 30 June 2005

	Notes	2005 \$'000 Inflows (Outflows)	2004 \$'000 Inflows (Outflows)
Cash flows from operating activities			
Cash inflows			
Appropriation revenue – recurrent		301	362
User charges		3 611	3 008
GST receipts		35	240
Interest received		5	10
Other cash receipts		113	116
Total cash inflows		4 065	3 736
Cash outflows			
Employee entitlements		(2 681)	(2 667)
GST payments		(190)	(246)
Other cash payments		(1 210)	(1 077)
Total cash outflows		(4 081)	(3 990)
Net cash from (used by) operating activities	8.2	(16)	(254)
Cash flows from investing activities			
Cash inflows			
Gross proceeds from the disposal of non-current assets		5	-
Total cash inflows		5	-
Cash outflows			
Payments for acquisition of non-current assets		(101)	(225)
Total cash outflows		(101)	(225)
Net cash from (used by) investing activities		(96)	(225)
Cash flows from financing activities			
Cash outflows			
Dividend Paid		(10)	-
Capital Charge		-	(44)
Total cash outflows		(10)	(44)
Net cash from (used by) financing activities		(10)	(44)
Net increase (decrease) in cash held		(122)	(523)
Cash at the beginning of the reporting period		121	644
Cash at the end of the reporting period	8.1	(1)	121

This Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to and forming part of the Financial Statements for the year ended 30 June 2005

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Note 1 Significant Accounting Policies

1.1 Objectives and Funding

The Office is structured to provide audit assurance to Parliament concerning the financial statements of the Treasury, Government Departments, Government Business Enterprises, State-owned Companies, Local Government Councils and other public bodies and the economy, efficiency and effectiveness of those entities.

The Office is predominantly funded through fees for service. The undertaking of financial, performance and compliance audits and the publishing of reports are fee for service activities. The Office is also funded through a Parliamentary appropriation for the Auditor-General's salary and associated allowances. The financial report encompasses all funds through which the Office controls resources to carry on its functions.

The continued existence of the Office in its present form, undertaking its current activities, is dependent on the support of the Parliament and on the Office's ability to charge appropriate fees to recover its operational costs.

1.2 Basis of Accounting

This financial report is a general purpose financial report that has been prepared in accordance with the *Financial Management and Audit Act 1990*, Australian Accounting Standards, Statements of Accounting Concepts and Urgent Issues Group Consensus Views and complies with other requirements of the law.

The financial report is prepared on an accrual accounting basis in accordance with the historical cost convention and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The accounting policies adopted, and the classification and presentation of items, are consistent with those of the previous year, except, where a change is required to comply with an Australian Accounting Standard or Urgent Issues Group Consensus Views, or an alternative accounting policy or an alternative presentation or classification of an item, as permitted by an Australian Accounting Standard, is adopted to improve the relevance and reliability of the financial report. Where practicable, comparative amounts are presented and classified on a basis consistent with the current year.

1.3 Adoption of Australian Equivalents to International Financial Reporting Standards

The adoption of Australian Equivalents to International Financial Reporting Standards will not result in changes in accounting policies that are expected to have a material impact on the Office's financial statements. This assumption is based on the Department of Treasury and Finance not increasing the superannuation contribution rate.

1.4 Revenue

Revenues are recognised in the Statement of Financial Performance when it is probable that the inflow or other enhancement or saving in outflows of future economic benefits has occurred and can be measured reliably. Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

a) Revenues from State Government

Appropriations, whether recurrent or capital, are recognised as revenues in the period in which the Office gains control of the appropriated funds.

b) User Charges

Amounts earned in exchange for the provision of goods and services are recognised as the good or service is provided.

c) Interest

Interest revenue is recognised as it accrues.

d) Gross Proceeds from the Disposal of Assets

Revenue from the sale of Non-current assets is recognised when control of the asset has passed to the buyer.

1.5 Expenses

Expenses are recognised in the Statement of Financial Performance when it is probable that the consumption or loss of future economic benefits resulting in a reduction in assets and/or an increase in liabilities has occurred and the consumption or loss of future economic benefits can be measured reliably.

a) Employee Entitlements

Employee entitlements include entitlements to wages and salaries, annual leave, sick leave, long service leave, superannuation and other post-employment benefits.

b) Depreciation and Amortisation

Non-current assets are depreciated on a straight-line basis to write off the net cost of each asset group over its expected useful life to the Office. The expected useful lives used in the calculation of depreciation are as follows:

Furniture and fittings	Between 4 to 10 years
Computer equipment - Hardware	Between 3 to 4 years
Computer equipment - Software	Between 3 to 5 years
Office equipment	Between 5 to 10 years

The cost of improvements to or on leased properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Office, whichever is the lesser.

c) Written Down Value of Disposed Assets

The written down value reflects the carrying value of the asset at the time of disposal.

d) Other Expenses from Ordinary Activities

Expenses including accruals not yet billed are recognised when the Office becomes obliged to make future payments or as a result of a purchase of goods and services.

1.6 Assets

Assets are recognised in the Statement of Financial Position when it is probable that the future economic benefits embodied in the asset will eventuate and the asset possesses a cost or other value that can be measured reliably.

a) Cash and Deposits

Cash on hand and in deposit accounts are stated at nominal value.

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in deposit accounts.

b) Receivables

Receivables are recognised at the amounts receivable as they are due for settlement. Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised where some doubts exist as to collection.

c) Work in Progress

Work in progress is measured by the actual hours spent to date on the individual audits multiplied by the appropriate charge out rate per employee category less amounts invoiced.

Work in progress is valued at the lower of cost or net realisable value.

d) Non-current Physical Assets

(i) Valuation basis

All Non-current physical assets are recorded at historic cost.

(ii) Asset recognition threshold

The asset capitalisation threshold adopted by the Office is \$1000. Assets valued at less than \$1000 are charged to the Statement of Financial Performance in the year of purchase and if that asset is not considered to be an attractive item.

1.7 Liabilities

Liabilities are recognised in the Statement of Financial Position when it is probable that the future sacrifice of economic benefits will be required and the amount of the liability can be measured reliably.

a) Payables

Payables, including goods received and services incurred but not yet invoiced, are recognised when the Office becomes obliged to make future payments as a result of a purchase of assets or services.

b) Provisions for Employee Entitlements

Liabilities for wages and salaries, annual leave and long service leave expected to be settled within 12 months are recognised and are measured as the amount unpaid at the reporting date at expected pay rates in respect of employees' services up to that date.

