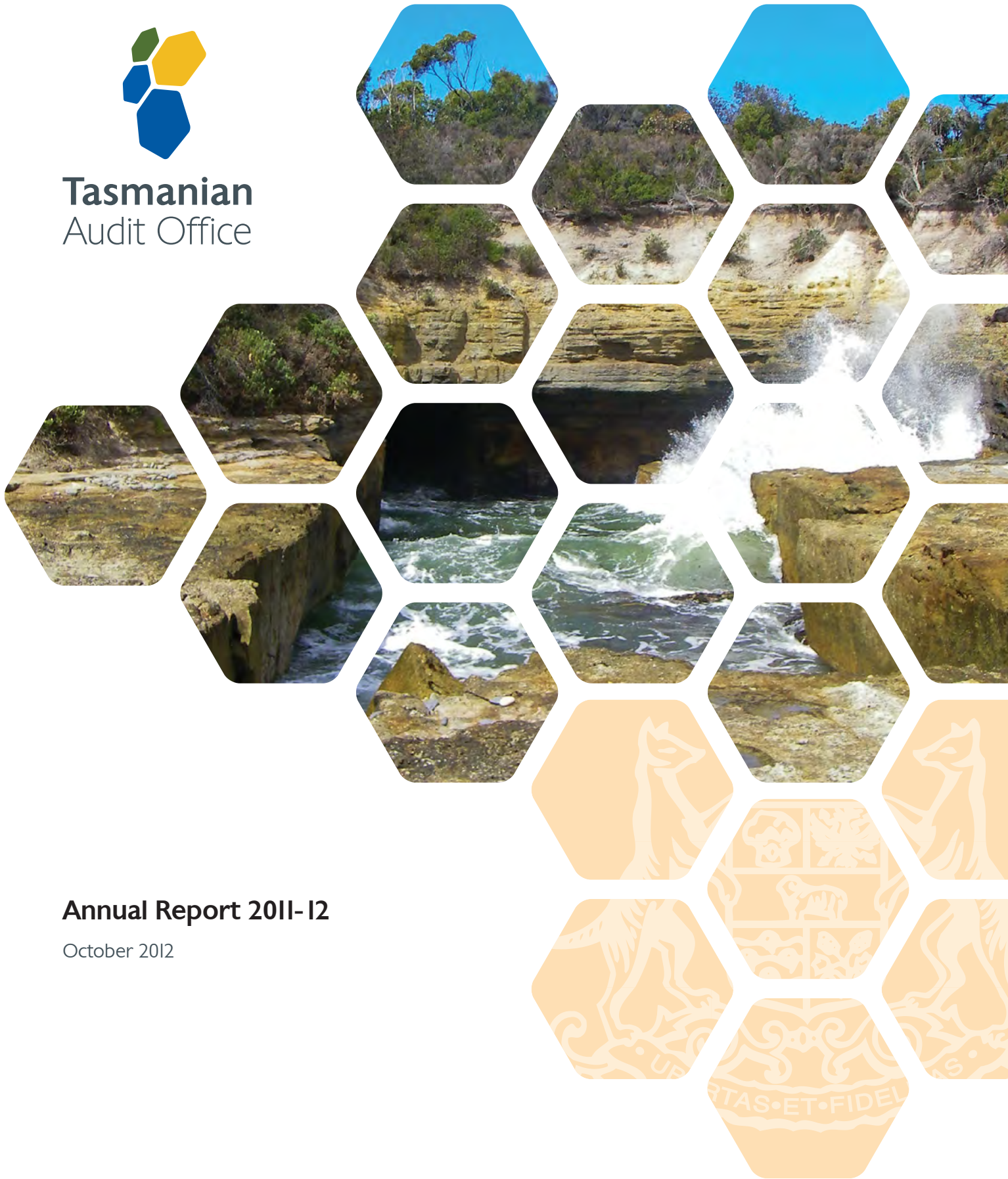




**Tasmanian**  
Audit Office



## **Annual Report 2011-12**

October 2012

*Strive · Lead · Excel | To Make a Difference*

# The Role of the Auditor-General

The Auditor-General's roles and responsibilities, and therefore of the Tasmanian Audit Office, are set out in the *Audit Act 2008* (Audit Act).

Our primary responsibility is to conduct financial or 'attest' audits of the annual financial reports of State entities. State entities are defined in the Interpretation section of the Audit Act. We also audit those elements of the Treasurer's Annual Financial Report reporting on financial transactions in the Public Account, the General Government Sector and the Total State Sector.

Audits of financial reports are designed to add credibility to assertions made by accountable authorities in preparing their financial reports, enhancing their value to end users.

Following financial audits, we issue a variety of reports to State entities and we report periodically to the Parliament.

We also conduct performance audits and compliance audits. Performance audits examine whether a State entity is carrying out its activities effectively and doing so economically and efficiently. Audits may cover all or part of a State entity's operations, or consider particular issues across a number of State entities.

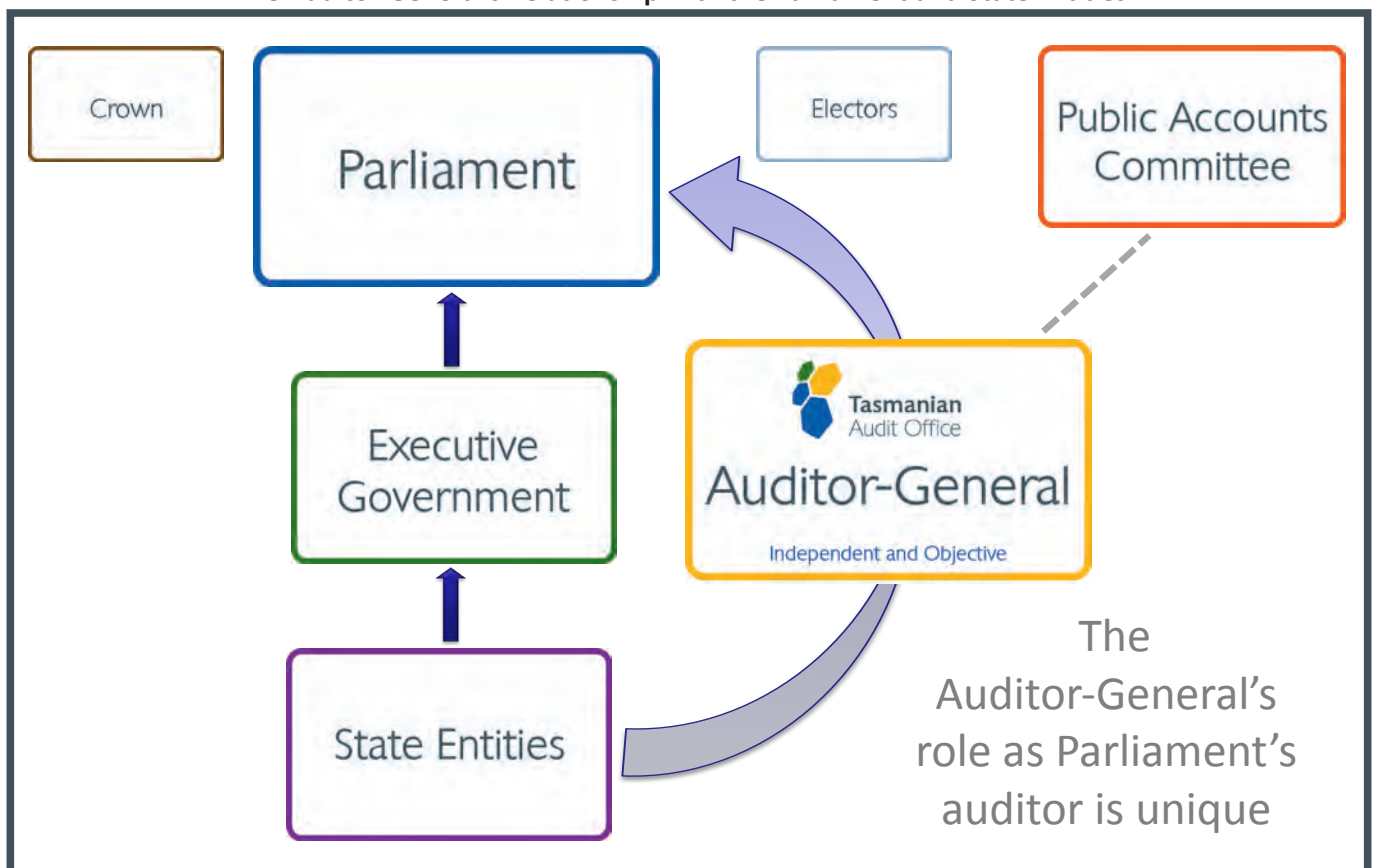
Compliance audits are aimed at ensuring compliance by State entities with directives, regulations and appropriate internal control procedures. Audits focus on selected systems (including information technology systems), account balances or projects.

We can also carry out investigations but only relating to public money or to public property.

Performance and compliance audits are reported separately and at different times of the year, whereas outcomes from financial statement audits are included in one of the regular volumes of the Auditor-General's reports to the Parliament normally tabled in May and November each year.

Where relevant, the Treasurer, a Minister or Ministers, other interested parties and accountable authorities are provided with opportunity to comment on any matters reported. Where they choose to do so, their responses, or summaries thereof, are detailed within the reports.

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



29 October 2012

Hon Lara Giddings MHA  
Treasurer

Dear Treasurer

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 for the Tasmanian Audit Office for the year ended 30 June 2012.

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

Yours sincerely

A handwritten signature in black ink, appearing to read "H M Blake".

H M Blake  
**Auditor-General**

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# AUDITOR-GENERAL'S REPORT 2011-12

## Strategic plans

A significant milestone in 2011-12 was completion of our 2008-11 strategic plan and the launch of the plan for 2012-15. The 2012-15 plan includes completion of a number of initiatives at various stages over the four years and while only six months had passed by 30 June 2012, this review is based on the seven themes identified in that plan. All staff were involved in developing the 2012-15 plan and I thank them for their contributions and support for it.

## Office appropriation

Although we were able to generate a surplus of \$237 000 in the year under review, this result masks the significant ongoing impact budget reductions will have in years ahead on our performance audit activities and our financial audit reporting functions. Budget savings targets imposed on us in the 2011-12 State Budget was \$100 000 with a further \$90 000 required in 2013-14. These combined with additional reductions required in the 2012-13 budget for the period 2012-13 to 2015-16, will total \$255 000. Steps taken to date enabled achievement of the 2011-12 target by not filling a vacant position in the performance audit unit. Budget reductions from 1 July 2012 to 30 June 2016 will require further cost savings, a reduction in the number of reports produced by the performance audit unit and an associated re-structure of that unit. A zero based budget exercise examining all costs is under way as is the restructure referred to.

The surplus this year needs therefore to be put in context. It was well above budget and my own expectations and resulted in the main from lower salary costs, the non filling of vacancies and strong progress in the early completion of financial audits. A significant contribution on the revenue side came from the three one-off reviews conducted for the first time.

These saving measures and revenue opportunities are unlikely to be repeated with the result that the surplus will provide temporary and limited relief from the forecast budget reductions previously noted.

While I acknowledge the need for my Office to always be demonstrably efficient, and have accepted the reality of the budget position Government finds itself in, I believe we achieve a great deal for a small office and despite steps taken, we will find it difficult to implement



the budget reductions imposed while at the same time providing an effective performance audit and reporting function. As a result, a change to the *Audit Act 2008* that I will be pursuing will be provisions whereby the budget for the reporting and performance audit functions we perform, paid via the annual Appropriation and currently set by the Executive, should in future involve the Parliament, probably through the Public Accounts Committee. This may not result in any increased budget, but such an arrangement, if successful, enhances the independence of my role and Office.

## Products

The 2010-11 financial audit cycle, addressed in the 2011-12 financial year, saw completion of all 176 financial statement audits in record time and delivery of a report to Parliament, comprising six volumes, analysing the State's financial position and performance as well as that of the State entities we audit. This report was well received and resulted in higher than normal take-up by media outlets and the Public Accounts Committee.

Included again this year was a summary of financial audit findings, this time covering the period 2006-07 to 2011-12. The report noted a general increase in the number of matters raised with management of State entities and an improvement in actions being taken by management to address our findings. A general observation was that entities are being required to do more with less as the public sector downsizes, with 'back-office' functions impacted potentially resulting in heightened risks of error or fraud.

Performance audits completed in 2011-12 resulted in the provision to Parliament of seven reports covering wide ranging topics such as the financial performance of Forestry Tasmania, effectiveness of Tourism Tasmania and of the management of children in out-of-home-care. We also assessed land-use planning applications, management of minor trusts by Public Trustee, implementation of the motor registry system and completed another follow-up project advising Parliament of the extent to which State entities had addressed recommendations we made in previous reports.

A new initiative this year was a forum we ran for chairs and members of audit committees of State entities. This was well attended and there was support for this to continue.

## Premises

Upgrades to our premises in Launceston resulted in improved facilities for staff in that Office. Changes proposed for our Hobart offices remain on hold until

a project currently underway analyzing how best to provide our business support functions is completed. In other respects, our Hobart office remains suitable although potentially under-utilised and therefore costly.

## Processes

Our business support staff experienced a year of significant turmoil and I thank them sincerely for their efforts and patience. A minor restructure, which saw the appointment of the Office's first Chief Operating Officer, was aimed at focusing energies on enhanced support for our core audit activities. This also resulted in the engagement of new staff, revised committee structures and the implementation of new systems and software. I am confident the changes will prove beneficial in the long run.

A significant project this year saw completion of a comprehensive independent peer review of the Office undertaken using the framework developed by the Australasian Council of Auditors-General (ACAG). The review covered all aspects of our operations. The report was received in February with its recommendations addressed elsewhere in this annual report. The peer reviewers made suggestions which will enhance our operations and prepare us well for the first review required by the *Audit Act 2008* which is due prior to 28 February 2014. My thanks to John Viljoen and other members of the peer review team.

## People

As already observed, 2011-12 saw much change, particularly for our business support staff. This was exacerbated by the departure of two long serving members of staff, David Strong and Rachael Daniels. My thanks for their contributions to TAO over many years. Their departure necessitated reliance on a small number of business support staff who stood up to the challenges that arose.

While it is early days, the appointment of Ric De Santi as the Office's Chief Operating Officer, is already showing benefits and the financial audit services unit performed well under the leadership of Jara Dean, Monique Poxon, Tony Knight and Rob Luciani. This is evident from the higher quality of reporting this year and earlier completion of audits.

For various reasons, 2011-12 was not an easy year for the performance audit services unit not helped by having to operate in an atmosphere of declining budgets and with one less member of staff. Despite this, I was pleased by their efforts and completion of seven reports was a strong outcome. The quality of reports prepared by this unit was confirmed by strong ratings provided by independent reviewers appointed under the ACAG review program. All of the

performance audit unit contributed to these ratings in particular Geoff Driscoll and Geoff Fisher.

The re-organisation already referred to resulted in the establishment of the Office of the Auditor-General. This unit was tasked with bringing a greater focus to stakeholder engagement, technical support for the Office and clients and quality assurance. While much was achieved, more needs to be done in this important area of our activities.

## Partnerships

This year we updated and re-signed the statement of understanding between TAO and the Public Accounts Committee reinforcing our relationship with this important Committee. Also initiated this year was a more comprehensive round of presentations to the Committee on reports presented to Parliament thus facilitating the Committee's follow-up program. My thanks to the Committee and its secretariat, Jenifer Austin in particular, for their support this year.

We continued our strong relationship with ACAG again contributing to its various committees and other activities and taking advantage of the training opportunities offered. Of particular relevance this year was our attendance at the biennial public sector audit forum between ACAG and its Canadian equivalent, the Canadian Council of Legislative Auditors, held in Sydney in March. Auditors from Australia, Canada, Fiji, Wales, Spain and Hong Kong attended. Deputy Auditor-General Ric De Santi, Alex Irwin and Patrick Trigg attended with me with each contributing strongly in particular at the workshops referred to below.

A number of presentations were made by external and internal experts with the forum providing an excellent opportunity to share approaches and manage risks. Workshop themes covered:

- measuring performance, become more efficient/cut costs
- identification and management of key stakeholders
- potential gaps in respective legislation.

An important feature of our auditing functions is use of the integrated public sector audit methodology developed by the Victorian and Queensland Audit Offices. My thanks to those offices for their ongoing support of this critical product.

Our Office Audit Committee is an important 'partner' providing sound advice and oversight. During 2011-12 we reviewed the Audit Committee charter and approved a revised risk management matrix and associated internal audit plan. My thanks to Sue Baker, Tony Pedder and our internal auditor, Moore Stephens, for their work and advice this year.

## Planet

Our strategic objective here is that, as a responsible corporate citizen, we must do what we can to minimise harm to the planet and our community and we must show leadership in supporting community fund raising for appropriate causes. In relation to the first of these, strategies have been developed for 2013 but it is too soon to report outcomes here.

Regarding the second, we continue to support local charities through a range of activities and launched a formal health and well-being program this year.

## Future expectations

2011-12 brought changes to our Office. We conducted reviews, as distinct from audits, for the first time. This included the review of aspects of the sale of TOTE Tasmania Pty Ltd carried out under legislation requiring our involvement in the sale although this was post sale. This was an exciting period for those staff involved. However, the sale of TOTE, and likely changes in the energy and water and sewerage sectors, will impact us in ways still to be assessed requiring us to be nimble in how we respond.

Once again, my sincere gratitude to every member of our staff, and to members of our Audit Committee, for their commitment and dedication to achieving our objectives in the past twelve months.



Mike Blake  
Auditor-General

# HIGHLIGHTS

- Positive operating result achieved
- Seven performance audit reports tabled in Parliament
- 96% of financial audit opinions issued within 45 days
- Higher satisfaction by financial audit clients
- Maintained high level of performance/compliance audit recommendations agreed and acted upon
- Positive outcomes from independant quality assurance reviews
- Improved level of employee satisfaction
- Increased employee participation in health and well-being initiatives.