A liability for long service leave that is not expected to be settled within 12 months is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

c) Superannuation

No superannuation liability is recognised for the accruing superannuation benefits of Office employees. This liability is held centrally and is recognised within the Finance-General Division of the Department of Treasury and Finance. During the reporting period, the Office paid 11% of salary in respect of contributory members of the Retirement Benefits Fund into the Superannuation Provision Account within the Special Deposits and Trust Fund. The Office paid the appropriate Superannuation Guarantee Charge into the nominated superannuation fund in respect of non-contributors.

1.8 Leases

In accordance with government policy the Office has no finance leases.

Operating lease payments are recognised as an expense on a basis that reflects the pattern in which economic benefits from the leased asset are consumed.

Lease incentives

Lease incentives received to enter into non-cancellable operating leases, are recognised as a liability. Lease payments are allocated between rental expense, reduction of the liability and, where appropriate, interest expense over the term of the lease.

Due to relocation of the Office's Hobart premises during 2005, the balance remaining on the lease was transferred to the Statement of Financial Performance.

1.9 Comparative Figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements, where required.

1.10 Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars, unless otherwise stated. Where the result of expressing amounts to the nearest thousand dollars would result in an amount of zero, the financial statement will contain a note expressing the amount to the nearest whole dollar.

1.11 Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expenses; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a net basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

1.12 Income Tax

In previous years the Office paid income tax to the State Government. In the comparative year tax-effect accounting principles were adopted whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occurred when items were included or allowed for income tax purposes in a period different to that for accounting, was shown in the comparative year at current taxation rates in the deferred tax assets and deferred tax liabilities, as applicable.

See also note 1.13 and 5.6.

1.13 Change in Accounting Policy

The Office's policy of participating in the income tax equivalents regime was voluntary. It resulted in the payment of income tax and in the recognition of tax effect balances in 2003-04 and prior years. This policy has now been revised such that the Office will no longer participate in the income tax equivalent regime. The effect on the current year operating results is to write off the amount of the future income tax benefit of \$306,097 and the deferred income tax liability of \$12,310 as at 30 June 2004. Had there been no change in policy the result would have been to increase the future income tax benefit by \$86,789 and increase the deferred income tax liability by \$50,261.

Note 2 Revenue

2.1 Revenue from State Government

Revenue from the State Government is Items Reserved by Law.

The Budget information is based on original estimates and has not been subject to audit.

	2005 Budget \$'000	2005 Actual \$'000	2004 Actual \$'000
Items Reserved by Law	263	301	362
Total Revenue from Government	263	301	362

2.2 User Charges

Financial Audit Services	2 331	2 325
Performance and Compliance Audit	980	744
Reports to Parliament	176	104
Total	3 487	3 173

Notional User Charges

Several clients of the Office have contracts with service providers to undertake the financial audit of their organisations where the client pays the service provider directly. The value of these notional user charges are

75	65
-----------	-----------

2.3 Gross Proceeds and Expense from the Disposal of Non-current Assets

Office and computer equipment

Revenue (proceeds) from sales	5	-
Written down value of disposed assets	(16)	(7)
Total	(11)	(7)

2.4 Other Revenues from Ordinary Activities

Interest	5	11
Write back lease incentive liability	47	-
Other	67	90
Total	119	101

Note 3 Expenses from Ordinary Activities

	2005 \$'000	2004 \$'000
3.1 Employee Entitlements		
Wages and salaries	2 083	1 881
Annual leave	212	172
Long service leave	147	42
Superannuation	239	223
Total	2 681	2 318
3.2 Depreciation and Amortisation		
a) Depreciation expense		
Computer equipment - hardware	86	71
Computer equipment - software	52	32
Office equipment and furniture and fittings	8	8
Total	146	111
b) Amortisation expense		
Leasehold improvements	-	6
Total depreciation and amortisation	146	117
3.3 Other Expenses from Ordinary Activities		
Reimbursement of 50% of the Auditor-General's remuneration package	-	148
Fringe benefits tax	33	18
Worker's compensation	10	14
Travel and transport	84	86
Training	69	56
Consultants	90	39
Insurance	8	13
Miscellaneous expenses	95	10
Total	389	384

Note 4 Outputs of the Office

4.1 Office Outputs

The Office has only one major output and that encapsulates the two fundamental elements of its role:

- the Provision of reports to Parliament;
- the conduct of financial statement audits.

The following information has been prepared on an accrual accounting basis. The Budget information has not been subject to audit.

OUTPUT GROUP 1 – PUBLIC SECTOR MANAGEMENT AND ACCOUNTABILITY

	2005		2004	
	Original Budget \$'000	Revised Budget \$'000	Actual \$'000	Actual \$'000
OPERATING REVENUE				
Revenue from Government				
Reserved by law	263	314	301	362
User charges	3 537	3 500	3 487	3 173
Other revenue	16	42	119	101
TOTAL	3 816	3 856	3 907	3 636
OPERATING EXPENSES				
Employee entitlements	2 582	2 627	2 681	2 318
Payroll tax	132	132	136	134
Depreciation and amortisation	133	133	146	117
Audit contractors	116	116	181	181
Consultants	56	56	90	39
Accommodation	179	179	176	153
Information technology	111	111	117	184
Travel and transport	89	89	84	86
Materials and supplies	164	274	323	132
Other expenses	216	70	95	266
TOTAL	3 778	3 787	4 029	3 610
NET OPERATING (Deficit)/Surplus	38	(69)	(122)	26
EXPENSE BY OUTPUT				
Public Sector Management and Accountability	3 778	3 787	4 029	3 610
TOTAL	3 778	3 787	4 029	3 610

Note 5 Assets

5.1 Cash and Deposits

a) Cash held in the Special Deposits and Trust Fund

This represents the balance of Accounts held in the Special Deposits and Trust Fund.

	2005 Actual \$'000	2004 Actual \$'000
T644 – Tasmanian Audit Office Operating Account	(1)	121
Total	(1)	121

5.2 Receivables

User charges (inclusive of GST)	549	523
User charges (GST Free)	-	86
Interest	1	-
Total	550	609

5.3 Work in Progress

Work in progress comprises unbilled revenue as at 30 June	208	40
Total	208	40

5.4 Leasehold Improvements, Plant and Equipment

	2005 \$000	2004 \$000
Computer Equipment – Hardware		
At cost	458	532
Less: Accumulated depreciation	(293)	(374)
Total Computer Equipment – Hardware	165	158
Computer Equipment – Software		
At cost	301	363
Less: Accumulated depreciation	(220)	(222)
Total Equipment – Software	81	141
Leasehold improvements		
At cost	-	187
Less: Accumulated amortisation	-	(187)
Total leasehold improvements	-	-
Office Equipment		
At cost	39	76
Less: Accumulated depreciation	(34)	(64)
Total Office Equipment	5	12
Furniture and Fittings		
At cost	93	93
Less: Accumulated depreciation	(84)	(83)
Total Furniture and Fittings	9	10
Total Leasehold Improvements, Plant and Equipment	260	321

5.5 Reconciliation of Non-current Physical Assets

Reconciliations of the carrying amounts of each class of Plant and Equipment at the beginning and end of the current and previous financial year are set out below.

	Computer Equipment \$'000	Office Equipment & Furniture \$'000	Leasehold Improvements \$'000	Total \$'000
2005				
Carrying amount at start of year	299	22	-	321
Additions	101	-	-	101
Disposals	(16)	-	-	(16)
Depreciation/ amortisation expense	(138)	(8)	-	(146)
Carrying amount at end of year	246	14	-	260
2004				
Carrying amount at start of year	197	18	5	220
Additions	213	12	-	225
Disposals	(7)	-	-	(7)
Depreciation/ amortisation expense	(104)	(8)	(5)	(117)
Carrying amount at end of year	299	22	-	321

Carrying Amount means:

- (a) in relation to an asset, the amount at which the asset is recorded in the accounting records as at a particular date. In application to a depreciable asset, "carrying amount" means the net amount after deducting accumulated depreciation; and
- (b) in relation to a class of assets, the sum of the carrying amounts of the assets in that class.

5.6 Other Assets

	2005 \$'000	2004 \$'000
Other Current Assets		
Tax assets – GST owed by the ATO	11	-
Future income tax benefit	-	50
Prepayments	55	59
Total	66	109
Other Non-current Assets		
Future income tax benefit	-	256
Total Other Assets	-	365

The office withdrew from its previous voluntary decision to participate in the income tax equivalents regime resulting in future income tax benefit balance of \$306,097 at 30 June 2004 being written off.

Note 6 Liabilities

6.1 Employee Entitlements

	2005 \$'000	2004 \$'000
Current		
Accrued salaries	8	-
Provision for Annual leave	182	119
Provision for Long service leave	36	42
Accrued Superannuation	2	-
Accrued in lieu of overtime	28	9
Total	256	170
Non-current		
Provision for Long Service Leave	408	338
Total	408	338
Total Employee Entitlements	664	508
Provision for Long Service Leave	Current	Non-current
Long Service Leave	30	348
Superannuation	4	37
Payroll Tax	2	23
	36	408

6.2 Payables

	2005 \$'000	2004 \$'000
Current		
Creditors	50	82
Payroll tax payable	14	20
Accrued FBT	8	5
Accrued other expenses	36	-
Total Payables	108	107

6.3 Other Liabilities

Current		
Tax liabilities – GST owed to the ATO	-	37
Lease incentive liability	-	8
Total	-	45
Non-current		
Provision for Deferred Income Tax	-	12
Lease Incentive Liability	-	47
Total	-	59

The office withdrew from its previous voluntary decision to participate in the income tax equivalents regime resulting in provision for deferred income tax balance of \$12,310 at 30 June 2004 being written off.

The lease incentive liability of \$47,016 at 30 June 2004 was transferred to income.

6.4 Schedule of Commitments

a) Operating Leases

Operating leases relate to office accommodation and motor vehicles. For office accommodation the lease terms are 10 years, with an option to extend for a further ten years. All operating lease contracts contain market review clauses. The motor vehicle lease is governed by the Government's contract where vehicles are leased and replaced every two years or 40,000 kilometres of use whichever is the earlier event.

	2005	2004
	\$'000	\$'000
By Maturity		
<i>Operating lease commitments</i>		
One year or less	184	164
From one to five years	752	602
Over five years	1 039	304
Total Lease commitments	1 975	1 070

b) Contract Audits

Commitments for the payments of future auditing services under contracts in existence at the reporting date, payable as follows:

	2005	2004
	\$'000	\$'000
<i>Other commitments</i>		
One year or less	215	113
From one to five years	884	69
Total other commitments	1 099	182

Note 7 Equity and Movements in Equity

7.1 Reconciliation of Equity

	2005	2004
	\$'000	\$'000
Contributed Capital		
Equity	1 168	1 168
Accumulated Funds		
Balance at 1 July	(431)	(449)
Net surplus/(deficit)	(416)	18
Dividend paid	(10)	-
Balance at 30 June	(857)	(431)
Total Equity	311	737

Equity represents the residual interest in the net assets of the Office.

7.2 Dividend

The dividend was paid to the Government in respect of the financial year ended 30 June 2004, representing 50% of after tax profit.

Note 8 Cash Flow Reconciliation

8.1 Cash and Cash Equivalents

	2005 \$'000	2004 \$'000
Cash at year end per Statement of Cash Flows	(1)	121
Statement of Financial Position items comprising cash: 'Financial Asset – Cash' being the balance of the Special Deposits and Trust account T644	(1)	121
Total Cash Equivalents	(1)	121

The definition of cash can be found at Note 1.6(a).