## OUR HISTORY

Significant events in the history of the Tasmanian Audit Office



1804	Sullivans cove established
1810	Creation of Police Fund ... (first accounting records)
1825	Van Diemen's Land separated from NSW
1826	GTWB Boyes appointed as Auditor of Civil Accounts
1829	Creation of the Audit Office
1855	Constitution Act 1855 enacted
1856	Tasmania becomes a self governing colony
1858	Audit Act 1858 enacted
1888	Designations changed to Auditor-General and Audit Department. Audit Act 1888 enacted
1901	Audit Act 1901 enacted following Federation, JW Israel, former Auditor-General of Tasmania, appointed as Auditor-General of the Commonwealth
1918	Audit Act 1918 enacted following several
1951	Launceston office opened
1979	Audit Amendment Act 1979 enacted following many amendments to Audit Act in prior years
1984	Office has a staff of 90, the largest contingent to date
1990	Financial Management and Audit Act 1990 enacted
1992	Designation changed to Tasmanian Audit Office
2009	Audit Act 2008 commenced

# ORGANISATION OVERVIEW

## What we do

The Office undertakes audits, financial, performance and compliance, and special investigations and reports the outcomes to Parliament.

## Our role

The Office's role is to assist the Auditor-General in providing the Tasmanian Parliament and the community with quality independent audits of all State entities.

Through our audit and reporting activities we aim to make a difference to how State entities manage public funds and provide services by promoting and strengthening public sector accountability. Our principal legislation is the *Audit Act 2008* (the Audit Act), which defines the powers and responsibilities of the Auditor-General. We undertake 176 financial statement audits of the diverse range of State entities referred to in Appendix 5 and report to Parliament on significant issues arising. We also undertake up to eight performance audits each year and report the outcomes to Parliament. Our reports are public documents when tabled in Parliament and are accessible on our website: [www.audit.tas.gov.au](http://www.audit.tas.gov.au).

## Our people

At 30 June 2012, we had 43.7 (39.0 in 2011) full-time equivalent (FTE) employees. The Auditor-General can contract private sector auditing firms to undertake audits on his behalf once they have met our qualification criteria. To date there are 14 private sector auditing firms on our audit register and they are detailed in Appendix 6.

## Our operations

We received \$2.412m in funding from the government (\$2.423m in 2010-11) and generated \$4.723m from fees for audit services (\$4.691m in 2010-11).

## Strategic planning

Our Strategic Plans 2008-11 "Making a Difference" and 2012-15 outlines how we meet our responsibilities, contain long-term strategic objectives and critical success factors setting our current and future direction.

## The Office in brief

The Tasmanian Audit Office is a State entity which assists the Auditor-General to provide an independent view of the financial and operational performance of State entities. This is done by conducting attest and performance, of other audits and investigations and by reporting to Parliament.

## Vision

Strive | Lead | Excel  
To make a difference.

## Purpose

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public Sector.

## Strategic objectives

With our purpose, outcome and outputs in mind, we apply the following strategic objectives:

- Confidence in the performance and accountability of State entities and
- Improved service delivery by State entities.



## Critical success factors

To enable us to achieve these objectives, and to measure our performance, we apply four critical success factors:

### 1. Influential Products and Services

- soundly based, credible, balanced and timely reports and opinions
- reports and opinions that lead to improved public sector performance and accountability
- undertaking audits/investigations on the right topics at the right time
- our stakeholders understand and recognise the value of the Office's people, products and services in contributing to improving public administration.

### 2. Financial Sustainability

- effective financial operations.
- 

### 3. Effective Operational Performance

- efficient and effective office operations
- effective quality assurance
- effective business processes, systems and management practices that meet our business needs.

### 4. Motivated and Capable Employees

- motivated and satisfied employees
- employee capability that matches our business needs
- employee well-being.

## Our values

Professionalism - How we go about our work

Respect - How we treat others and expect to be treated

Customer Focus - How we deliver our services

Camaraderie - How we work together

Continuous Improvement - How we move forward and work better.



# PERFORMANCE REPORT

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# Our Performance Report

In this section we explain our performance for 2011-12 by reference to our key performance indicators (KPIs).

Measuring our performance against our four Critical Success Factors (CSFs) is reported annually. The KPIs reported were published in June 2011 in our Annual Plan of Work for 2011-12. Also, while not identified as performance measures against our CSFs, we include measures reported as benchmarks by the Australasian Council of Auditors-General (ACAG) in its annual Macro-Benchmarking Report. Our KPIs were independently assessed with the review opinion published at the end of this section.

Performance achieved	✓
Performance not measured	—
Performance not achieved	✗

## Influential products and services

The Parliament is our primary client and our reports and services are aimed at meeting its needs. Our audit work and reports provide information and assurance to Parliament about the performance of State entities we audit. Secondary but significant clients are the State entities we audit. In their case our work is aimed at providing assurance regarding financial reports as well as financial and non-financial performance. Our products and services are aimed at providing stakeholders with relevant information to evaluate the performance of State entities and the effectiveness of public administration.

Our objectives for this CSF are providing:

- Soundly based, credible, balanced and timely reports and opinions
- Reports and opinions that lead to improved public sector performance and accountability
- Undertaking audits/investigations on the right topics at the right time
- Our stakeholders understand and recognise the value of the Office's people, products and services in contributing to improving public administration.

Our KPIs are aimed at addressing these objectives and are reported in the following table.

Key Performance Indicators	2008-09 Actual	2009-10 Actual	2010-11 Actual	2011-12 Target	2011-12 Actual	Result
<b>Soundly based, credible, balanced and timely reports and opinions</b>						
All financial audits opinions to be issued within 45 days of receipt of final signed financial statements (Audits complete within financial reporting year) *	N/a	N/a	N/a	100%	96%	✗
Performance and compliance audits are completed on average within nine months	Achieved	Achieved	Achieved	Achieved	Not achieved	✗
<b>Reports and opinions that lead to improved public sector performance and accountability</b>						
Survey Parliamentarians on our performance and compliance audit and special investigation reports by independent biennial survey to measure <ul style="list-style-type: none"> <li>• Usefulness and validity of opinions and recommendations</li> </ul>	92%	Nm	83%	75%	Nm	—

Key Performance Indicators	2008-09 Actual	2009-10 Actual	2010-11 Actual	2011-12 Target	2011-12 Actual	Result
Survey Parliamentarians on our report on the outcomes of financial audits of State entities by independent biennial survey to measure <ul style="list-style-type: none"> <li>Usefulness and validity of opinions and recommendations</li> </ul>	92%	Nm	84%	75%	Nm	—
Survey clients on their satisfaction with the financial audit services provided by the Office and our contractors by both the independent biennial survey and an annual internal survey	72%	Nm	76%	70%	80%	✓
Percentage of recommendations agreed and acted upon 24 months since the tabling of a performance/compliance audit report	81%	74%	81%	70%	82%	✓
<b>Undertaking audits/investigations on the right topics at the right time</b>						
Survey Parliamentarians with respect to our reports tabled in Parliament by independent biennial survey to measure <ul style="list-style-type: none"> <li>Are the topics relevant and worthwhile</li> </ul>	92%	Nm	96%	75%	Nm	—
<ul style="list-style-type: none"> <li>The style and readability of reports conveys the topic issues and recommendations</li> </ul>	92%	Nm	100%	75%	Nm	—
<b>Our stakeholders understand and recognise the value of our people, products and services in contributing to improving public administration</b>						
Survey Parliamentarians with respect to our annual report on the operations of the Office by independent biennial survey to measure <ul style="list-style-type: none"> <li>The style and readability of the report</li> </ul>	75%	Nm	100%	75%	Nm	—
<ul style="list-style-type: none"> <li>Does the report provide a clear understanding to the reader of the Auditor-General's role</li> </ul>	82%	Nm	93%	75%	Nm	—

\* Measure commenced from 2011-12 as this was the first year new deadlines under the *Audit Act 2008* applied to all State entities.

In 2011-12 96% of financial audits were completed within 45 days of receipt of financial statements from clients. This was an excellent result given it was the first time new deadlines required by the *Audit Act 2008* applied to all State entities.

Completion of performance and compliance audits on average within nine months was not achieved this year predominantly because of the audit on the Financial and economic performance of Forestry Tasmania which commenced in April 2008 with the report finalised in July 2011. The audit proved more difficult than initially

anticipated and because of ongoing changes with Forestry’s finances. Removing the effects of this audit results in an average completion of 10 months.

We conduct biennial satisfaction surveys of Parliamentarians and State entities. The most recent survey in 2010-11 indicated high levels of satisfaction with our reports by Parliamentarians, our financial audit activities by audit clients and our Annual Report by Parliamentarians. The next survey is due in 2012-13.

We measure the implementation of agreed recommendations by conduct of follow-up of performance and compliance audits completed two to three years previously. During 2011-12 one follow-up audit was undertaken covering audits in 2008 (Executive Termination Payments, Complaint handling in local government and Food safety: safe as eggs) and 2009 (Management of threatened species and Contract management). This follow-up audit indicated that 82% of recommendations had been agreed and acted upon, consistent with results in 2010-11 and well above benchmark of 70%.

## Financial sustainability

Our objective is that we manage our finances sustainably and we operate in a cost efficient manner. Our objective, Effective financial operations, is aimed at lessening the need for government support and minimising the level of audit fee increases. The KPIs in the following table are aimed at addressing these objectives.

Key Performance Indicators	2008-09 Actual	2009-10 Actual	2010-11 Actual	2011-12 Target	2011-12 Actual	Result
Effective financial operations *						
Positive net operating result, that is >= 1% of turnover	Nm	Nm	Achieved	Achieved	Achieved	✓
Positive cash flows with an EOY cash balance > \$600 000	Nm	Nm	Achieved	Achieved	Not achieved	✗
Build cash reserves accumulative each year by \$150 000	Nm	Nm	Achieved	Achieved	Not achieved	✗

\* New measures adopted from 2010-11.

For 2011-12 the Office achieved a Net operating result of \$0.237m or 3.26% of revenue.

The Office’s cash balance of \$0.470m was lower than expected mainly because of the higher level of receivables at 30 June 2012, actual \$0.847m compared to budget \$0.344m and prior year \$0.453m. This higher level resulted from delays in issuing invoices and following up on unpaid amounts because of unexpected staff losses during the year in our finance area. All debts are recoverable.

Cash reserves decreased by \$0.290m because of the higher receivables balance mentioned. This was below budget expectation of \$0.093m increase and prior year, increase of \$0.417m.

## Effective operational performance

For the Office to meet its strategic objectives it needs to have effective processes and methodologies that are proven and rigorous. Our objectives for this CSF are:

- Efficient and effective office operations
- Effective quality assurance
- Effective business processes, systems and management practices that meet our business needs.

The KPIs in the following table are aimed at addressing these objectives.



Key Performance Indicators	08-09 Actual	09-10 Actual	2010-11 Actual	2011-12 Target	2011-12 Actual	Result
<b>Efficient and effective office operations</b>						
Reports tabled in Parliament:						
• Performance and Compliance audits and Special Investigations	Nm	Nm	8	8	7	✗
• Report of the Auditor-General on the outcomes of financial audits *	2	2	2	1	1	✓
Independent audit opinion on the financial statements of the Office	Unqualified	Unqualified	Unqualified	Unqualified	Unqualified	✓
Independent assessment that concludes that the Office is operating efficiently and effectively **	Achieved	Nm	Nm	Achieved	Achieved	✓
<b>Effective quality assurance</b>						
Annual independent assessment of a selection of 'cold' audit files that concludes that the Office is conducting audits in accordance with its audit methodology and Australian Auditing Standards:						
• Financial audits	Positive	Nm	Nm	Positive	Positive **	✓
• Performance audits	Positive	Nm	Nm	Positive	Positive **	✓
Number of major findings with significant impact/ramifications reported to the Office's Audit Committee by our internal auditor	None	None	None	None	None	✓
<b>Effective processes, systems and management practices that meet our business needs</b>						
Independent assessment that concludes that the Office is operating efficiently and effectively **	Achieved	Nm	Nm	Achieved	Achieved	✓

\* changed from 2011-12 to one report annually comprising a number of volumes.

\*\* 2011-12 results are based on independent reviews utilising highly experienced staff from other jurisdictions under ACAG's audit review framework. In return the Office participated in the ACAG team that reviewed the NSW Audit Office.

During 2011-12 we engaged a team comprising staff from other ACAG offices to perform an external review of the Office. This review was based on a framework (ACAG Governance and Audit Framework for Self Assessment and External Review) that enables reviews to be undertaken of an office's audit and corporate functions against a common set of questionnaires covering relevant professional standards and pronouncements. The framework was developed and agreed through review of comparative models which include the Australian Business Excellence Framework, the Australian Stock Exchange Principles of Good Governance and the SAI-Global ISO Program.

We tabled a total of seven reports in Parliament on the outcomes of performance audits. The decline in the total number of these reports was mainly attributable to loss of staff during the year. We tabled one report on the outcomes of financial audits of State entities. This report comprised six volumes, four in November 2011, one in December 2011 and one in June 2012.

Three internal audits reviews were conducted in 2011-12 covering:

- Risk Management Framework
- Budget Management
- Controls Framework.

The results of the internal audits indicated we had effective systems and processes although recommendations were made suggesting further improvements which are being addressed.

## Motivated and capable employees

We rely on our staff to achieve our corporate goals and our objectives are to have:

- Motivated and satisfied employees
- Employee capability that matches our business needs
- Employee well-being.

The KPIs in the following table are aimed at addressing these objectives.

Key Performance Indicators	2008-09 Actual	2009-10 Actual	2010-11 Actual	2011-12 Target	2011-12 Actual	Result
<b>Motivated and satisfied employees</b>						
Employee satisfaction as measured by the Office's independent biennial employee survey and the annual Tasmanian public sector employee survey	Nm	70%	Nm	75% or if not 75% then improving	76%	✓
Employee engagement as measured by the Office's independent biennial employee survey and the annual Tasmanian public sector employee survey	Nm	Nm	71%	75% or if not 75% then improving	71%	✗
Employee turnover rate	Nm	Nm	13%	< 10%	11%	✗
Employees acknowledge our Office values and behaviours exhibited in our workplace (measured by surveys)	Nm	Nm	73%	85%	74%	✗
<b>Employee capability that matches our business needs</b>						
Percentage of employees who have professional qualifications	Nm	Nm	79%	> 85%	94%	✓
Percentage of employees who are members of professional bodies	Nm	Nm	81%	> 85%	77%	✗
Percentage of employees who undertake 10 days of professional development per annum	Nm	Nm	29%	100%	11%	✗

Key Performance Indicators	2008-09 Actual	2009-10 Actual	2010-11 Actual	2011-12 Target	2011-12 Actual	Result
Percentage of employee professional development plans implemented	Nm	Nm	Nm	100%	32%	✗
<b>Employee well-being</b>						
Employee participation in health and well-being initiatives	Nm	Nm	67%	75%	80%	✓
Sick leave taken by employees (average)	Nm	Nm	9.3	< 5 days	8.4	✗
No excess leave balances	Nm	Nm	2%	< 5%	2%	✓

Due to changes to our objectives in 2010-11 a number of new measures were introduced causing a number of measures not to be reported in 2008-09 and 2009-10.

An important part of our assessment of staff satisfaction is our biennial staff satisfaction surveys. It is pleasing that 2011-12 saw a strong improvement in staff satisfaction to an overall level of 76%, exceeding our benchmark of 75%.

This year employee engagement remained stable at 71%. Other improvements in motivated and satisfied employee KPIs were our turnover rate decreasing by 2% and our values rating increasing by 1%. With the reimplementation of our values scheduled for the coming year we hope to meet our benchmark of 85% for our values being exhibited in the workplace next year. This should also have a flow-on effect for our overall satisfaction rating.

A decrease in the number of cadets has resulted in an increase in the percentage of employees with professional qualifications. The drop in the percentage of staff who are members of professional bodies is caused by our policy of replacing staff with cadets or graduates who have still to complete requirements of professional bodies. At 30 June 2012 we had six staff undertaking studies leading to full membership of professional bodies.

The significant drop in the number of employees accessing professional development opportunities is partly due to limited change taking place with Australian Accounting and Auditing Standards but moreover because of the low proportion of employees who have professional development plans implemented. In 2012-13 we plan to review our performance management system to ensure more employees have development plans in place and that these plans are actioned.

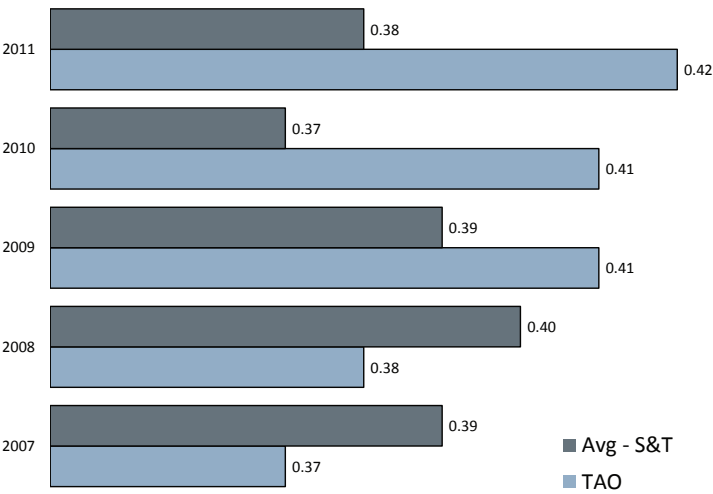
More employees participated in our health and wellbeing initiatives. Consulting with staff and then formalising these activities into our Health and Wellbeing Plan for 2011-2013 increased awareness and raised this rating significantly. The most popular initiative of the program is the provision of fresh fruit for staff.