8.2 Reconciliation of Operating (Deficit)/Surplus to Net Cash Used in Operating Activities

Net operating surplus/ (deficit) after taxation	(416)	26
Depreciation/Amortisation	146	117
Net Loss (profit) from sale of non-financial assets	11	7
Decrease (increase) in receivables	58	(221)
Decrease (increase) in prepayments	4	(28)
Decrease (increase) in work in progress	(155)	64
Decrease (increase) in GST assets	(48)	-
Decrease (increase) in tax assets	306	-
Increase (decrease) in employee entitlements	136	(183)
Increase (decrease) in payables	9	(48)
Increase (decrease) in tax liabilities	(12)	18
Increase (decrease) in other liabilities	(55)	(6)
Net cash from (used by) operating activities	(16)	(254)

Note 9 Average Staffing Levels

	2005 FTE	2004 FTE
The number of employees as at the reporting date was:	37	35

Note 10 Financial Instruments - Terms, Conditions and Accounting Policies

Financial Instrument	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
Financial Assets	Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	There were no financial assets.
Cash	Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.	The Office's business operating account is a trust account in the Special Deposits and Trust Funds at the Department of Treasury and Finance. Interest is calculated on the minimum daily balance and the average interest over the period was 4.98%
Receivables for user charges	Receivables are recognised at the nominal amounts due, less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	Credit terms are 30 days.
Financial liabilities	Liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	There were no financial liabilities.
Payables	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having being invoiced).	Settlement is usually made in 30 days.

a) Derivative instruments not shown in the Statement of Financial Position

The Office does not hold any derivative financial instruments.

b) Credit risk exposures

The credit risk on financial assets of the Office, which have been recognised in the Statement of Financial Position, is generally the carrying amount, net of any provision for doubtful debts.

c) Interest rate exposures

The Office's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table. For interest rates applicable to each class of asset or liability refer to individual notes to the financial statements. Exposures arise predominantly from assets and liabilities bearing variable interest rates as the Office intends to hold fixed rate assets and liabilities to maturity.

10.2 Financial Instruments

a) Interest Rate Risk

2005

	Weighted Average Effective Interest Rate %	Fixed Interest Maturing In:					Total \$'000
		Floating Interest Rate \$'000	1 Year or Less \$'000	Over 1 Year to 5 Years \$'000	More than 5 Years \$'000	Non- Interest Bearing \$'000	
Financial Assets							
Cash in Special Deposits and Trust Fund	4.98	(1)	-	-	-	-	(1)
Work in progress	-	-	-	-	-	207	207
Receivables	-	-	-	-	-	550	550
Total financial assets		(1)	-	-	-	757	756
Financial Liabilities							
Payables	-	-	-	-	-	108	108
Net financial assets							648

2004

	Weighted Average Effective Interest Rate %	Fixed Interest Maturing In:					Total \$'000
		Floating Interest Rate \$'000	1 Year or Less \$'000	Over 1 Year to 5 Years \$'000	More than 5 Years \$'000	Non- Interest Bearing \$'000	
Financial Assets							
Cash in Special Deposits and Trust Fund	5.13	121	-	-	-	-	121
Work in progress	-	-	-	-	-	40	40
Receivables	-	-	-	-	-	609	609
Total financial assets		121	-	-	-	649	770
Financial Liabilities							
Payables	-	-	-	-	-	119	119
Net financial liabilities							651

10.3 Net Fair Values of Financial Assets and Liabilities

	2005 Total Carrying Amount \$'000	2004 Total Carrying Amount \$'000
Financial assets		
Cash in Special Deposits and Trust Fund	(1)	121
Work in progress	207	40
Receivables for user charges	550	609
Total financial assets	756	770
Financial Liabilities		
Trade and other creditors	108	119
Total financial liabilities	108	119

Financial Assets

The net fair values of cash and non-interest bearing monetary financial assets approximate their carrying amounts.

Financial Liabilities

The net fair values for trade and other creditors are approximated by their carrying amounts.

10.4 Credit Risk Exposures

The Office's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

The Office has no significant exposures to any concentrations of credit risk.

Note 11 Auditor's Remuneration

The Governor in accordance with the *Financial Management and Audit Act 1990* appoints the Auditor of the Tasmanian Audit Office. Deloitte conducted the audit in 2004. Hall Chadwick was appointed in 2005 for three years.

	2005	2004
	\$'000	\$'000
Audit fees	8	6

Note 12 Executive Remuneration and Related Party Transactions

a) Executive Remuneration

Aggregated remuneration of members of the Office Executive is included in the following table

	2005	2004
70,000 - 79,999	2	2
80,000 - 89,999	3	1
100,000 - 109,999	-	1
130,000 - 139,999	1	-
180,000 - 189,999	-	1
230,000 - 239,999	-	1
250,000 - 259,999	1	-

b) Related Parties

During the year no transactions took place with related parties.

Note 13 Principal Address and Registered Office

Ground Floor

144 – 148 Macquarie Street

Hobart TASMANIA



Certification of Financial Statements For the Year Ended 30 June 2005

We certify that the attached financial statements for the Tasmanian Audit Office have been prepared in accordance with the provisions of the *Financial Management and Audit Act 1990*, applicable Australian Accounting Standards and other mandatory financial reporting requirements.

We further state that, in our opinion, the information set out in the statement of financial performance, statement of financial position and statement of cash flows and notes to and forming part of the financial statements present fairly the financial transactions during the year ended 30 June 2005 and financial position of the Office as at 30 June 2005.

We are not aware of any circumstances that would render any particulars included in the financial statements to be misleading or inaccurate.

Mike Blake
Auditor-General
11 October 2005

David Strong
Director Corporate Services
11 October 2005



INDEPENDENT AUDIT REPORT TO THE GOVERNOR IN RELATION TO THE TASMANIAN AUDIT OFFICE

Scope

The financial report and Auditor-General's responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the certification of financial statements for the Tasmanian Audit Office, for the year ended 30 June 2005.

The Auditor-General is responsible for the preparation and true and fair presentation of the financial report in accordance with the Financial Management and Audit Act 1990. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the Governor. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Financial Management and Audit Act 1990, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Tasmanian Audit Office's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Auditor-General.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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Associate
Kevin Adams

Director

(Insolvency Services)
Stan Traianedes

Other firms in:

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Perth
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National Association
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Associations of
Independent Firms

Independence

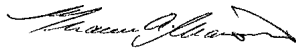
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

Audit opinion

In our opinion, the financial report of the Tasmanian Audit Office presents fairly, in accordance with applicable Accounting Standards and other mandatory financial reporting requirements in Australia and the Financial Management and Audit Act 1990, the financial position of the Tasmanian Audit Office as at 30 June 2005 and the results of its operations and its cash flows for the year then ended.