Average sick leave taken by employees decreased by approximately one day. This is a slight improvement on the previous year but still beyond target.

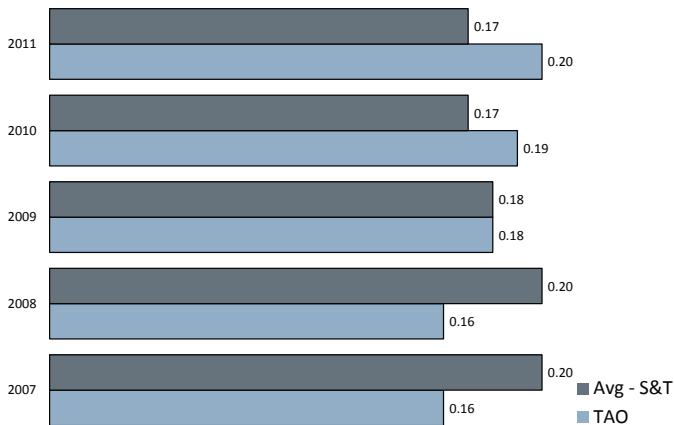
# BENCHMARKING

To help us evaluate our performance we benchmark ourselves against the national average for other State and Territory audit offices as reported in the annual ACAG Macro-Benchmarking report. The following results cover the period 2007 to 2011. Results for 2012 are not yet available due to the timing of data collection.

Measure 1: Total audit costs per \$'000 of public sector transactions, expressed in cents.

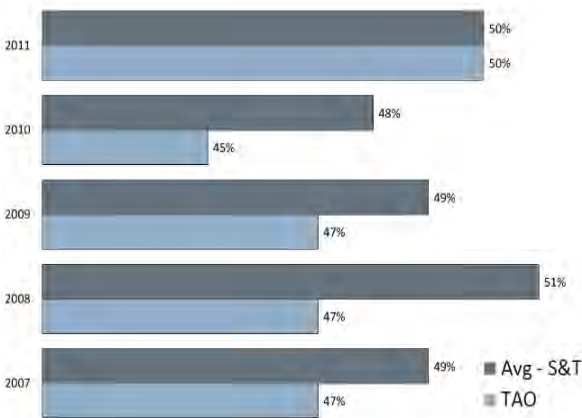


Measure 2: Total audit costs per \$'000 of public sector assets, expressed in cents

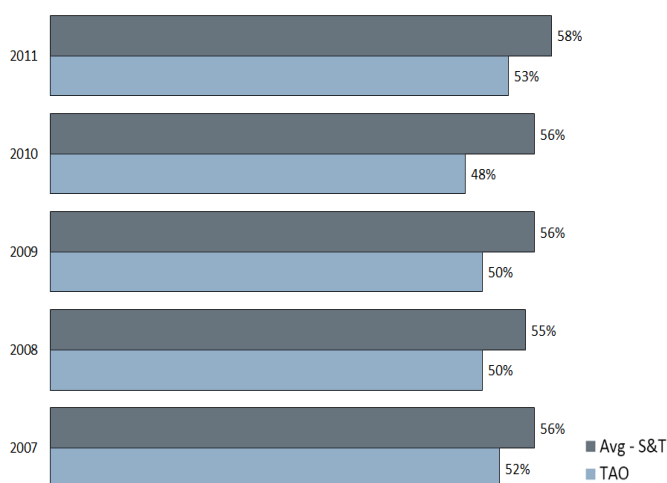


We expect our costs as a proportion of total state transactions and assets to be higher than most other states. Typically, State entities in Tasmania are smaller than their interstate counterparts as is our Office. Both measures confirm this expectation. In recent years our total expenditure has increased due mainly to increases in employee benefits. Since 2009 total expenditure increased by \$0.803m or 13.1%, due mainly to higher employee benefits, up \$0.373m or 10.1%, and accommodation expenses, up \$0.198m or 88.9%. These significant increases had a major impact on these ratios.

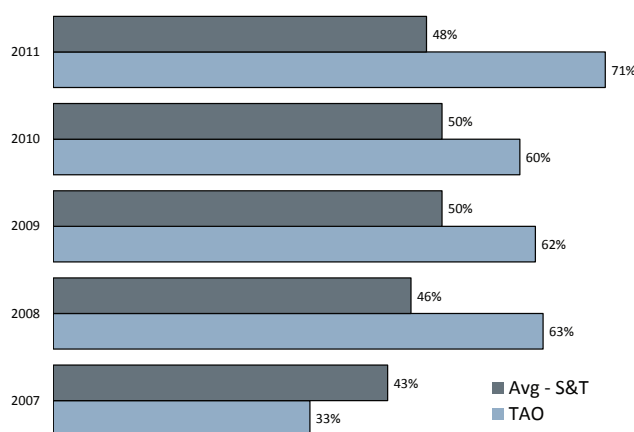
Measure 3: Percentage of total (whole of office) paid hours charged to audit activities



Measure 4:  
Percentage of total paid hours of attest audit staff charged to attest audit activities



Measure 5:  
Percentage of total paid hours of non-attest audit staff charged to non-attest audit activities

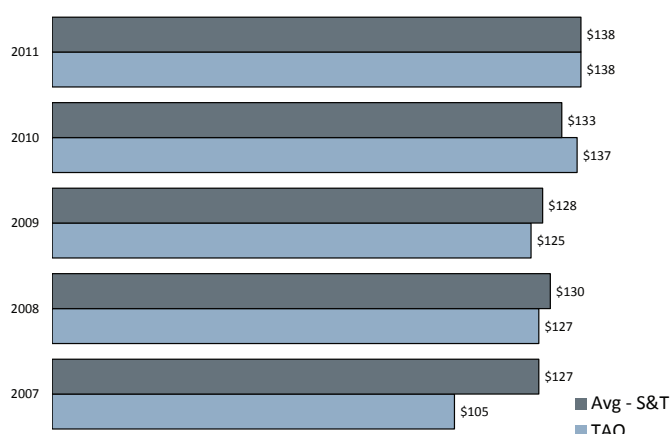


Productivity of our staff has a direct impact on our operating results. All auditors are expected to achieve a minimum level of billable hours after allowing for leave, professional development and administration. Total paid hours include the hours of our corporate staff as well as annual leave of all employees.

We are pleased to note that for Measure 3, the percentage of total paid hours charged to audit activities, we have now reached parity with the States and Territories. This was reflective of 2011 being first time tighter reporting deadlines applied to all clients and the Office. Measure 4 also improved in 2011 for the same reason.

The productivity of our performance audit (non-attest) employees, as depicted in measure 5, improved considerably, and remained well above the national average. This continues to be a pleasing result.

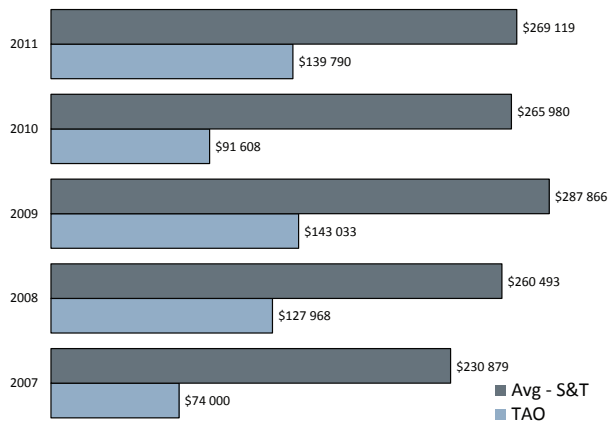
Measure 6: Cost per audit hour charged to audit



Hourly charge rates have a direct impact on the level of audit fees we charge. It is generally acknowledged that our hourly charge-out rates will be less than our mainland counterparts, as reflected in the measure up to 2009. While 2010 was adversely impacted by higher employee and accommodation costs, necessitating increases in audit fees, we were able to contain costs in 2011 so as to achieve parity with the States and Territories average. Minimising the cost of our audit work remains an ongoing objective for the Office.



Measure 7: Cost per performance audit



Measure 7 confirms our expectation that the cost of preparing performance and compliance audit reports will be lower than the national average. This measure is largely affected by the scope and type of audits undertaken each year. This was the case in 2010 when we carried out a number of smaller audits, particularly special investigations. In 2011 our program returned to normal resulting in a more typical average cost per audit.





**INDEPENDENT AUDITOR'S REVIEW REPORT  
TO THE GOVERNOR OF TASMANIA IN RELATION TO THE  
TASMANIAN AUDIT OFFICE**

***Report on the Performance Report***

We have reviewed the accompanying performance report, which comprises the Key Performance Indicators as at the 30 June 2012.

***Auditor-General's Responsibility for the Performance Report***

The Auditor General is responsible for the preparation of the performance report. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of the performance report to ensure that the report fairly represents the key performance indicators of efficiency and effectiveness.

***Auditor's Responsibility***

Our responsibility is to express a conclusion on the performance report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ARSE 2410 - Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the Performance Report does not present fairly the key performance indicators of efficiency and effectiveness. As the auditor of the entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Performance Report consists of making enquiries, primarily of persons responsible for financial and accounting matters and applying other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an Audit. Accordingly, we do not express an audit opinion.

***Independence***

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

***Conclusion***

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the performance report does not fairly represent the key performance indicators of efficiency and effectiveness for the period ended 30 June 2012.

*Clements Dunne & Bell*

*A. Wehrens*

**CLEMENTS DUNNE & BELL PARTNERSHIP**  
Chartered Accountants  
Melbourne

**Andrew Wehrens**  
Partner  
15 October 2012

**Clements Dunne & Bell Partnership. Chartered Accountants.**  
Independent member of BKR International and Walker Wayland Australasia Ltd  
Level 14, 350 Queen Street, Melbourne Victoria 3000 Australia.  
Telephone (03) 8618 2222. Fax (03) 8618 2200. Website [www.cdb.com.au](http://www.cdb.com.au)

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# Organisational structure

In late 2011 the Auditor-General announced a change to the Office's organisational structure with the introduction of a Chief Operating Officer role. The main purpose of this new role is to manage the day to day operations of the Office allowing the Auditor-General greater scope for stakeholder engagement and strategic matters. It also facilitated greater separation of the Office's internal quality review function from operational units. The new structure resulted in the creation of a new business unit being the Office of the Auditor-General (OAG).

The new structure was fully implemented from 1 July 2012 following a transition period that commenced on 1 January 2012. This transition period allowed time for us to make a number of changes including updating our governance arrangements, as reflected in an internal policy document, redrafting and reconstituting a number of committees and revising our delegations framework.

The revised structure maintains the two main operational business units of Financial Audit Services (FAS) and Performance Audit Services (PAS). This structure facilitates the completion of our attest audit activities and associated reporting to Parliament by FAS while PAS carries out our non-attest audits related to economy, efficiency and effectiveness of Tasmanian Public sector entities. Together these units deliver our two outputs of Parliamentary Reports and Services and Audit Assurance.

A detailed organisation chart as at 30 June 2012 is illustrated in Appendix 1 of this Report.

## Legislative and Regulatory Framework

### 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 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 preparation by State entities of annual financial statements. The information in these statements needs to be audited by a suitably qualified independent person to ensure that they fairly present financial performance. The Auditor-General is responsible for ensuring that this is done.

The accountability of State entities is also assessed by the Auditor-General's discretionary mandate to conduct compliance and performance audits and special investigations.

The Auditor-General offers briefings to all members of parliaments about the role of the Office and the Audit Act.

### Legislation

From 1 March 2009 the Audit Act became the main legislation governing the appointment, tenure, duties, responsibilities and authority of the Auditor-General. This Act provides a legal basis for the Auditor-General to access all government information and the freedom to report findings arising from audits to Parliament.

The Auditor-General is responsible for the audits of financial information prepared 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 2001*. We also audit acquittal statements associated with Commonwealth grants and payments to the State under Commonwealth legislation.

Performance and compliance projects and special investigations are designed by the Auditor-General under an 18 month to two year program summarised in our Annual plan of Work.

The 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.



## Independence

The Office is not part of the government itself. This independence from the Executive Government is vital if we are to perform our work effectively and make independent unbiased judgments.

The Auditor-General is an independent Office 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 of legislation. This independence ensures that findings arising from the financial and performance and compliance audits and investigations are communicated regularly to the Parliament without interference.

## Mandate

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

The Auditor General must provide an audit opinion on the annual financial statements of all State entities, and on the components of the Treasurer's Annual Financial Report including the Total State Financial Statements. 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.

## Corporate Governance Framework

Governance is a fundamental responsibility of the Auditor-General assisted by the executive management.

Our governance policy documents and governance principles outline how we govern and manage our activities. These arrangements sit alongside our vision, purpose, strategic objectives and our values. They also outline how we acquit our stewardship responsibilities but do not detail separately approved delegations but records how and when delegations are made. For us, governance:

- specifies the distribution of rights, roles and responsibilities among the different participants in the Office such as the Auditor-General, executive management and various committees
- spells out the rules and procedures for making decisions on strategic and operational matters. By doing this, it provides the structure through which our corporate objectives are set, and the means of attaining these objectives including monitoring of performance.

Our governance policy was formulated based on the governance guidelines recommended by the Australian National Audit Office (ANAO) and by the Australian Stock Exchange (ASX) in its paper headed "ASX Corporate Governance Council: Corporate Governance Principles and Recommendations 2nd Edition" (the ASX Principles issued in 2007)<sup>1</sup>. Details of each of these principles and how they relate to the Office are provided in Appendix 2.

The Office's governance arrangements are facilitated by a number of important committees comprising:

- Strategic Leadership Group and its sub-committee
  - Quality Review Steering Committee
  - Executive Management Group
    - Human Resources Committee and its sub-committees
    - Occupational Health and Safety Committee
    - Information Management Committee
- Remuneration Committee
- Procurement Review Committee.

Details of the objectives and composition of each of these committees is detailed below. The committee arrangements are supplemented by various working groups that may be constituted for specific purposes from time to time.

---

<sup>1</sup> OECD Principles of Governance

# Committees

## Strategic Leadership Group (SLG)

The SLG's primary purpose is to develop processes and monitoring arrangements and to implement actions to achieve TAO's strategic objectives. The focus of this committee is the Office's strategic plan.

The objectives of the SLG are to:

- Report to the Auditor-General on progress against the Office's strategic plan including developing, refining and implementing associated action plans
- Provide an advisory forum for the Auditor-General to raise operational or strategic matters she/he consider relevant
- Promote greater integration and collaboration between business units and support services to facilitate consistency and ensure achievement of the Office's strategic objectives
- Openly discuss all matters that may affect the strategic direction of the Office, its people and reputation and make decisions in the best interest of the Office and its people
- Endorse and promote the Office's values in all aspects that affect the strategic direction of the Office
- Monitor and respond to the effects on the Office's strategic direction of changes in government policy, statutory requirements or the Office's risk profile.

This group is chaired by the Auditor-General and comprises the EMG together with financial and performance audit managers as well as the managers of finance, HR and ICT and IM. The performance of SLG is evaluated annual by means of external and self appraisal.

## Executive Management Group (EMG)

This committee's primary purpose is establishing processes and monitoring arrangements to implement actions to achieve TAO's agreed corporate objectives, compliance with agreed values and external requirements as well as management of the Office's risks.

The objectives of the EMG are to:

- Discuss strategic application of financial, physical, information and human resources across the Office
- Set and mandate operational directions which are consistent with the Office's strategic goals, risks and values. Promote greater integration and collaboration between business units and support services to facilitate consistency and improve performance in the profitability and service delivery of the Office
- Openly discuss all matters that may affect the operations of the Office, its people and reputation and make decisions in the best interest of the Office and its people
- Endorse and promote the Office's values in all aspects that affect the operations of the Office
- Provide a forum to which employees feel that they can direct issues for consideration, review, discussion and be notified of outcomes whether through their General Manager or the appropriate member of the EMG
- Monitor major projects or acquisitions to ensure they meet needs of users, are affordable, comply with legislative requirements and align with and support TAO's strategic directions, priorities and values
- Review and endorse operational policies
- Monitor the Office's performance against annual plans and risk management strategies
- Oversee compliance with polices and other legislative requirements
- Ensure agreed actions arising from internal and external reviews are implemented
- Provide a forum for communication of directions and queries from the Auditor-General
- Monitor and respond to the effects of changes in government policy, statutory requirements and the Office's risk profile
- Oversee the operations of EMG's sub-committees.

The group is chaired by the Chief Operating Officer and comprises the General Managers of Performance Audit Service (PAS), Financial Audit Services (FAS), Business Support Services (BSS) and the Technical and Quality Director representing OAG. The performance of EMG is evaluated annual by means of external and self appraisal.

# Operational committees

In addition to the two groups referred to previously, our governance arrangements include the operation of the following sub-committees.

## Human Resources Committee (HRC)

The Office's most valuable resource is its people. As such this committee fulfils an important function in helping the Office to apply contemporary people management practices that contribute to achievement of its strategic objectives and values.

As a sub-committee of the EMG, the HRC's primary purpose is to assist the EMG in fulfilling its responsibilities in relation to the oversight of Human Resource Management (HRM), including health and safety of staff. The HRC also provides a governance structure for HRM in the Office.

The objectives of the HRC are to:

- Ensure corporate ownership of human resource issues.
- Facilitate good people management and health and safety practices within the Office.
- Identify best practice and recommend strategic directions and priorities in Human Resources (HR) policy, to align with and support TAO's strategic directions, priorities and values.
- Set and mandate operational directions for HRM which are consistent with the Office's strategic business goals and values.
- Ensure human resource development and maintenance actions best meet the overall priorities of the Office.
- Ensure systems and processes are implemented to meet legislative requirements and needs of users.
- Oversee the operations of the Office's Occupational Health and Safety Committee (OH&SC).
- Provide a forum to which employees feel that they can direct issues for consideration, review, discussion and be notified of outcomes whether through the Chairperson, their representative or other appropriate member of the HRC.
- Monitor the implementation of HR policies and report on progress and recommend appropriate action.
- Monitor and advise on HR issues, including those that arise from deliberations of the OH&SC.
- Provide direct assistance to the EMG regarding HR issues.
- Act as a consultative group to which staff of TAO can refer HR issues.