HALL CHADWICK
Chartered Accountants



G A Marriott
Partner

Melbourne
17 October, 2005

Appendices

Appendix 1 – Employees of the Office

As at 30 June 2005 the Office employed 37 full-time employees. The list of employees is detailed below:

Employee	Position	Location
Mike Blake	Auditor-General	Hobart
David Baulch	Deputy Auditor-General	Hobart
Financial Audit Services		
Derek Burns	Director	Hobart
Kate Tamayo	Director	Hobart
Neville l'Anson	Assistant Director	Hobart
Rob Luciani	Assistant Director	Launceston
Geoff Morffew	Assistant Director	Hobart
Jeff Tongs	Assistant Director	Hobart
Christina Buell	Senior IT Auditor	Hobart
Damian Cook	Senior Auditor	Hobart
Simone Hopwood	Senior Auditor	Launceston
Grant Musgrove	Senior Auditor	Hobart
Keith Rylands	Senior Auditor	Hobart
Debbie Scott	Senior Auditor	Launceston
Jara Dean	Auditor	Hobart
Matthew Joseph	Auditor	Hobart
Wayne Oates	Auditor	Hobart
Fabiola Solis	Auditor	Hobart
Gabrielle Woods	Auditor	Hobart
David Glennon	Audit Assistant	Hobart
Rebecca Clarke	Audit Cadet	Launceston
Jesse Penfold	Audit Cadet – IT	Hobart
Performance and Compliance Audit Services		
Geoff Driscoll	Director	Hobart
Geoff Fisher	Acting Assistant Director	Hobart
Simon Andrews	Senior Auditor	Hobart
Don Bailey	Senior Auditor	Hobart
Donna Powell	Senior Auditor	Hobart
Stephen Hoyle	Auditor	Hobart
Brendon Thomas	Auditor	Hobart
Quality Assurance and Contract Management		
Ric de Santi	Director	Hobart
Corporate Services and Planning		
David Strong	Director	Hobart
Rachael Burn	Manager, Finance and Payroll	Hobart
David Craig	Senior Computer Systems Officer	Hobart
Kylie Cook	Acting Executive Officer	Hobart
Narelle Hind	Executive Officer	Hobart
Sandra O'Connor	Executive Officer	Hobart
Robyn Smith	Executive Officer	Hobart

Appendix 2 - Composition of the Committees

Executive Management Team

The members of the team are:

Mike Blake – Chair;
David Baulch;
Derek Burns;
Kate Tamayo;
Geoff Driscoll;
Ric De Santi; and
David Strong

Human Resources Committee

The members of the committee are:

Mike Blake – Chair;
David Strong;
Simon Andrews;
Rachael Burn;
Debbie Scott; and
Christina Buell.

Information Management Committee

The members of the committee are:

David Baulch – Chair;
David Strong;
Ric De Santi;
David Craig;
Geoff Fisher;
Jeffrey Tongs; and
Narelle Hind.

Financial Audit Methodology Committee

The members of the committee are:

David Baulch – Chair;
Derek Burns;
Ric De Santi;
Kate Tamayo; and
Geoff Driscoll.

Performance Audit Methodology Committee

The members of the committee are:

Mike Blake – Chair;
Geoff Driscoll; and
Ric De Santi.

Appendix 3 – List of Clients

Parliament of Tasmania
The Office of the Governor
House of Assembly
Legislative Council
Legislature- General
Ministerial Portfolio and Government Departments
Department of Economic Development
Department of Education
Department of Health and Human Services
Department of Infrastructure, Energy and Resources
Department of Justice
Department of Police and Public Safety
Department of Premier and Cabinet
Department of Primary Industries, Water and Environment
Department of Tourism, Parks, Heritage and Arts
Department of Treasury and Finance
Government Business Enterprises
Forestry Tasmania
Hydro Tasmania
Motor Accidents Insurance Board
Port Arthur Historic Site Management Authority
Printing Authority of Tasmania
Public Trustee
Rivers and Water Supply Commission
Southern Regional Cemetery Trust
Tasmanian International Velodrome Management Authority
Tasmanian Public Finance Corporation
State Owned Companies
Aurora Energy Pty Ltd
Bell Bay Power Pty Ltd
Burnie Port Corporation Pty Ltd
Cathedral Rocks Investment Pty Ltd
Ezikey Group Pty Ltd
Heemskirk Holdings Pty Ltd
Heemskirk Wind Farm Pty Ltd
Hobart International Airport Pty Ltd
Hobart Ports Corporation Pty Ltd
King Island Port Corporation Pty Ltd
Metro Coaches Pty Ltd
Metro Tasmania Pty Ltd
Musselroe Holdings Pty Ltd
Musselroe Wind Farm Pty Ltd
Port of Devonport Corporation Pty Ltd
Port of Launceston Pty Ltd
Port Logistics and Services Pty Ltd
Risdon Port Services Pty Ltd
Roaring 40s Renewable Energy Pty Ltd
TOTE Tasmania Pty Ltd
Transend Networks Pty Ltd

TT Line Company Pty Ltd
Waterloo Investment Holdings Pty Ltd
Waterloo Investment Wind Farm Pty Ltd
Woolnorth Bluff Point Holdings Pty Ltd
Woolnorth Bluff Wind Farm Pty Ltd
Woolnorth Studland Bay Holdings Pty Ltd
Woolnorth Studland Bay Wind Farm Pty Ltd
Statutory Authorities
Board of Architects*
Chiropractors Registration Board*
Dental Board of Tasmania*
Dental Prosthetists Registration Board*
Medical Council of Tasmania*
National Trust of Australia (Tasmania)
Nursing Board of Tasmania*
Optometrists Registration Board *
Pharmacy Board of Tasmania*
Physiotherapists Registration Board *
Plumbers and Gasfitters Registration Board*
Podiatrists Registration Board*
Private Forests Board
Psychologists Registration Board
Radiographers Registration Board
RBF Tas Pty Ltd
Retirement Benefits Fund Board
State Fire Commission
Sullivans Cove Waterfront Authority
TAFE Tasmania
Tasmanian Community Fund
Tasmanian Dairy Industry Authority
Tasmanian Development and Resources
Tasmanian Qualification Authority
Teachers Registration Board
Tourism Tasmania
Travel Agency Licensing Board
* Audits Dispensed with
Local Government
Councils:
Break O'Day Council
Brighton Council
Burnie City Council
Central Coast Council
Central Highlands Council
Circular Head Council
Clarence City Council
Derwent Valley Council
Devonport City Council
Dorest Council
Flinders Council
George Town Council
Glamorgan/Spring Bay Council
Glenorchy City Council
Hobart City Council
Huon Valley Council