The HRC is chaired by the Chief Operating Officer and includes nominated representatives from each of the Office's four business units.

## Occupational Health and Safety Committee (OH&SC)

Protecting the health and safety of employees, contractors, stakeholders or members of the public who may be affected by our activities is an essential part of risk management.

The Office has delegated certain responsibilities to the OH&SC and underlying those are our responsibilities to follow some essential principles, thereby promoting health, safety and well being, at the same time also meeting our legal obligations. As such the primary purpose of this committee is to assist the Office in providing a safe place to work for staff, contractors and visitors. The committee is a sub-committee of the HRC.

The objectives of the OH&SC are to:

- Ensure corporate ownership of health and safety matters
- Set and mandate strategic and operational directions for occupational health and safety (OH&S) which are consistent with the Office's strategic business goals and values
- Review the efficiency and functionality of the Office's Safety Management System (SMS) ensuring it meets legislative requirements and needs of users
- Identify actions, remedy issues and introduce improvements to the Office's SMS consistent with overall business priorities
- Act as a point of liaison between EMG, HRC and business units
- Provide direct assistance to EMG and HRC regarding 'Whole of Agency' health and safety matters

- Act as a consultative group to which staff of TAO can refer issues of OH&S concern
- Ensure the proactive management and maintenance of a safe workplace.

The OH&SC is chaired by the Human Resources Manager. It also includes a management representative and elected representatives from each of the Office's business units and our Launceston office.

## Information Management Committee (IMC)

The Office's information and technology resources are an integral part of its operations. This Committee fulfils an important function in helping the Office to apply contemporary information, records and technology management (IRTM) practices that contribute to achievement of its strategic objectives.

The IMC's primary purpose is to assist the EMG in fulfilling its responsibilities in relation to the oversight of its information, records and technology resources. The IMC also provides a governance structure for IRTM in the Office.

The objectives of the IMC are to:

- Ensure corporate ownership of IRTM issues
- Develop and maintain strategic plans for IRTM consistent with the Office's overall strategic plan and business imperatives
- Set and mandate operational directions for the management of information, records and technology which are consistent with the Office's strategic business goals
- Ensures that system development and maintenance project priorities best meet the overall priorities of the Office
- Ensure systems and processes are implemented to meet legislative requirements and needs of users
- Provide a forum to which employees feel they can direct issues for consideration, review, discussion and be notified of outcomes whether through the Chairperson, their representative or other appropriate member of the IMC
- Fulfil the role of an Information Security Committee as defined by the Tasmanian Government Information Security Policy.

The IMC is chaired by the General Manager Financial Audit and includes nominated representative from each of the Office's business units.

## Procurement Review Committee

This committee is chaired by the General Manager Performance Audit and comprises the General Manager Financial Audit and the Manager Finance. The purpose of this committee is to review tender evaluations for the purchase (and lease) of goods and services valued in excess of \$50 000, including selective tenders. The Committee ensures that a fair and equitable process has been followed and that the Purchasing Principles, as outlined in the Office's Procurement Policy, have been followed.

## Remuneration Committee

This committee is a sub-set of the EMG and is chaired by the Chief Operating Officer. It also comprises other members of EMG and is supported by the Manager HR. The purpose of this committee is to ensure consistent application of Office's performance management policies and that decisions relating to salary progressions, including advanced assessments, are supported by appropriate evidence.

## Quality Review Steering Committee

This committee is a sub-set of the SLG and was established to oversee the implementation of quality assurance review recommendations and to ensure the Office is ready for its formal external review conducted pursuant to the requirements of the *Audit Act 2008*.

Details of members of each committee can be found in Appendix 3

# Our outcome and outputs report

## Budgetary framework

Our budget was included in Chapter 20 of Budget Paper No 2, Volume 2 in the 2011-12 Budget Papers. Outcomes of our financial performance against budget are comprehensively dealt with in the audited financial statements in Section 6 of this Report.

## Our outcome and outputs

Our budget identified one outcome supported by two outputs that are consistent with our vision and purpose. The outcome is:

*To provide independent assurance to the Parliament and community on the performance and accountability of the Tasmanian Public Sector.*

The outputs we must deliver to enable achievement of our outcome are:

- Parliamentary Reports and Services – independent assessment of the performance of selected Tasmanian State entity activities including scope for improving economy, efficiency, and effectiveness.
- Audit Assurance – independent assurance of Tasmanian public sector financial reporting, administration, control and accountability.

Our outcome and outputs are linked to our previously stated Vision, Purpose and Strategic Objectives.

## Performance against our outputs

Our performance targets, set out in Chapter 20 of Budget Paper No 2, Volume 2, are detailed in our Performance Report.

Planned achievement spelt out in chapter 20 and reported on page 27 of this annual report.

## Output - Parliamentary Reports and Services

### Reports to Parliament on the outcomes of financial audits

The Audit Act requires the Auditor-General to table in Parliament a report on the financial audits of State entities, and audited subsidiaries of State entities, in respect of the preceding financial year. Such report must include a list of audits dispensed with and details of the basis upon which audit fees are calculated.

This requirement to report on the outcomes of financial audits is discharged by tabling a series of six volumes (previously five) each year generally in November and December (Volumes one to five) and May or June (Volume six). The last volume generally covers those entities with 31 December balance dates. It also includes the basis upon which fees are calculated, fee setting arrangements and audits dispensed with. The first five volumes cover most entities with 30 June balance dates including government departments, government business enterprises, state owned companies, water corporations, superannuation funds, other state entities and local government authorities. These volumes also include commentary on the audit of the Treasurer's Annual Financial Report comprising the General Government Sector Financial Statements, the Public Account Statements, and the Total State Financial Statements as well as details of any additional audits dispensed with.

In 2011-12 the Financial Audit Services (FAS) unit tabled the following:

November 2011:

- Volume 1 - Analysis of Treasurer's Annual Financial Report 2010-11
- Volume 2 - Executive and Legislature, Government Departments and other General Government Sector entities 2010-11
- Volume 3 - Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds 2010-11



- Volume 4 - Local Government Authorities 2010-11

December 2011:

- Volume 5 – Other State entities 30 June 2011 and 31 December 2010

June 2012:

- Volume 6 - Other State Entities 30 June 2011 and 31 December 2011.

These volumes are prepared by our FAS business unit which manages our financial audit program. Audits conducted are aimed at providing assurance on financial statements of accountable authorities. In conducting its work, FAS complies with auditing standards issued by the Australian Auditing and Assurance Standards Board (AUASB).

Parliamentarians were invited to presentations on the day of tabling and informal feedback on the usefulness of these volumes was positive.

These volumes can be viewed and/or downloaded from our website [www.audit.tas.gov.au](http://www.audit.tas.gov.au).

## **Reports to Parliament on the outcomes of performance and compliance audits and special investigations**

Under Part 4 of the Audit Act the Auditor-General may carry out examinations or investigations as defined by section 23. The Audit Act also requires the Auditor-General to prepare an annual plan of work each year. This plan of work contained a program of performance and compliance audits planned for completion over the next 24 to 30 months with the objective of completing up to eight per year. The plan of work makes it clear, however, that the program is subject to change based on higher priorities that may arise from time to time.

During 2011-12 the following seven Special reports were completed and tabled in Parliament:

- Financial and economic performance of Forestry Tasmania (July 2011)
- Tourism Tasmania: Is it effective? (September 2011)
- Children in out of home care (September 2011)
- The assessment of land-use planning applications (March 2012)
- Public Trustee: Management of minor trusts (June 2012)
- Updating of the Motor Registry System (June 2012)
- Follow-up Special Reports 75-81 (June 2012).

These reports are prepared by our Performance Audit Services (PAS) business unit which manages our performance and compliance audit and investigations program. Audits are aimed at providing assurance, not on financial statements, but on service delivery or compliance by accountable authorities. In conducting its work, PAS complies with the following auditing standards issued by the AUASB:

- ASAE 3100 Compliance Engagements
- ASAE 3500 Performance Engagements.

All reports are available on our web site at [www.audit.tas.gov.au](http://www.audit.tas.gov.au).

## **Services provided to Parliamentarians and State entities**

Our reports and audit activities are complemented by providing a range of other services to Parliament and State entities. These services foster enhanced accountability and performance while promoting better practice in the public sector. They include:

- advice and assistance to Parliament, including submissions to Parliamentary committees on matters relevant to their inquiries
- responding to inquiries from Members of Parliament, State entities and the public, which sometimes lead to the conduct of audits

- comment to central agencies and other State entities in such areas as draft Treasurer's Instructions, financial management proposals and the development of accountability proposals such as audit committee charters
- guidance to State entities, arising from our audit work, in specific areas of governance, management and accountability
- comment to external bodies on emerging developments associated with the public sector including commentary on draft accounting and auditing pronouncements
- advice to Members of Parliament on our role
- briefings to Members of Parliament about our reports.

## Output - Audit Assurance

### Financial audit services

Part 4 of the Audit Act deals with the Auditor-General's financial statement auditing functions with sections 16 to 22 detailing the statutory financial audit requirements. The FAS business unit is responsible for the annual audit of the financial statements of 176 State entities (a complete listing is provided in Appendix 5). FAS is also responsible for the audit of the General Government Sector Financial Statements, the Public Account Statements and the Total State Financial Statements as well as the audit of in excess of 100 acquittal statements. FAS' role includes conducting financial audits, managing financial audits contracted to the private sector and managing financial audits dispensed with.

Section 17 of the Audit Act requires accountable authorities to submit:

- financial statements for their State entities to the Auditor-General within 45 days of the end of the financial year
- financial statements are to be "complete in all material respects".

We have determined that "complete in all material respects" means that the financial statements must:

- be signed by the accountable authority at the time they are submitted
- comply with relevant legislative requirements
- comply with Australian Accounting Standards. In the case of government departments, compliance with the Department of Treasury and Finance's model financial statements will satisfy this requirement.

Having carried out an audit of the financial statements of a State entity, section 19 requires the Auditor-General to prepare and sign an opinion based on that audit and provide it to the State entity's responsible Minister, with a copy to the relevant accountable authority. Section 19 also requires the Auditor General to finalise the audit opinion for a State entity, or an audited subsidiary of a State entity, within 45 days of receiving the financial statements from the accountable authority. We are also required to provide the Minister with a copy of any formal communication of audit findings. FAS works closely with clients to address various accounting matters during the course of its financial audit work and provides input into the development of Treasury's model financial statements. We also continued to produce our model financial statements for local government, aimed at assisting councils in meeting their statutory obligations.

When conducting its audits, FAS uses an Integrated Public Sector Audit Methodology (IPSAM) toolset which complies with Australian Auditing Standards issued by the AUASB.

Close links have been developed with other audit offices, in relation to IPSAM, mainly the Victorian Auditor-General's Office and the Queensland Audit Office. FAS participate in the IPSAM user group to help ensure the methodology remains current and provides the most efficient and effective means for completing audits.

### Management of financial audits

While the Auditor-General is responsible for auditing all State entities, under the Audit Act, there is discretionary power as to who will conduct the audits. Under section 33 the Auditor-General discharges his 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. We have established a panel of external audit service providers that is updated from time to time and it is from this panel that suitably qualified persons are selected to conduct contracted audits. In the 2011-12 financial year, we outsourced 37 financial audits to the private sector. Details of the outsourced audits and of external audit service providers are included on our website and in Appendix 6.

Under section 18(2) of the Audit Act, following consultation with the Treasurer, the Auditor-General can dispense with audits after consideration of alternative accountability arrangements for the State entities concerned. When dispensing with an audit we require:

- adequate alternative audit arrangements
- review by us of the financial statements annually.

Audits dispensed with are detailed in reports to Parliament previously referred to and are noted in the list of clients in Appendix 5.

## Performance audit services

Section 23 of the *Audit Act 2008* allows the Auditor-General to carry out examinations and investigations. Such work is usually undertaken as a performance audit with the results reported to Parliament.

Our Performance Audit Services (PAS) unit delivers agency-specific performance audits. The objectives of a performance audit are twofold. The first is to provide Parliament with assurance relating to the administration of Government entities and programs. The second is to assist public sector managers by identifying and promoting better administrative and management practices.

Performance audits can include an examination of one or more of the following:

1. Economy (minimising costs)
2. Efficiency (maximising the ratio of outputs to inputs)
3. Effectiveness (the extent to which intended outcomes are achieved)
4. Legislative and policy compliance.

In developing our Program, we adopt an ongoing and integrated approach to planning financial statement and performance audits. In this context, we endeavour to maintain a balance between planning and delivering audits that address the key risks and challenges facing the Tasmanian public sector and individual entities; while also embarking on contemporary audits that are responsive to the changing environment, stakeholder requests and cover matters of the public interest.

When developing the Program, we undertake a process that involves:

- Consulting Parliamentarians and entities
- Conduction and environmental scan of key risks and challenges to public administration
- Understanding the operations of agencies and identifying areas that could potentially improve performance.

From the rolling program of potential performance audit topics, and other ad-hoc requests from stakeholders, the selection and conduct (including timing, scope and method) of performance audits is at the discretion of the Auditor-General. In choosing which audits to undertake a number of factors are taken into account, including the:

- Potential benefits
- Financial materiality
- Risks to service delivery
- Extent of previous audit and review coverage.

Audits are carried out using our own methodology which is consistent with requirements of auditing standards and methodologies used by other audit offices. We utilise the IPSAM toolset to document work done.

From mid-2012 we commenced seeking public comment to assist in the planning phase of an audit when we establish the criteria to examine.

# Independent scrutiny, both external and internal

We participate in internal and external reviews and independent benchmarking to gauge our performance and seek to improve where we can.

The elements of this independent scrutiny include:

- our Audit Committee
- our internal audit function
- quality assurance reviews
- independent peer reviews
- external audit
- benchmarking.

## Audit Committee

The objective of the Audit Committee is to provide independent assurance to the Auditor-General and to the Office on our risk, control and compliance framework, external accountabilities and our efficiency and effectiveness.

The Committee comprises two independent members, Mrs Sue Baker and Mr Tony Pedder, and one internal appointment being the General Manager Performance Audit, Mr Geoff Driscoll. Mrs Baker is chair of the committee.

Matters under discussion in 2011-12 included:

- new organisational structure
- Annual Plan of Work for 2012-13
- assessment of the internal auditor's performance
- performance of our external auditor
- the strategic internal audit plan
- the external audit plan for 2011-12
- review of management letters prepared by the external auditor and of actions taken by management on matters raised
- internal audits conducted, reports issued and actions taken by management
- risk management plan and Office policies
- high risk transactions and projects undertaken during the year.

## Internal Audit

Our internal auditors, Moore Stephens, Melbourne, carried out the following audits in 2011-12 in accordance with the three year strategic audit plan:

**Risk Management Framework Review** - this review was aimed at validating the Office's current risk rating for each of its nine strategic risks and to ensure appropriate controls are in place to mitigate the identified risks. The conclusion was that the internal controls with respect to the risk management framework, systems and processes are, in all material respects, adequate. The internal auditors reported one high risk finding related to the lack of an overarching business continuity management strategy and a disaster recovery plan. The Office has commenced development of these with an expected completion date of 31 December 2012.

**Internal Controls Framework** – the objective of this review was to assess the adequacy of the Office's internal control framework. The internal auditor concluded that internal controls with respect to the risk management framework, systems and processes are, in all material respects, adequate.

**Budget management review** - covered the adequacy of the Office's budgeting and forecasting process including its alignment with the strategic plan and that the underlying assumptions consider the Office's risk environment. The overall conclusion was that, in all material respects, our budgeting and forecasting processes are adequate.

## Summary of Findings and Recommendations from 2011-12 internal audits:

Audit	Rating <sup>1</sup>			Management awareness point
	High	Moderate	Low	
Risk management framework	1	1		
Internal controls framework		1	1	
Budget management				1
<b>Total</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>1</b>

### <sup>1</sup> Rating:

- High rating within topic/area due to key serious control weaknesses and/or ineffective Processes.
- Moderate rating within topic/area due to key control weaknesses and/or ineffective Processes.
- Low rating within topic/area due to inefficiencies.
- Management awareness point.

The Audit Committee monitors management action on recommendations made from previous internal audits with the internal auditor providing periodic updates on these as well. Management has addressed or is in the process of addressing all previous recommendations.

## Quality Assurance Reviews

### Independent Peer Reviews

The Australasian Council of Auditors-General (ACAG) has developed an approach to help individual Audit Offices demonstrate to internal and external stakeholders that they meet relevant legal and professional standards.

The approach is based on a framework (ACAG Governance and Audit Framework for Self Assessment and External Review) that enables reviews to be undertaken of an office's audit and corporate functions against a common set of questionnaires covering relevant professional standards and pronouncements. The framework has been developed and agreed through review of comparative models, which include the Australasian Business Excellence Framework, the Australian Stock Exchange Principles of Good Governance, and the SAI-Global ISO program.

An audit office can choose to self assess and/or have an external review performed, and may choose to have all or selected elements of the framework applied to the different aspects of its operations.

If the criteria in the framework are met or exceeded, audit offices gain assurance their systems and processes meet quality control and other professional and legal requirements, including those of professional accounting bodies and the Corporations Act.

During 2011-12 we engaged a team to perform an external review of our Office. The team comprised

- John Viljoen: Assistant Auditor-General, Financial Audit, Audit Office of NSW.
- Aaron Green: Director, Financial Audit, Audit Office of NSW.
- Linda Barker: Director Performance Audit, Office of the Auditor-General for Western Australia.
- Helen Grube: Manager, Financial Audit, Victorian Auditor-General's Office.

The review was performed between 5 and 9 December 2011 and involved interviews with key engagement personnel, reviews of preselected audit engagement files and the preparation of a report on the review findings.

The review assessed whether:

1. The Office's corporate functions met good practice in terms of a framework for governance including requirements for quality assurance at the corporate level as laid down in Section 1 of the Framework 'Office Governance.'
2. The Office's systems of quality control met the minimum requirements of Section 2 of the Framework, which is based on ASQC1 and APES 320.
3. Audit opinions for the 30 June 2011 financial statements of sampled entities were generally supported by sufficient and appropriate audit evidence based on compliance with Section 3 of the Framework.



4. Audit conclusions for a sample of recent performance audit reports were generally supported by sufficient and appropriate audit evidence based on compliance with Section 4 of the Framework.

The review concluded that overall, “the Tasmanian Audit Office provides an important service efficiently and effectively to the Parliament and people of Tasmania. It achieves this notwithstanding its relatively small size, significant funding pressures, the complexity of its role and the demands on it.”

The views of key stakeholders interviewed by the review team (Members of Parliament, senior officers from state and local government entities, and contract audit agents) were complementary of the professionalism of the Auditor-General and his team. The Auditor-General’s approachability and the extent of engagement between the Office and its audit clients are appreciated, which is consistent with the results from the more formal feedback surveys the Office conducts.

Office employees appear highly engaged and loyal, with a strong sense of purpose and feeling that they are part of something worthwhile. The Office has a vision for the future and a set of values it operates by that are aspirational and relevant.

The Office is open and accountable about its performance and has a sound approach to determining its strategic objectives.

Some areas require attention to improve the quality of operations, delivery of services and compliance with the requirements of auditing and other professional standards. The most important area for improvement lies in the Office’s financial and performance audit processes, which are designed to help it ensure it meets the rigorous requirements of the professional and technical standards accountants and auditors must comply with.

Senior Office staff also participate in reviews of other offices. During the year our Technical and Quality Director was part of the team that reviewed the operations of the Audit Office of NSW.

## Report assessment process

During 2011-12 two performance audit reports were examined by three independent reviewers under ACAG’s Report Assessment Process. This process focusses on the following criteria:

- scope and potential for significant impact
- focus on effectiveness, efficiency and economy
- persuasiveness of conclusions
- communication – printed report
- communication – online report
- usefulness to the customer.

The two reports reviewed were Science education in public high schools (July 2010) and Children in out of home care (September 2011). The results of the review were generally positive with only minor suggestions for improvement.

## Internal

Following our external ACAG review we have identified a number of procedural areas for improvement. In response we have established a Quality Review Steering Committee to monitor identified areas and facilitate other improvement processes. As part of this process, our Technical and Quality Director plans to review our internal quality policies and procedures. This includes the development and implementation of more structured quality assurance policies and a monitoring program. Once complete a selection of assurance reviews within the Office will follow.

In addition, we continue to review practices and procedures to ensure compliance with the requirements of APES 320 Quality Control for firms issued by the Accounting Professional and Ethical Standards Board and ASQC1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and other Financial Information, and Other Assurance Services issued by the Australian Auditing and Assurance Standards Board.

## External Audit

Under the Audit Act, the Governor appoints an independent registered company auditor to perform an audit of our financial statements. Clements, Dunne & Bell, a Melbourne based firm, was initially appointed in 2008-09. The appointment was extended on 31 August 2010 to cover the 30 June 2012 and 2013 financial years.

In August 2012 the auditors completed their examination of our 2011-12 financial statements. Their unqualified audit report is attached to the financial statements contained in this annual report. The external auditors also reviewed our key performance indicators with their report included in the Performance (KPI) Report section of this annual report.

## Benchmarking against other Audit Offices

We continue to participate in benchmarking coordinated by ACAG which covers our entire office operations and is referred to as the ACAG Macro Benchmarking. In addition, certain state based audit offices participate in parliamentary and client satisfaction surveys relating to our financial and performance audit functions the outcomes from which we reported earlier in this annual report.

The ACAG Macro Benchmarking project is an annual exercise that has been conducted since 1994. The overall purpose of the project is to provide, to the extent practicable, comparable information about audit offices across Australia on qualitative and quantitative benchmarks of the operations of their offices while recognizing the specific characteristics of each jurisdiction.

The information obtained identifies areas for improvement. The benchmarking is done in October/November each year based on the previous year's outcomes. Key benchmarks are reported annually in the Performance Report section of this Report.

## Parliamentary and Client Surveys

On a biennial basis we conduct independent surveys of Parliamentarians and financial audit clients. The last survey was conducted in 2010-11. Findings from that survey were reported in our 2010-11 Annual Report.

## Strategic Plan 2012-15

This four-year plan was developed in the context of significant current, and likely future, change faced by the Tasmanian Public Sector. The general government sector faces budgetary pressures with flow-on implications for us both in terms of our own funding and as actions are taken by clients to manage budgets. In these environments audit risks, and opportunities, increase with this strategic plan considering these under seven themes each defined by an over-arching principle and supported by a strategy as follows:

Themes	Principle	Strategies
<b>Profit</b>	We operate on a sustainably profitable basis with adequate reserves facilitating operational effectiveness and independence in line with our mandate. Our financial audit fees must be competitive, benchmarked against appropriate factors.	Ensure the Office operates under a financially sustainable funding model underpinned by relevant legislation, efficient Office operations and an Office enterprise, or equivalent, agreement. We will comply with the <i>Audit Act 2008</i> at costs less than the all State averages in the ACAG benchmarks.
<b>Products</b>	The products we offer must be contemporary, of highest quality, timely, relevant and comply with the Audit Act such that we remain an essential source of reference by Parliamentarians and the public sector. Our products are financial audits and performance (of efficiency and effectiveness and follow the dollar) and compliance audits and investigations.	Collaborate continually with relevant stakeholders to ensure our audits, reports and communication mediums provide assurance, satisfy expectations and add value to public sector performance and accountability. Ensure compliance with auditing standards including internal quality assurance processes which meet best practice.
<b>Premises</b>	We will provide our staff with a professional, safe and secure office environment and appropriate facilities enabling them to work productively.	Explore all options aimed at assessing and benchmarking current costs and maximum utility of existing office premises and alternatives.

Themes	Principle	Strategies
<b>Processes</b>	We apply processes, and associated systems, in keeping with a small and straightforward business while recognising our broader information risks and reporting responsibilities.	Ensure that by 31 December 2013, the Office's processes and systems are cost efficient.
<b>People</b>	We employ dedicated and talented people with a strong work ethic. Our employees have a passion for working for TAO and serving the public interest and do so consistent with our values. We offer fair remuneration, providing staff with career enhancing opportunities and we make merit based appointments. We commit to offering a family friendly and discrimination free environment. Our objectives include the need to achieve a work/life balance. We manage performance and aim to be an employer of choice.	By 31 March 2013, the Office's people management arrangements represent best practice and consistency with in-house policies.
<b>Partnerships</b>	Where relevant and appropriate, we work in partnership with other integrity entities, the PAC (or other Committees of the Parliament), suppliers of audit services, the Australasian Council of Auditors-General, the University of Tasmania, Standards Setting bodies and relevant professional bodies, as long as in doing so our independence is not compromised.	By 30 June 2013 we will have established partnering arrangements aimed at better satisfying our other themes.
<b>Planet</b>	As a responsible corporate citizen we must do what we can to minimise harm to the planet and our community and we must show leadership in supporting community fund raising for appropriate causes.	We will work towards having in place arrangements that minimise our carbon impact and maximise our contribution to our community by 31 December 2015.

Of significant risk to us is the need to establish a sustainable funding model which this plan addresses. An outcome of our planning process was a restructure, the implementation of which commenced on 1 January 2012.

## Communication

### We communicate with openness, accountability and transparency

#### Summary annual report

We have again issued a separate summary annual report. It is aimed at providing readers with a snapshot of our performance in 2011-12.

#### Right to information

We are committed to ensuring our administrative information is available to the public. The *Right to Information Act 2009* (RTI) gives the public, the media and members of Parliament the right to access information we hold, unless the information is exempt from release.

Under section 6 of the RTI the Auditor-General is exempt from providing any requested information unless it relates to our administration. Information relating to financial and performance audits conducted and reports to Parliament are regarded as exempt being classified as internal working information, as is information compiled in making preliminary assessments following receipt of referrals.

The Auditor-General is also required to comply with section 46 of the Audit Act the practical effect of which is to forbid him and any person employed in his Office or contracted by him from disclosing any confidential matter that comes to his or their knowledge in the course of employment or duties under either the Audit Act or another Act.

Because of this, this provision displaces any other duty or obligation to disclose information which might otherwise arise and only permits the disclosure of such information if that disclosure is required in connection with the administration of the Audit Act or in connection with the administration of that other Act.

During 2011-12 we received three applications for assessed disclosure of which two were accepted. Of these two we provided information in full in one instance and in the other the information was refused as it was determined to be exempt. The other application was transferred to another public authority.

## Protecting privacy

We are committed to protecting each individual's privacy in the way we collect, use or disclose personal information. We also ensure that individuals have a degree of control over their own personal information.

When dealing with private information, we do so in accordance with the *Personal Information Protection Act 2004*.

There were two requests in 2011-12 from a person seeking access to, or update of, personal information held by us pertaining to them. In both cases details of the type of information was provided. In one case access to the information was not necessary because it had been provided by the individual and had not been altered in any way by the Office or it related to correspondence between the Office and them which they would already hold. Other information sought could not be provided by virtue of the requirements of section 46 of the *Audit Act 2008*.

## Public interest disclosures

The purpose of the *Public Interest Disclosures Act 2002* is to encourage and facilitate disclosures about the improper conduct of public officers or public bodies.

We are committed to the aims and objectives of the Act recognising the value of transparency and accountability in our administrative and management practices. Also, we support making disclosures that reveal corrupt conduct, conduct involving a substantial mismanagement of public resources, or conduct involving a substantial risk to public health and safety or the environment.

We do not tolerate improper conduct by our staff, or taking of reprisals against those who come forward to disclose such conduct. All reasonable steps are taken to protect people who make such disclosures from any detrimental action in reprisal for making the disclosure.

We will also afford natural justice to any person who is the subject of a disclosure.

During 2011-12 we received no public interest disclosure requests.

## Speeches, presentations, representation on other committees and publications

We encourage our staff to participate in events and committees relevant to the objectives of the Office.

Some of our speeches and presentations are listed below.

Date	Event	Presenter
<b>November 2011</b>	ACAG Performance auditors' conference - Strategic planning: scanning the horizon to identify hot issues.	Simon Andrews and Geoff Fisher
<b>April 2012</b>	Property Council Academy – Public Sector Asset Management.	Mike Blake
<b>May 2012</b>	Local Government Reform Workshop - Auditor General's Report on the Financial Statements of Local Government Authorities 2010-11.	Mike Blake

Date	Event	Presenter
<b>May 2012</b>	Institute of Public Accountants - Tasmanian Congress and Professional Practice Symposium: <ul style="list-style-type: none"> <li>Accounting and auditing standard setting – reflections on the past 10 years and future expectations</li> <li>Do accountants and auditors have a role and responsibility to report on non-financial performance?</li> </ul>	Mike Blake
<b>May 2012</b>	Criterion Conferences – chaired the two day conference and presented a paper titled “Enabling improved performance reporting”.	Mike Blake
<b>July 2012</b>	Parliamentary Law, Practice and Procedure Course, Law School of UTAS for ANZACATT (Society of Clerks of the 11 Parliaments of Australia).	Mike Blake
<b>July 2012</b>	Parliamentary Law, Practice and Procedure Course, Law School of UTAS - Aspects of the role of the Auditor-General in the Parliamentary process.	Mike Blake

Details of service on other committees is contained in Appendix 4.

Our main publications each year are our reports to Parliament details of which have been provided previously in this Report.

The Audit Act also requires the preparation of an Annual Plan of Work for tabling with the President of the Legislative Council and the Speaker of the House of Assembly by no later than 30 June each year. We must consult with the PAC in developing this Plan and record within it any suggestions made by the Committee and our responses to them. We presented to the President and the Speaker our Annual Plan of Work for 2011-12 in June 2011. Our Annual Plan of Work for 2012-13 was submitted to the President and the Speaker in June 2012.

In addition to the above, each month we issue client newsletters, also available on our website, dealing with developments in accounting and auditing standards and regulation, recently issued performance audit reports and other matters relevant to them. We also issue internal newsletters. These are aimed at keeping staff informed about developments within our Office.

## Parliamentary presentations, PAC meetings and information sessions

In line with our aim to be open and transparent, we continued our practice of making presentations to Parliamentarians when we table reports in Parliament.

These presentations provide Parliamentarians with briefings on our reports highlighting our approaches to the audits and key findings affording them the opportunity to seek clarification. These sessions continue to be well attended and feedback remains encouraging.

During the year the Auditor-General meets with the PAC to brief them on our audit plans and audit reports facilitating interaction between us and this important accountability Committee. The Statement of Understanding with the PAC, originally signed in March 2007, was updated this year and re-signed in March 2012.

Overseeing the annual audit process is a key responsibility of an audit committee. A regular dialogue between the chairperson of the audit committee and senior audit team members allows for fostering of ongoing, timely and open communication between the audit committee and the external auditor while respecting the responsibilities of each party. To help facilitate this, in June 2012 we conducted our first information session for members of client audit committees. The information session focussed on the role of audit committees and their interaction with external auditors. It also provided an opportunity for an exchange of ideas on any concerns that may exist and to network with members of other audit committees. A technical part included an update on new and emerging accounting issues.



# What we said we would do during 2011-12

## Major budgeted initiatives

Included in our chapter in Budget Paper 2 were a number of major initiatives for the Office. The table below details these initiatives with an update on our progress.

Initiative	Actions
Ongoing development and improvement of Statutory Reports to Parliament on Outcomes of Financial Audits through the enhancement of reported information, report style and readability, financial report analysis, and more informed commentary.	Revised suite of performance measures for councils focused on financial sustainability.  Additional volume tabled in December 2011 to facilitate more timely reporting of other State entities with 30 June 2011 balance dates.
Continuous improvement to financial audit processes and engagement with State entities to ensure financial statements and audit reports thereon are issued in a timely manner and in accordance with the requirements of the <i>Audit Act 2008</i> .	Ongoing.
Ongoing development of a detailed forward program for performance and compliance audits for inclusion in an annual plan of work.	After wide consultation the plan of work for 2012-13 was completed by 30 June 2012.
Responding to new and revised accounting and auditing standards and contributing to their development at the exposure draft stages.	During 2011-12 the Office provided comments on all relevant exposure drafts and discussion papers as coordinated by ACAG.
Continuing to establish systems facilitating measurement of the Office's carbon emissions and then continuing to take action to reduce our impact.	The Office maintains a 'green team.' However, due to changes in the organisational structure it has not met for some time. FAS now hires more environmental friendly vehicles for use on audits involving travel.

## Other initiatives

A number of other initiatives for 2011-12 were also noted in our last annual report. Progress on these is detailed in the table below.

Initiative	Actions
Completion of our information management and ICT strategic plan inclusive of a disaster recovery plan	Deferred due to loss of key corporate staff.
Completion of a business continuity plan (BCP).	Initial BCP completed in July 2012 with testing and refinement to occur up to 31 December 2012 subject to changes that may arise from review of the Office's back-office functions.
Take actions to ensure the financial sustainability of the Office.	Two main actions taken: <ul style="list-style-type: none"> <li>a zero-based budget is being prepared for 2012-13</li> <li>a review into the viability of sharing back office functions with similar 'integrity' entities, as well as co-location, is due for completion in the second half of 2012.</li> </ul>
Complete and launch our new strategic plan for 2012-15.	Plan launched on 1 March 2012.

Initiative	Actions
Implementation of revised processes in line with a process review completed in February 2011.	Implementation began in December 2011 with upgrades to payroll and job costing systems. Due to be finalized in third quarter of 2012.
Finalise and implement our health and well-being program.	Program finalised October 2011.
Monitor and report on usage of our motor vehicle fleet.	Ongoing.
Identify opportunities to purchase carbon offsets that have the best environmental impact.	Ongoing.
Identify what areas of our operations have the biggest impact on carbon emissions and concentrate our efforts there.	Areas identified by 'Green Team' and include energy and fuel usage.
Review our OH&S practices to ensure that we will comply with the new Workplace Health and Safety legislation that is effective from 1 January 2012.	Legislation delayed with commencement now 1 January 2013. Work has commenced on preparing a WHS Plan for the Office.
Extend our employee assistance program in health and wellbeing initiatives and community involvement.	Ongoing.
Review our learning and development program.	Deferred pending review of our performance management system.
Undertake annual surveys (previously biennial) of staff to evaluate their satisfaction.	Process of periodic pulse survey commenced in April 2012.
Reduce our accumulated leave balances.	Ongoing. Leave reduction plans developed for staff with large balances.
Review our grievance processes.	Now underway.
Encourage increased employee participation in HR initiatives.	Ongoing.
Develop a revised HR strategic plan.	Deferred until first half of 2013 following loss of key corporate staff.
Develop a revised customer service charter.	Deferred until 2013 following loss of key corporate staff.
Ensure our professional development budget is fully expended on appropriate learning and development.	Ongoing.
Implement strategies to ensure our new KPIs are achieved.	Ongoing.
Conclude a review into the most appropriate funding model.	Review concluded with action ongoing to achieve improved funding model.
Continue to find expenditure savings.	Ongoing. Zero-based budget a key initiative aimed at doing this as is review of back-office functions and co-location.
Refine our business processes.	Ongoing.
Achieve our financial operation KPIs <ul style="list-style-type: none"> <li>Net operating result <math>\geq</math> 1% of turnover</li> <li>Cash balance at year end <math>&gt;</math> \$0.600m</li> <li>Build cash reserves accumulatively by \$0.150m each year.</li> </ul>	Refer Performance Report section of this report.
Manage accumulated leave balances.	Leave reduction plans developed.
Limit audit fee increases to around 3% per annum.	Achieved for 2011-12 but future capping of fees subject to development of improved funding model.