Kentish Council
King Island Council
Kingborough Council
Latrobe Council
Launceston City Council
Meander Valley Council
Northern Midlands Council
Sorell Council
Southern Midlands Council
Tasman Council
Waratah/Wynyard Council
West Coast Council
West Tamar Council
Authorities:
Cradle Coast Authority
Cradle Coast Water Authority
Dulverton Regional Waste Management Authority
Esk Water Authority
Hobart Regional Water Authority
Southern Waste Strategy Authority
West Coast Hospital and Community Services Pty Ltd
Public Bodies
Aboriginal Land Council of Tasmania
ANZAC Day Trust
Ben Lomond Skifield Management Authority
Clyde Water Trust
Council of Law Reporting
Forest Practices Board
Government Prices Oversight Commission
Housing Tasmania
Inland Fisheries Service
Inveresk Railyards Management Authority
Jim Bacon Foundation
Launceston Sailors Home Trust
Legal Aid Commission of Tasmania
Local Government Association of Tasmania
Marine and Safety Tasmania
National Heritage Trust
Nominal Insurer
Office of the Tasmanian Energy Regulator
Royal Tasmanian Botanical Gardens
Tasmanian Ambulance Service
Tasmanian Beef Industry (Research and Development) Trust
Tasmanian Building and Construction Industry Training Board
Tasmanian Heritage Council
Tasmanian Museum and Art Gallery
Tasmanian Risk Management Fund
Tasmanian Wilderness World Heritage Area
Theatre Royal Management Board
Tsuneichi Fujii Fellowship Trust
University of Tasmania and Southern Ice Limited
Wellington Park Management Trust
Workcover Tasmania

Appendix 4 - Additional staff statistics

Figure 32 - Staff by Employment Category

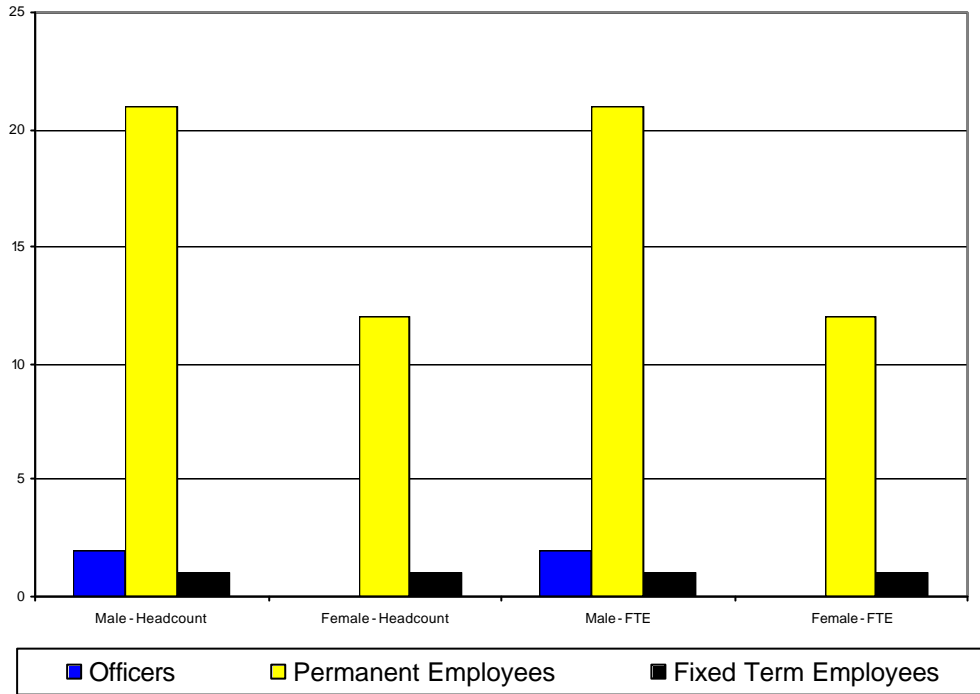


Figure 33 - Staff by Awards

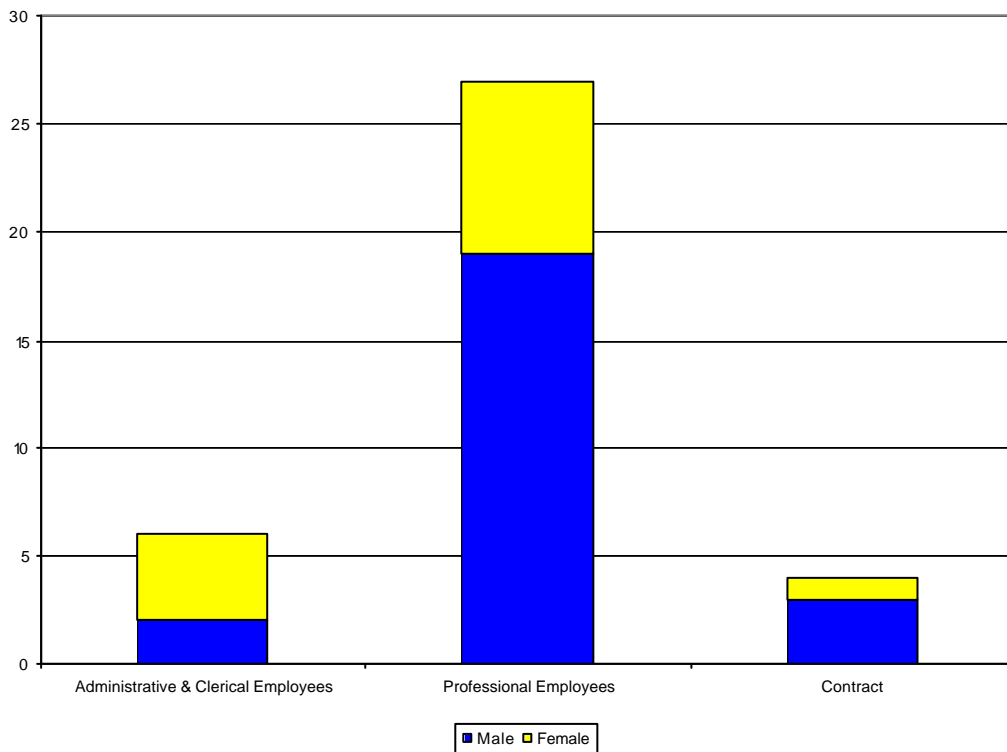


Figure 34 - Staff by Location

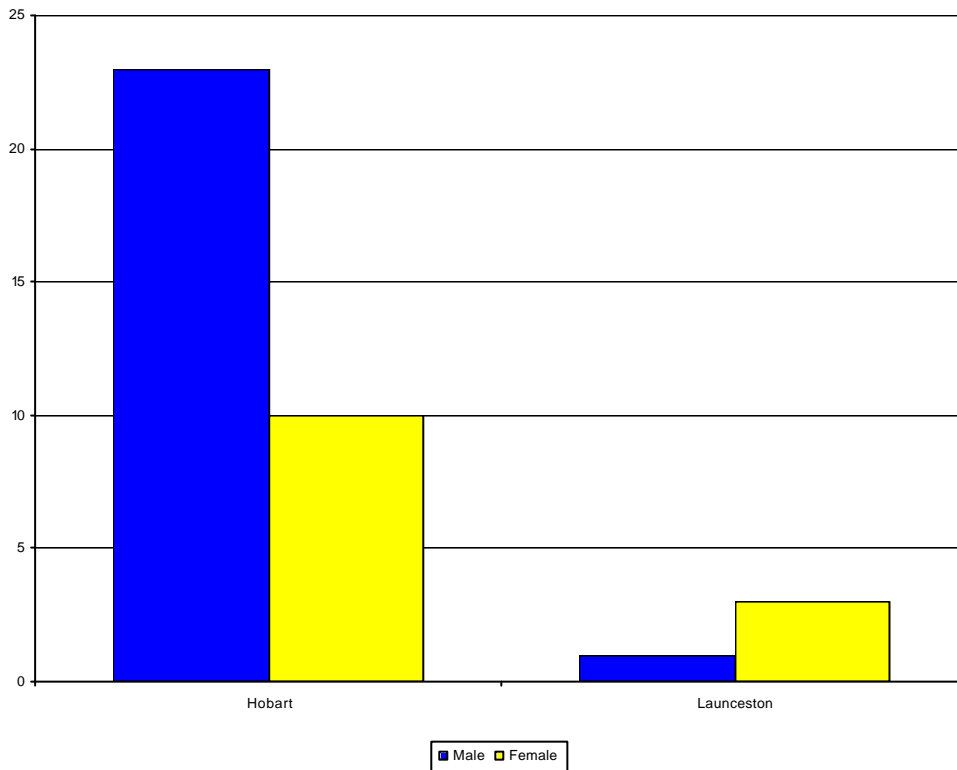


Figure 35 - Annual Leave and Long Service Leave

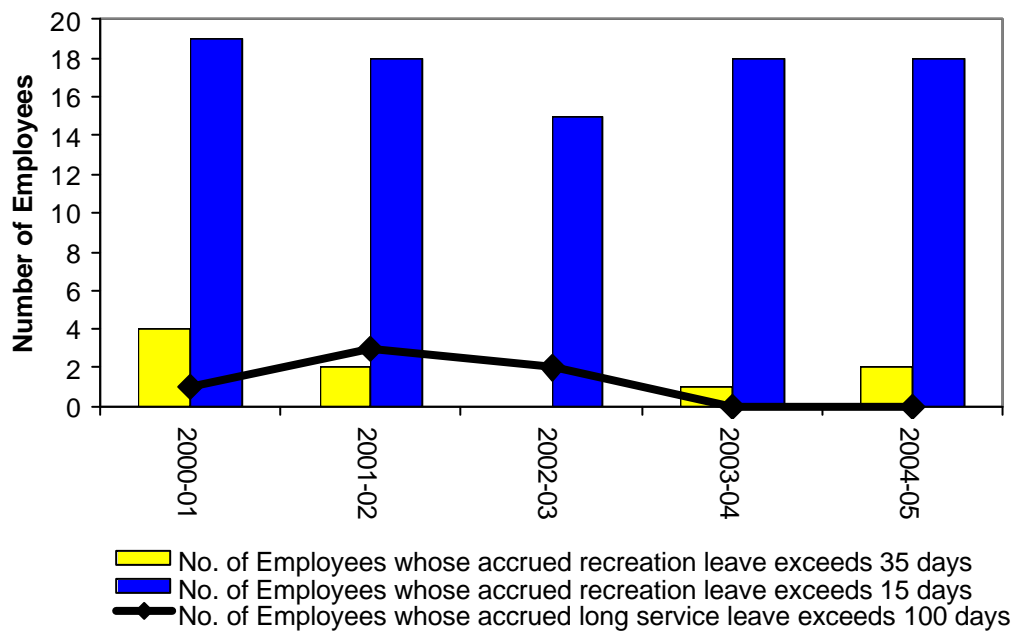


Figure 36 - Sick Leave

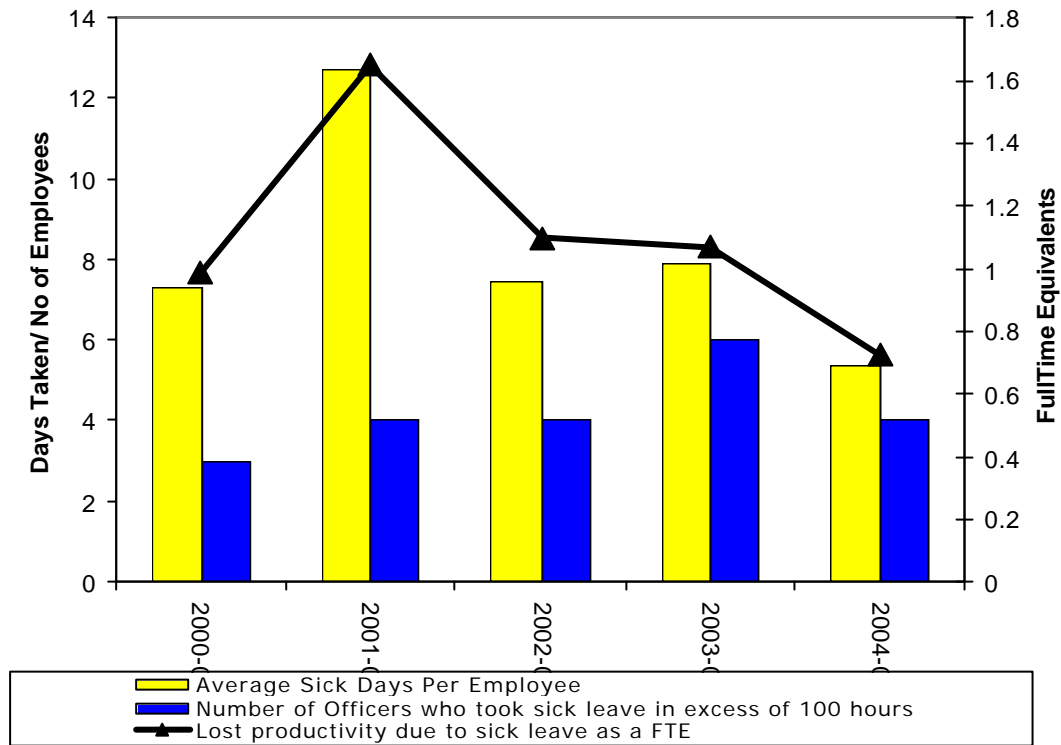
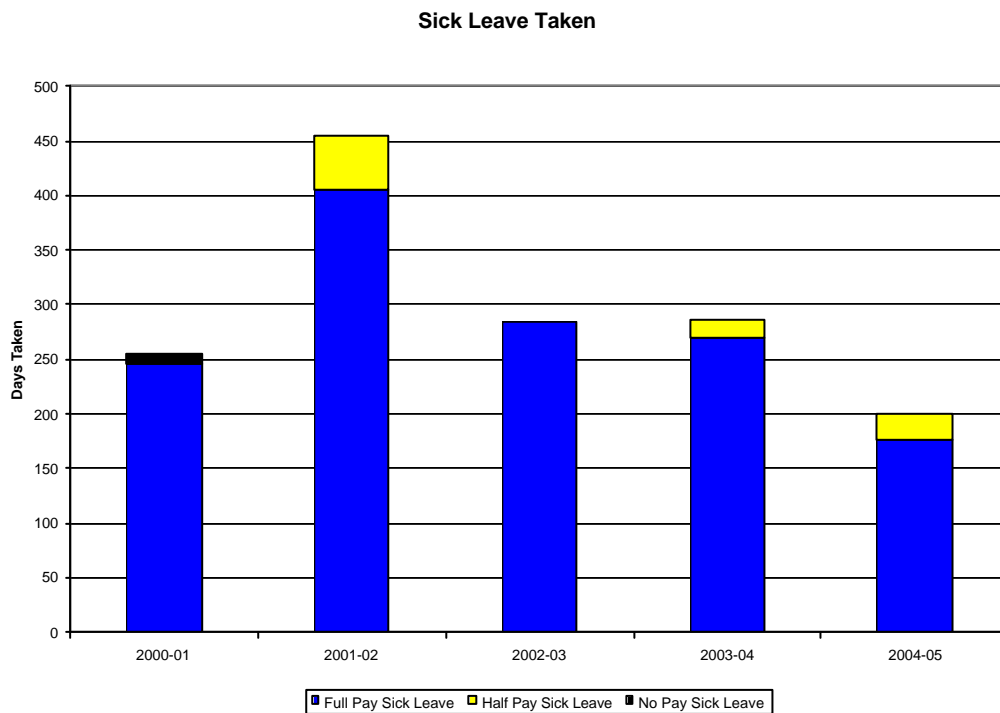


Figure 37 - Sick Leave



Appendix 5 - Additional compliance statistics

Asset Management and Pricing Policies

Major Capital Projects

By the very nature of our business the Office has limited investment in capital works. From time to time the Office undertakes minor works associated with fit-outs of the tenancies leased. These minor works are funded from the Office's own financial resources.

Asset Management

The financial statements for 2004-05 are reported on an accrual basis, and contain full details of the Office's asset management policies as notes to the statements.

Office assets have been valued in accordance with the Office's accounting policies and procedures, and these values are disclosed in the statements, together with appropriate notes on valuation methods.

Details of the Office's assets are recorded in the asset module of the Office's financial management system. This provides a direct link between the Office's asset register and the general ledger, thus enhancing financial reporting.

Pricing Policies

Audit fees for conducting financial, performance and compliance audits are the main source of revenue for the Office. In addition, the Office receives a budget appropriation for the Auditor-General's salary and associated allowances.

The Treasurer determines audit fees charged for financial audits after consultation with the Auditor-General in accordance with Section 56 of the *Financial Management and Audit Act 1990*.