# What we will do during 2012-13

Our initiatives for 2012-13 include:

1. Be financially sustainable operating under a business model that minimizes financial risk and results in a build up of free cash facilitating operational flexibility and greater independence. This includes the Office operating under its own enterprise, or equivalent, agreement aimed at managing our industrial environment in the best interests of the Office, staff and Parliament.
2. Complete a review into the viability of sharing back Office functions with similar 'integrity' entities as well as co-location. Whatever model is pursued, it must not impact on the Office's independence or result in the Office auditing itself.
3. Respond, by the development of action plans, to address recommendations arising from the Office wide peer review carried out in late 2011. Our objective is to be ready for a statutory review anticipated in calendar 2013 and this will include updating our internal processes and quality assurance arrangements in compliance with Australian Auditing Standard ASQC1 and APESB 320 and to assure our capacity to respond to emerging accounting and auditing standards.
4. Performance Audit Services will:
  - table a PAS report following an audit of homelessness the scope and criteria for which has been agreed with participating jurisdictions across Australia
  - establish a partnering arrangement with the University of Tasmania.
5. Financial Audit Services will:
  - submit selected volumes for review by the ACAG report review group
  - have assessed the need for an information technology audit capability with access to, and /or the development of, a relevant data centre both of which will be aimed at our financial audit and performance audit functions
  - carry out an assessment of financial audit strategies aimed at ensuring appropriate assessments of risk
  - conduct research into impacts on State entities of the Commonwealth's carbon price.
6. Business Support Services will:
  - redevelop the Office's websites to ensure they meet relevant standards and provide reports to executive management on usage. This is aimed at ensuring our website meets contemporary standards facilitating ease of access by stakeholders and others
  - benchmark property prices in Hobart and Launceston to ensure rates we are paying, and we will be paying, are competitive and to explore options for reducing floor space in Hobart
  - evaluate the quantum of the Office's compliance costs
  - complete implementation of the recommendations of a business process review conducted in February 2011. The objective of this is to enable our business support functions to improve our back office operational effectiveness and efficiency
  - find the best tools to measure and report on our carbon footprint including a green procurement guide for staff.
7. The Technical and Quality Director will:
  - design a quality assurance plan for implementation
  - develop an audit outsourcing policy around risk and scope but within budget parameters
  - draft an audit practice statement for publication.

8. Human Resources Committee will:

- revise our Customer Service Charter
- research best practice performance management review systems and recommend to the Executive Management Team adoption of an appropriate system along with relevant implementation and induction plans
- continue with periodic pulse surveys – the objective of which is to assess staff engagement and identify matters of concern and best practice promptly
- review our OH&S Framework to ensure compliance with harmonisation legislation from 1 January 2013
- review our grievance process
- develop an HR communications strategy (as part of the greater Office communications strategy)
- develop a new HR strategic plan which will include workforce plans, succession plans, retention plans, identification of skills needed to satisfy all Office needs, recruitment plans, reward and recognition arrangements and mechanisms to manage or reduce key person dependencies
- re-implement Office values.

9. Information Management Committee will:

- develop an ICT Strategic Plan
- complete an Information Security policy and procedure
- undertake testing of the Business Continuity Plan, inclusive of disaster recovery.



# OUR PEOPLE

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# Human Resources Strategic Plan

Investment in our people is of significant importance requiring a strategic focus in human resource management. We are committed to a strategic approach to the management of our people through:

- providing a clear strategic focus for workforce management
- creating a safe, supportive and equitable work environment for employees which sustains high levels of satisfaction, empowerment, commitment and accountability
- supporting processes and practices which recognise and reward excellence and valuing the contribution people make to our success
- promoting leadership and coaching thereby supporting managers in effectively managing their employees
- ensuring our human resource policies and practices provide transparency, honesty and fairness in the management of our people
- maximising our return on our human investment.

Our human resources management committee together with the health and safety committee and human resource management staff are responsible for ensuring our human resources (HR) strategic plan initiatives are implemented and the outcomes are measured.

## Staff ethics

All our employees must adhere to the Tasmanian State Service Code of Conduct and the State Service Principles under the *State Service Act 2000*. We have developed our own values which we all adhere to.

Formal procedures require disclosure of any real or apparent conflict of interest and in this regard employees are required to take no part in decisions or audits where real or apparent conflicts of interest may arise.

All employees must sign an annual declaration stating that they will conduct their work in accordance with codes, policies and values and must state real or apparent conflicts of interest. Conflicts are also assessed prior to the commencement of all audits.

## Complaints about employees

We maintain internal procedures for investigating complaints about how we behave and carry out our responsibilities; this includes formal inquiry and/or disciplinary procedures under the *State Service Act 2000*.

We had one formal internal grievance lodged this year.

## Employee Profile

At 30 June 2012 we had a workforce of 43.7 FTEs compared to 39.0 the previous year. Our employee numbers increased from 41 to 47 this year.

The increase in headcount results from vacant positions from the previous period being filled and several staff members being on extended, unpaid leave in 2010-11.

During the year we utilised our fixed-term temporary employment registers when we required employees for short term assignments or to cover absences due to parental and personal leave.

Employees	2009-10	2010-11	2011-12
Size of the workforce at 30 June - Headcount	45	41	47
Size of the workforce at 30 June - FTE	43.4	39.0	43.7
Number of employees who left during the year	4	8	6
Number of employees who commenced during the year	8	4	12
Number of permanent part-time employees	1	1	2
Number of full-time employees working reduced hours	6	5	3
Average age of workforce at 30 June	40.8	40.6	41.5

Two of our permanent full-time employees worked reduced hours after returning from maternity leave. Others worked reduced hours for personal reasons.

A breakdown of the distributed workforce based on headcount by organisational unit at 30 June for the past three years is as follows:

Unit	2009-10 Nos.	2010-11 Nos.	2011-12 Nos.	2009-10 %	2010-11 %	2011-12 %
Office of the Auditor-General	1	1	4	2	2	9
Financial Audit Services	27	24	26	60	58	57
Performance Audit Services	9	8	8	20	20	17
Business Support Services	8	8	8	18	20	17

A breakdown of our employees by gender is set out in the table below:

Gender Profile and Age	2009-10	2010-11	2011-12
Number of Males as a %	51.1	56.1	56.5
Number of Females as a %	48.9	43.9	43.5
Average Age – Male (Yrs)	44.1	42.8	44.3
Average Age – Females (Yrs)	37.5	38	37.8
Average Salary – Male	\$100 865	\$104 107	\$99 644
Average Salary - Female	\$60 864	\$76 610	\$76 351
No. of Males working agreed reduced hours	0	0	0
No. of Females working agreed reduced hours	6	6	3

Our gender profile has remained relatively stable with a slight increase in the difference between male and female employees from 12.2% to 13%. Our age profile has also shifted slightly, with the average age of males increasing by 1.5 years and the average age of females decreasing by 0.2 years.

The average male salary decreased, primarily due to some structural changes in senior positions within Business Support Services and Financial Audit Services. The average salary for males is still higher than for females by \$23 293. The average salary for males is heavily influenced by the salary of the Auditor-General, 2 Senior Executive Service positions being filled by males, and the next 7 highest salaried positions in the office being held by males. This is a slight decrease on the previous year.

We continue to encourage female participation at senior management discussions by inviting them to senior management meetings. A number of our female employees continue to work reduced hours after returning from maternity leave.

# Leave Management

Managing employee leave entitlements is important because not doing so:

- negatively impacts on our financial performance and position
- has an operational impact particularly when staff must take longer periods of leave than normal
- can negatively impact on the health and well-being of employees.

A breakdown of the leave is as follows:

Leave Profile	2009-10	2010-11	2011-12
Average sick leave days taken during the year per employee	5.1	9.3	8.4
Total number of sick leave days taken during the year	229	381	393
Average number of accrued recreation leave days per employee at year end	11.3	15.4	12.1
Total recreation leave days accrued at year end	508	629	568
Employees with > 35 days accrued recreation leave at 30 June	0	4	2
Average number of accrued long service leave (LSL) days per employee at year end	39.5	40.2	36.6
Total LSL days accrued at year end	1 778	1 647	1718
Employees with > 100 days accrued LSL at 30 June	0	0	0
Average number of accrued ILOT days per employee at year end	1.7	1.3	3.1
Total ILOT days accrued at year end	76	54	145

The decrease in sick leave this year is pleasing. It remained at a relatively high level due to several employees requiring sick leave in excess of four weeks due to non-work related illnesses and one employee on extended sick leave.

Recreation leave balances were slightly lower than the previous year, however, two employees have balances exceeding 35 days. These employees will complete leave plans to ensure balances are kept at an appropriate level.

The average number of in lieu of overtime days per employee has increased significantly. This is primarily due to staff shortages meaning key staff were required to work extra hours leading up to 30 June 2012.

## Recruitment and Selection

Our recruitment policies and procedures are conducted in accordance with the *State Service Act 2000*, including the State Service Commissioner's Directions. In line with these policies, our processes for selection reflect the merit principle, which ensures that all applicants are assessed in terms of who best meet the selection criteria for the primary competencies required for each position and, therefore, demonstrate the strongest capacity to undertake the required functions.

The Office assisted in State Service Vacancy Control measures outlined in Ministerial Direction No. 25. Two vacancies were filled through this process.

We continued to participate in the University of Tasmania's Careers fair and the level of interest in working in the Office was again high. In addition, we participated in careers fairs run by two of the professional accounting bodies.

Our recruitment efforts this year was primarily directed at generating interest in internships, vacation work opportunities and brand awareness of the Tasmanian Audit Office.



# Graduate and cadetship programs

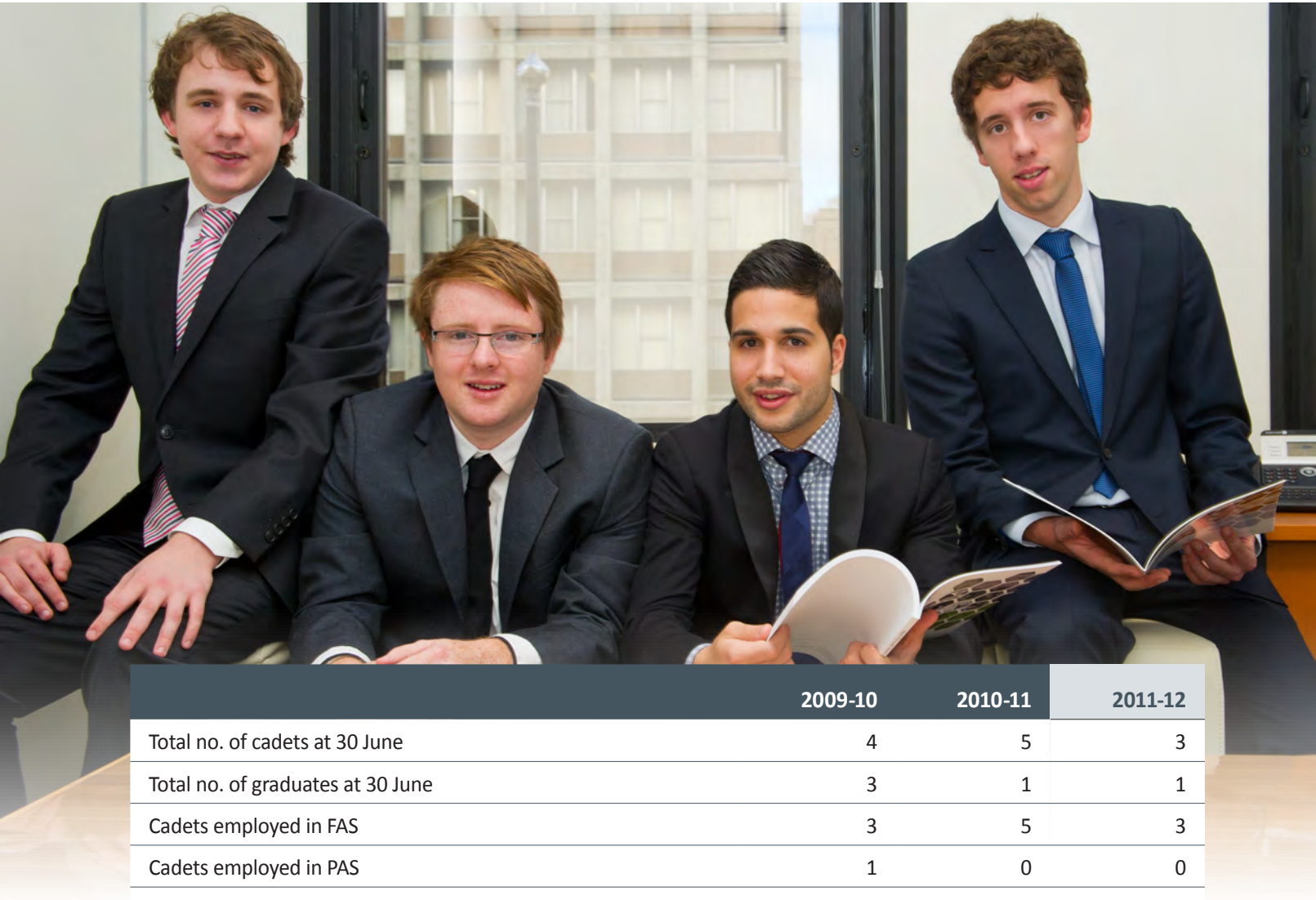
We offer two programs to potential and existing employees who are undertaking or have recently completed a bachelor degree at a recognised tertiary institution.

Our cadetship program is a development initiative and a response to addressing our workforce profile. The program allows participants the opportunity to work and gain experience while studying part-time for an appropriate degree. The intention of the program is that cadets will work in all business units to enable them to gain broader experience. The program is normally six years, but may be shorter depending on studies completed before commencing the program.

The Office’s graduate program was reviewed this year and then renewed through to 2015. The program is similar to the cadetship program in that while graduate employees work, they study part-time until their post-graduate course is complete. The post-graduate course may be any of the professional programs offered by the professional accounting bodies, or other bodies related to the employee’s responsibilities, or a postgraduate degree at a recognised tertiary institution.

During the year we offered a place in our graduate program and one applicant was appointed in our Financial Audit Services business unit. This vacancy was offered due to the previous graduate resigning.

We had one employee complete the graduate program in Performance Audit Services and one employee completed the cadet program in Financial Audit Services. Both employees had their employment status changed from fixed-term to permanent and have stayed with the Office in their new roles as a Performance Analyst and a Financial Auditor.



	2009-10	2010-11	2011-12
Total no. of cadets at 30 June	4	5	3
Total no. of graduates at 30 June	3	1	1
Cadets employed in FAS	3	5	3
Cadets employed in PAS	1	0	0
Graduates employed in FAS	2	0	1
Graduates employed in PAS	1	1	0



# Professional Development

We are committed to providing high-quality learning and development opportunities for our employees. All employees and their supervisors are encouraged to identify learning and development needs through the performance management process and through project evaluation processes. As part of this process our employees' objectives and those of the Office are considered when identifying appropriate development opportunities.

24% of learning and development opportunities applied for in 2011-12 were identified through the Office's performance management framework and 97% were approved as a required skill.

The following table summarises our investment in staff training, development and coaching.

	2009-10	2010-11	2011-12
Average days per FTE	14.2	13.2	9.5
Average investment per FTE	\$1 891	\$1 893	\$858

The decline in the figures is due to an increase in FTE, decrease in staff undertaking development opportunities and fewer change to accounting and auditing standards.



## Study Assistance

Our study assistance program supports and encourages employees who wish to undertake studies consistent with their workplace requirements and career aspirations.

We support our employees by allowing them to take time off on full pay to study and prepare for examinations and we provide some financial assistance for administrative costs and text books. Our employees are encouraged to undertake post-graduate study, such as the professional programs run by Australia's professional accounting bodies.

This year ten employees have accessed our study assistance program (ten in 2010-11 and nine in 2009-10). Employees undertook studies in the following areas:

- Bachelor degrees – Three employees continued with their degrees via our cadetship program and one employee completed theirs via assisted study
- Professional programs, such as the Certified Practising Accountant (CPA) and Chartered Accountant (CA) programs or an honours degree – One of our graduates is undertaking the professional program of an accounting body and one graduate completed an honours degree. Four employees are studying one of the accounting bodies' professional programs via assisted study
- Diploma – One employee is undertaking a diploma.



# Performance management

Our performance management system was reviewed during the year resulting in changes aimed at simplifying the process of undertaking performance assessments. We plan a review further in 2012-13 to address some of the lower ratings below.

Reporting requirements of Ministerial Direction No. 26 *Managing performance in the State Service* are included for the first time this year.

Leave Profile	2011-12 %
<b>Alignment</b>	
Employees with a performance plan in place outlining performance indicators linked to business unit and organisational objectives, and behaviour in relation to Agency values	61
Employee satisfaction level with alignment of government priorities, agency strategies and operational plans	54
Performance conversations conducted with a focus on State Service Principles and Code of Conduct	84
Employee satisfaction level with alignment of State Service Code of Conduct and State Service Principles	59
<b>Operation</b>	
Employee satisfaction level of the effectiveness of Agency's Performance Management System in improving Agency Performance	78
Employee satisfaction level of the fairness, transparency and objectivity of our Performance Management System	51
Employee level of understanding of the importance of performance management for their own performance	61
<b>Integration</b>	
Employees who participated in a formal performance management review	84
Employees with a development plan in place	26
Development activities undertaken that were identified through performance management framework	24

This year we finalised our "managing underperformance policy" and related guidelines.