Fees are calculated on the basis of meeting the full cost of operating the Office. Individual fees are determined applying a number of criteria that include size, history, risk, complexity, systems in place including internal controls, organisation and accounting changes and location. Given no change in any of the criteria fees would increase year to year by the movement in Average Weekly Ordinary Time Earnings for the public sector.

Government Procurement

Support for Local Business

For contracts awarded during 2004-05 with values in excess of \$50 000 the following individual details as per Treasurer Instruction TI 701 (1)(i)(i) are noted: -

	2004-05
Total number of contracts awarded	6
Total number of contracts awarded to Tasmanian businesses	6
Number of tenders called	6
Total number of bids received	13
Total number of bids received from Tasmanian businesses	13
Total value of contracts awards	\$304 200
Total value of contracts awarded to Tasmanian businesses	\$304 200 (100%)

Superannuation Declaration

I, Mike Blake, hereby certify that the Tasmanian Audit Office has met its obligations under the *Australian Government's Superannuation Guarantee (Administration) Act 1992* in respect of those employees of the Office who are members of the following complying superannuation schemes to which the Office contributes:

- AXA Australia
- FSP Applications Trust Account
- MLC Master Key Superannuation Fund



H M Blake
30 June 2005

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The Compliance Index has been compiled in response to the Auditor-General's Special Report No. 4 of May 1993, Standard of Annual Reports by Government Departments and the Australasian Reporting Awards Criteria. The Index is compiled in alphabetical order to assist with finding items. Some criteria will be listed and the page reference will be n/a this means the criteria is noted but it is either not applicable to our organisation or the report does not address the criteria.

Key:

SSA	State Service Act 2000	FOI	Freedom of Information Act 1991
FMAA	Financial Management & Audit Act 1990	PSSRA	Public Sector Superannuation Reform Act 1999
TI	Treasurer's Instructions	ARA	Australasian Reporting Awards
SSR	State Service Regulations 2001		