We have a remuneration committee which oversees salary progression recommendations and approves salary progression involving advanced assessment.

We continued to recognise outstanding performance at the business unit and Office level (see page 52 for details on Reward and Recognition).

# Occupational health, safety and welfare

We continue to be active in managing occupational health, safety and welfare by identifying risks and addressing problems promptly.

Ergonomic assessments are conducted for all new employees on commencement and existing employees on request. Any recommendations from our independent assessor are acted upon within a reasonable timeframe.

The Office's Health and Wellbeing Program was launched this year. Activities including an annual Influenza vaccination, fresh fruit available to staff, participation in the Global Corporate Challenge (GCC) and a fitness program and corporate gym memberships run through Personal Best Fitness have all been implemented. The Office also put together a bushwalking team of six people who trained towards and then walked the South Coast Track in early 2012. Smaller walks, which were attended by other employees, included Collins Cap, Cathedral Rock, Mount Direction and Bluff River Gorge.

Staff turnover has led to the training of three new first aid officers, one in Launceston and two in Hobart. Annual Warden training by the Tasmanian Fire Service was also conducted. Employees with legislative responsibilities will be re-elected and trained in the coming year.

The following measures are indicators of our success in actively providing a safe and healthy work environment:

	2012
No. of incidents reported	1
No. of workers' compensation claims	1
No. of First Aid Officers	5



## Employee assistance program

Our employee assistance program continues to provide support to staff on matters personal to them. We have providers in both Hobart and Launceston.

	2009-10	2010-11	2011-12
Staff accessing EAP program	6	6	5

## Workplace diversity

We maintain our commitment to workplace diversity through our recruitment and selection practices, our performance management system and the provision of training and development opportunities. Our Human Resource Strategic Plan contains initiatives to promote our workplace diversity.

This year the Office participated in the Department of Premier and Cabinet's Work Placement Program. This program is designed for recently arrived humanitarian entrants living in Tasmania to gain experience working in government and gain exposure to the Australian workplace culture. The Office hosted Parvin Jafari, a year 12 student, who spent a week in each of our business units learning about the role of the Auditor-General. Parvin enjoyed her time with us and at the conclusion of the program was presented with a certificate by Cassy O'Connor MP, Minister for Human Services and Community Development, at a graduation ceremony at Parliament House.



## Industrial and workplace relations

During the year we continued to implement aspects of the Tasmanian State Service Award and changes made to the *State Service Act 2000* and the Directions issued under that Act. This year saw two new Ministerial Directions, State Service Vacancy Control and Managing Performance in the State Service.

The Public Sector Unions Wages Agreement 2012 included the introduction of a Purchased Leave Scheme. This is a new arrangement that allows an employee to receive 10 additional days of leave per year by purchasing nine of those days. It is in place for a trial period until 30 June 2013 and so far four employees have opted to participate. The scheme provides the opportunity for employees to have a better work-life balance and for the employer to improve leave planning and achieve productivity savings.

Employees have the right to lodge reviews under the *State Service Act* related to employment decisions that have an impact on them. During the year no reviews were lodged with the State Service Commissioner.

During the year union representatives visited our Office regularly to provide information to members.

We have an internal grievance process where employees can lodge a complaint. We had one formal grievance lodged during the year.

# Internal Grievance Procedure

The Office's managing diversity policy and associated procedure provide guidance on dealing with internal grievances and incorporates the principles of natural justice. It is designed to address grievances at the earliest possible opportunity to avoid escalation to a formal grievance process. It's hoped that through consultation, co-operation and mediation, amicable resolutions can be achieved.

## Independent employee satisfaction survey

We recognise that our people are the key to improving our overall efficiency and performance. To measure our internal organisational effectiveness we commenced measuring employee satisfaction eight years ago. Our last survey conducted in May 2012, had a participation rate of 94% with the results showing a decrease in employee satisfaction and morale compared to the previous survey in 2010.

This year our participation rate was 95% with the results showing an increase in employee satisfaction from 70%. There were significant average increases in the areas of Corporate Communication, Recruitment and Selection, and Teamwork.

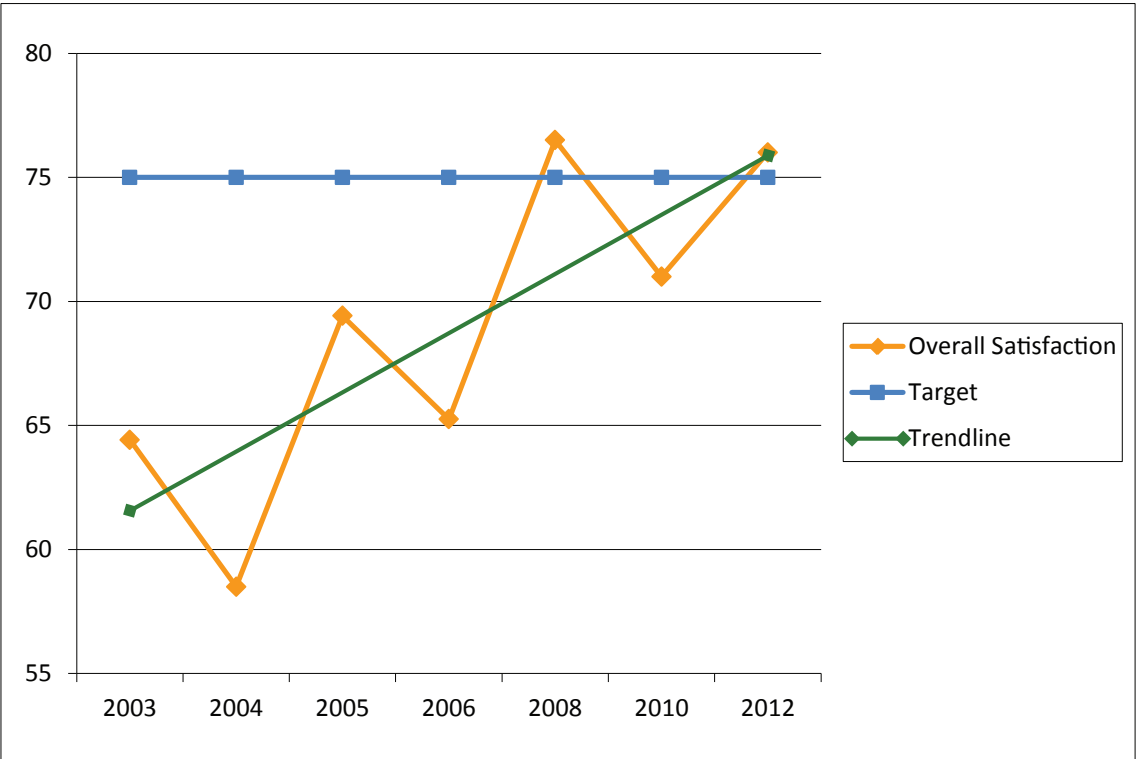
The following table summarises the employee rating on each surveyed category. In each case our target is a rating of 75%.

Gender Profile	2006 %	2008 %	2010 %	2012 %
Co-operation between business units	Nm	61	65	68
Corporate Communications	61	77	70	82
Equal Employment Opportunity	67	79	76	79
Involvement	66	80	75	82
Leadership	60	76	73	80
Motivation	69	81	75	80
Performance Management	63	75	67	74
Personal Satisfaction	70	80	75	79
Recruitment and Selection	63	76	60	72
Rewards and Recognition	65	77	73	71
Staff Development	60	77	69	72
Supervision	68	80	69	77
Teamwork	66	82	62	75
Work Environment	Nm	67	77	79
Total Average	65	76	70	76

The survey compiler’s report noted that we are more collaborative than ever before, but some business units would like further communication and there is a desire to develop a ‘whole Office team’. Leadership results remained strong and generally speaking there is a lot of goodwill amongst staff and a willingness to put in extra effort where required. Areas for improvement were around dealing with internal grievances, managing workloads, providing a clearer direction and improving performance management.

Across all business units and position levels staff find our internal values very important and they are highly valued. They are now accepted as part of our culture and our newer recruits respond positively to this guidance.

The graph below illustrates the overall satisfaction of our employees from 2002 to 2012 during which period eight surveys were conducted. Since 2006 the surveys have been conducted on a biennial basis. The trend is that every second survey indicates an improved overall satisfaction rating followed by a lower rating in the subsequent survey generally no lower than the previous highest rated survey. So in essence we continually improved over a ten-year cycle.



The 2012 survey contained 16 recommendations, some specific to the Office as a whole, while others were business unit specific. During the coming year the Human Resources Committee will address all recommendations contained within the report.

## Employee participation

We recognise the importance of involving employees in decisions that affect them. In line with our values, we promote a culture that is based on mutual respect and trust facilitating innovation, customer focus and continual improvement.

Employee involvement and participation continues to be sought through “all staff” emails, direct approaches, open Office discussions, internal newsletters and committee consultation. We are investigating how to best use social media as another means to communicate with our employees and plan to develop a communications policy in the coming year.



## Secondment and internships



Stephanie Gunn and Jara Dean

We continued to support the internship programs of both CPA Australia and the Institute of Chartered Accountants Australia (ICAA). These programs are both eight weeks in duration where graduates who are student members of the professional bodies are given work experience with organisations.

This year Stephanie Gunn undertook an ICAA internship with us. During her time with us, she spent time working in both Performance Audit and Financial Audit Services.

Our first secondment with the Audit Office of Ontario, Canada, took place in 2011-12. One of our performance auditors spent six months at the Audit Office of Ontario while a performance auditor from that Office spent time with us as part of this reciprocal arrangement. The benefits of the exchange have included sharing of knowledge on how both Offices conduct performance audits and from this sharing we hope to adopt new methods to improve the manner in which such audits are conducted.

## Social

### Workforce capacity and diversity

The average age at 30 June 2012 for male and female employees was 41.1 years (40.4 years in 2010-11). The ratio of male to female employees has remained relatively consistent over the last five years with the ratio increasing slightly this year to 57:44 (56:44 )

The vast majority of our employees have a professional qualification (94%). The average number of days of professional development, and the average investment per FTE, declined significantly this year. The average number of days of professional development was 9.5 (13.2 in 2010-11) and the average investment per FTE was \$858 (\$1 893). The performance of our employees is assessed biannually with the outcome being an agreed professional development plan where applicable.

The drop in professional development activities is partly due to limited change taking place with Australian Accounting and Audit Standards but moreover because the low proportion of employees who have development plans implemented. This will be rectified in 2012-13 as part of a complete review of our performance management system.

### Workforce health and safety

During the year we continued to encourage our employees to undertake health and wellbeing activities. We continued our influenza (including swine flu) vaccination program and encouraged employees to participate in walking events conducted by the Global Corporate Challenge.

Absenteeism levels decreased this year indicating these initiatives have had a positive impact. Productivity was lost due to several employees requiring large amounts of leave due to non-work related illnesses.

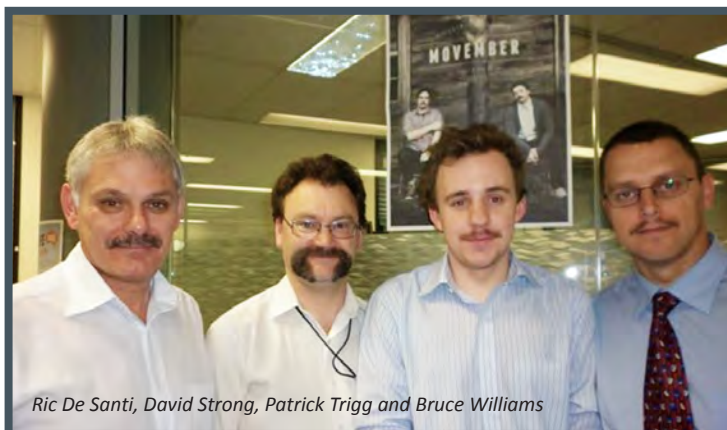
We continue to provide employees with access to an independent employee assistance program which they take advantage of seeking assistance with work related or personal matters. During the year five employees accessed the program.

## Workforce and community committees and bodies

We encourage our employees to actively participate in all aspects of their work and professional lives. This year a number of employees were represented on both internal and external committees. Further details can be found in the Appendix 4 of this report.

## Community involvement and support

We have continued to participate in community fund raising events this year, but broadened the number of charities we support. The Office Social Club runs a fundraising event for a different charity each month, hosted a Harmony Day event and participated in Australia's Biggest Morning Tea. The Office also put together a team to take part in Movember, with the team raising over \$3 000 towards men's health awareness. The Auditor-General participated in the Salvation Army's Homelessness Sleepover in August 2011, raising \$750 for this cause.



## Rewards and Recognition

We believe it important to congratulate employees who make an exceptional contribution to our work environment and the achievement of objectives. This recognition may be a simple verbal acknowledgement, written acknowledgement via newsletters, value cards, and other publications or formal recognition.

Our annual awards, presented by the Auditor-General, are:

- The Boyes Award, named after the first Auditor-General, to recognise an employee who has consistently achieved outstanding and/or significant results against one or more criteria
- The Above and Beyond Award recognises employees who throughout the year achieved results consistent with one or more criteria.

As part of our rewards and recognition program we also present awards quarterly. These are made by the business units to individuals or teams.

The objectives of our program include:

- recognising and rewarding outstanding contributions made by individuals, and teams of individuals
- promoting increased awareness of best practices and successful development strategies in ways that will assist us to achieve our vision, "To make a difference"
- helping us foster an environment of shared success and commitment
- highlighting behaviours and activities that have benefited us and showcased our employees as role models
- being a fair and flexible practice that is woven into the fabric of our culture
- recognising that each individual, and each team, can make a difference.

Nominations were received for the Boyes Award and the Above and Beyond Award.

The Boyes Award was jointly awarded to:

- Kerry Conyard – Business Support Services
- Minyan Qiu – Financial Audit Services.

After careful deliberations the following employee received the Above and Beyond Award:

- Suzanne Xue – Financial Audit Services.

The following employees received quarterly recognition awards:

- Simone Lee – Financial Audit Services
- Alison Murray – Financial Audit Services
- Thomas Bock – Financial Audit Services
- Patrick Trigg – Financial Audit Services
- Debbie Scott – Financial Audit Services
- Reece Munnings – Financial Audit Services
- Sandra O'Connor – Business Support Services
- Kerry Conyard – Business Support Services
- Melissa Holloway – Business Support Services.



Mike Blake and Suzanne Xue





# OUR FINANCES

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# Financial Summary

## Financial performance

Key indicators of our financial performance in 2011-12 and position at 30 June 2012 include:

- A surplus for the financial year of \$0.237m (2010-11 surplus of \$0.266m), which was a healthy result in particular when compared to the budgeted deficit of \$0.007m. Significant contributors to this were lower employee benefits, mainly staff departures not filled in the short-term, completion of three unanticipated engagements this year and earlier completion of financial audits resulting in lower advance revenue.
- An increase in revenue from \$7.204m in 2010-11 to \$7.263m this year which exceeded our budget by \$0.040m predominantly due to user charges and other revenue exceeding budget, slightly offset by over budgeting for appropriation revenue and interest received. User charges included three un-anticipated financial reviews completed this year one of which was the final review of TOTE Tasmania Pty Ltd.
- An increase in expenditure from \$6.940m in 2010-11 to \$7.026m this year which was less than our budget by \$0.204m predominantly related to savings in employee benefits with those savings off-set by overspends in accommodation, internal audit fees and travel and transport costs.
- Improvement in equity, and net assets, by \$0.237m compared to 2011, being the surplus for the year, and by \$0.309m compared to budget – the budget had anticipated a small deficit for the year.
- From a day to day operations point of view, management of the Office's net working capital is critical. Key components are cash and deposits, receivables, work in progress, payables and revenue received in advance the net of which were \$1.258m at 30 June 2012, \$0.990m at 30 June 2011 and \$1.222m budget. The improvement between 2011 and 2012 primarily related to the surplus of \$0.237m for the year and the net investment in new assets of \$0.090m.
- Intangibles increased by \$0.090m compared to the position at 30 June 2011 mainly due to the decision to capitalise costs associated with our financial management system upgrade which will be expensed over the next three years being the estimated benefit period.

The following table details the movements in revenue for the past five years and our budget for 2012-13:

Revenue	2007-08 (\$'000)	2008-09 (\$'000)	2009-10 (\$'000)	2010-11 (\$'000)	2011-12 (\$'000)	2012-13 (\$'000)
User charges	3 359	3 755	4 157	4 691	4 723	4 805
Appropriations						
Reserve-by-law	313	362	391	377	385	512
Performance audits and reports	1 356	1 888	1 910	2 046	2 027	2 102
Other revenue	20	37	53	90	128	0
<b>Total</b>	<b>5 048</b>	<b>6 042</b>	<b>6 511</b>	<b>7 204</b>	<b>7 263</b>	<b>7 419</b>

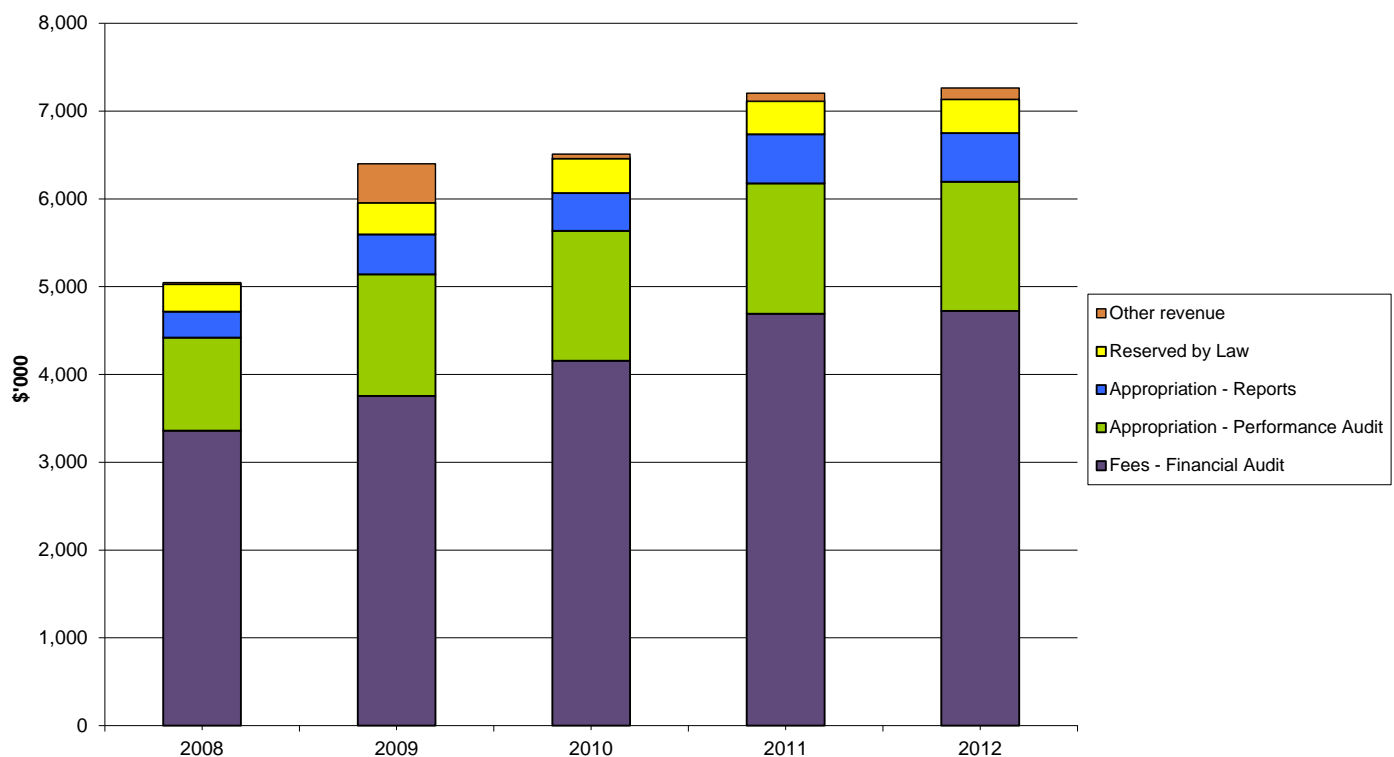
During the 2011-12 budget process, Government advised us that our appropriation funding for the next three years, through to 2013-14 would be reduced. Additional savings were required through the 2012-13 budget process such that the cumulative impact by 30 June 2016 will see our budget reduced by \$0.255m. These reductions relate to our appropriation for performance audits and preparation of both financial and performance audit reports.

Our strategy to absorb the reduction in funding in 2011-12 was not to fill a vacant position within performance audit for that period. To address the longer term reduction, we have initiated a zero based budget exercise, the main purpose of which is to examine all costs including levels of staffing, a restructure in performance audit which includes completion of one fewer reports from 1 July 2012 and a review of our "back office" functions.

The following sections provide brief explanations for movements in revenues in recent years.



## Revenue, 2011-12 and previous four years



Comments below compare financial performance relating to revenue between 2010-11 and 2011-12.

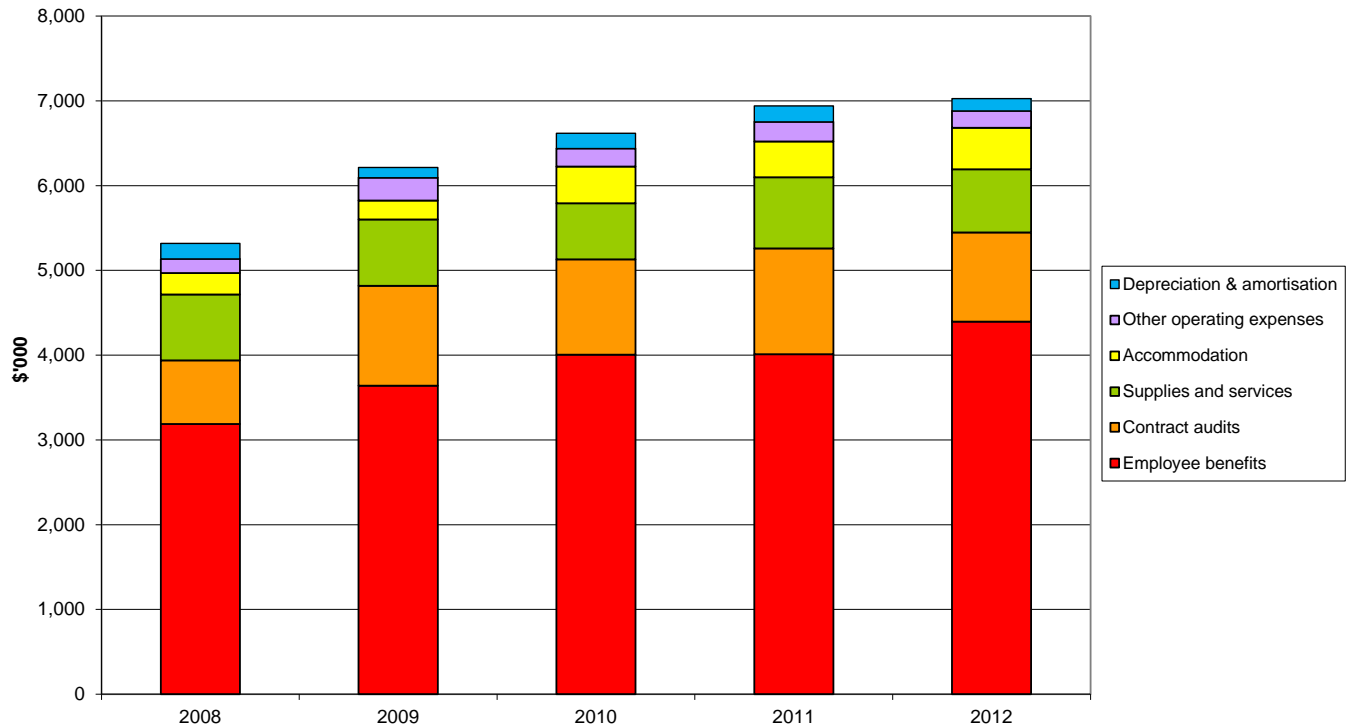
Our total revenue increased slightly compared to the previous year. This year the revenue target for financial audit activity was met while the target for appropriation funding was not. The most significant revenue increase for the year compared to the previous year was the 85.5% increase in other revenue. This was mainly as a result of workers compensation receivable and a contribution receivable from other State audit offices in relation to an expert's report we commissioned during the year. These two items had little impact on the net result for the year.

The following table details the movements in expenditure for the past five years and our budget for 2012-13:

Expenditure	2007-08 (\$'000)	2008-09 (\$'000)	2009-10 (\$'000)	2010-11 (\$'000)	2011-12 (\$'000)	2012-13 (\$'000)
Employee benefits	3 187	3 639	4 006	4 012	4 395	4 459
Other expenses	827	853	754	902	828	1 020
Audit contractors	751	1 179	1 123	1 246	1 052	1 118
Information technology	117	124	121	171	116	162
Accommodation	253	223	433	421	491	511
Depreciation/Amortisation	184	122	180	188	144	145
<b>Total</b>	<b>5 319</b>	<b>6 140</b>	<b>6 617</b>	<b>6 940</b>	<b>7 026</b>	<b>7 415</b>
<b>Surplus/(deficit)</b>	<b>(271)</b>	<b>(98)</b>	<b>(104)</b>	<b>266</b>	<b>237</b>	<b>4</b>

The following section provides brief explanations for movements in costs in recent years.

## Expenditure, 2011-12 and previous four years



Comments below compare financial performance relating to total expenditure between 2010-11 and 2011-12.

Employee benefits increased compared to last year but were \$0.185m lower than budget. This occurred as a result of an interim restructure because of staff turnover. The increase of \$0.383m compared to last year was mainly as a result of anticipated salary increases, salary progressions and an increase in leave accruals.

Information technology costs, included in supplies and services expenses, decreased due to a one-off roll-out of audit specific technology in 2010-11. This decrease was offset by higher travel and transport costs, most of which related to financial and performance audit work, and internal audit fees because one additional audit was carried out in 2011-12.

As noted previously, accommodation costs increased mainly resulting from a rent review and higher outgoings.

Depreciation costs were lower due to a delay in the roll-out of new laptops. This cost is expected to be higher in 2012-13.

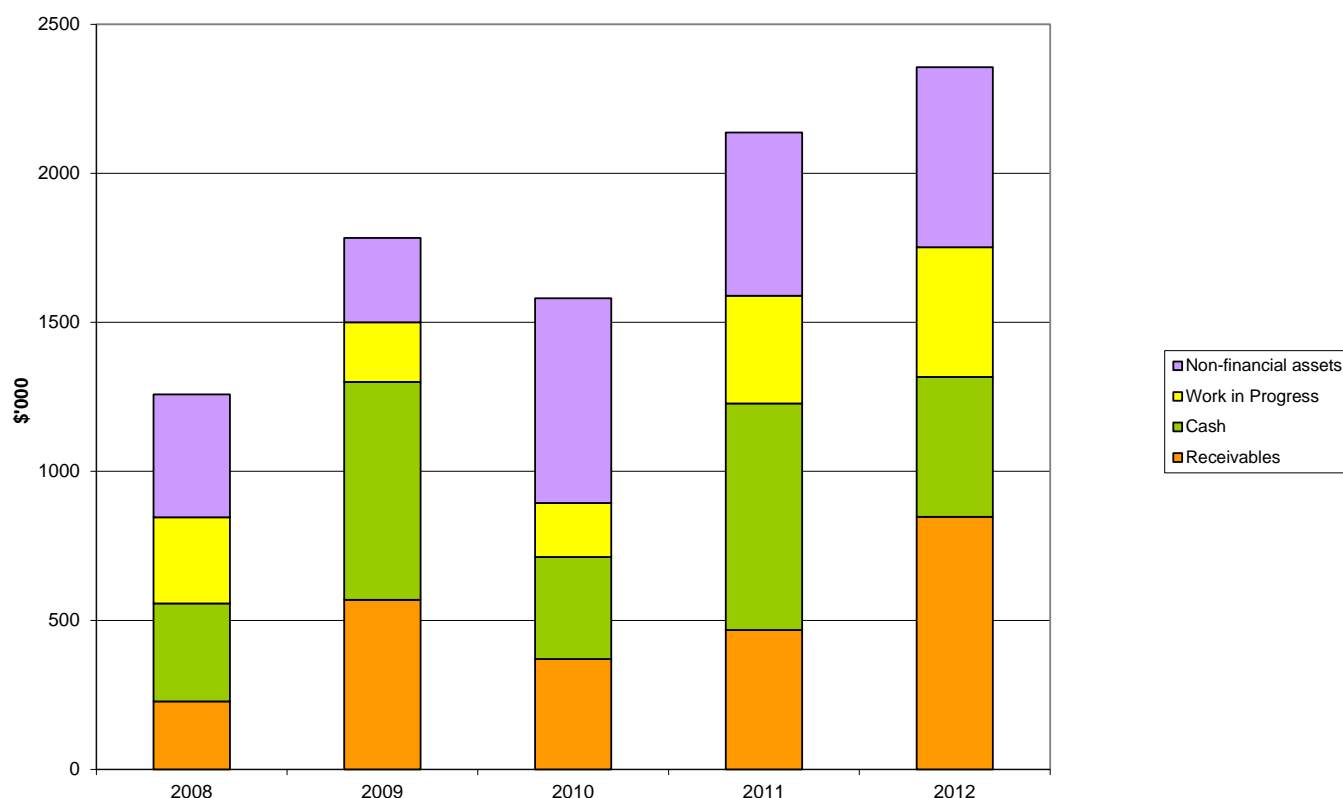
## Financial position

Our financial position is summarised in the tables and graphs below.

### Assets

Assets	2007-08 (\$'000)	2008-09 (\$'000)	2009-10 (\$'000)	2010-11 (\$'000)	2011-12 (\$'000)	2012-13 (\$'000)
Financial assets	883	1 543	894	1 589	1 752	1 741
Non-financial assets	412	283	687	548	604	390
<b>Total</b>	<b>1 295</b>	<b>1 826</b>	<b>1 581</b>	<b>2 137</b>	<b>2 356</b>	<b>2 131</b>

### Total assets by asset type presented graphically excluding the budget



Comments below compare assets between 30 June 2011 and 30 June 2012.

The primary change to our financial position since 30 June 2011 was an increase in our equity by \$0.237m (2010-11, increase of \$0.266m) to \$0.784m (2010-11, \$0.547m) being due to the operating surplus of \$0.237m.

The increase in financial assets, comprising our bank balance, receivables and unbilled work-in-progress, was mainly as a result of higher receivables, \$0.379m, and unbilled work-in-progress, \$0.074m.

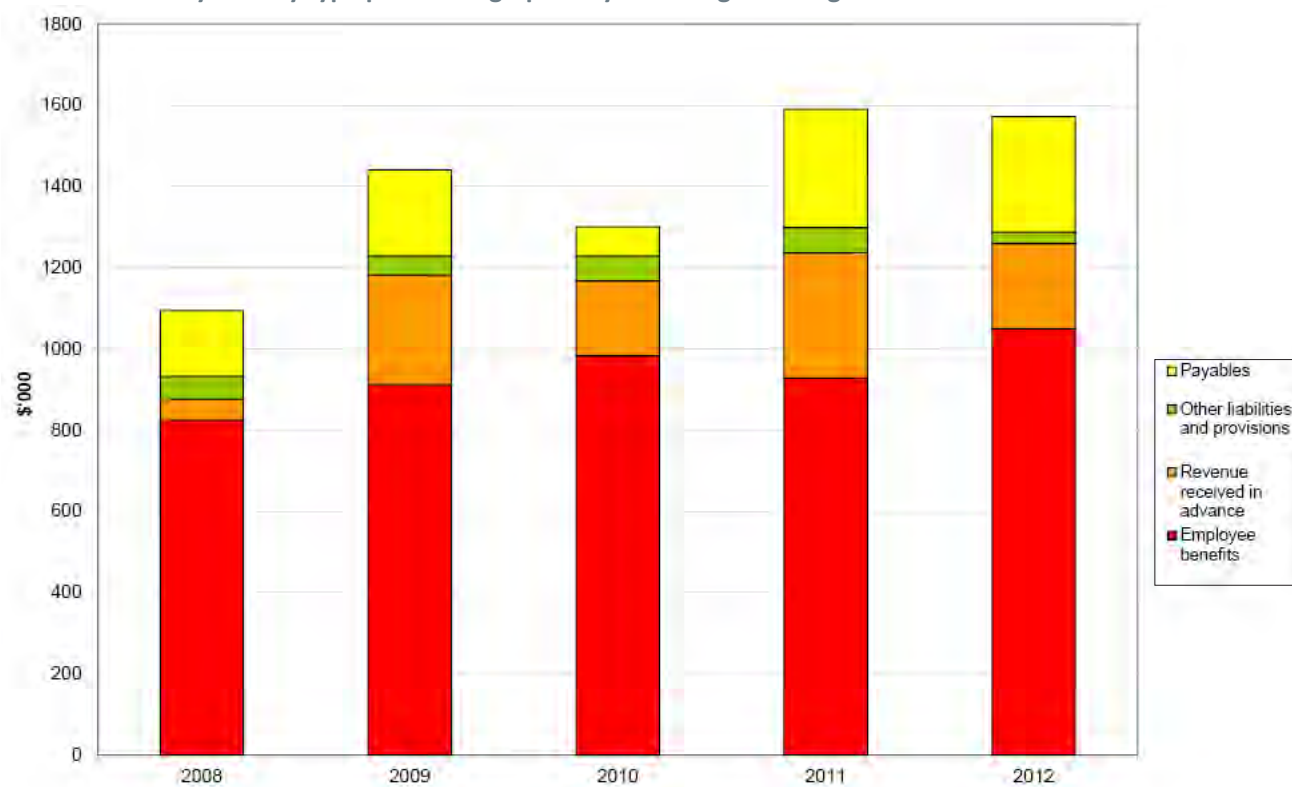
These increases were mainly due to higher levels of financial audit activity leading up to 30 June 2012 and in some cases, later billing an outcome of which was the lower cash and deposits amount. All debts are expected to be collected. These financial assets easily cover our financial liabilities primarily being trade and other creditors.

Non-financial assets, comprising leasehold improvements, plant and equipment and intangibles, increased after depreciation and amortisation charges as a result the capitalisation of the costs incurred with relation to the financial management system upgrade.

### Liabilities

Liabilities	2007-08 (\$'000)	2008-09 (\$'000)	2009-10 (\$'000)	2010-11 (\$'000)	2011-12 (\$'000)	2012-13 (\$'000)
Financial liabilities	176	212	87	308	303	275
Non-financial liabilities	918	1 229	1 213	1 282	1 269	1 371
<b>Total</b>	<b>1 094</b>	<b>1 441</b>	<b>1 300</b>	<b>1 590</b>	<b>1 572</b>	<b>1 646</b>
<b>Net Assets/Equity</b>	<b>201</b>	<b>385</b>	<b>281</b>	<b>547</b>	<b>784</b>	<b>485</b>

### Total liabilities by liability type presented graphically excluding the budget



Comments below compare liabilities between 30 June 2011 and 30 June 2012.

The majority of financial liabilities is trade creditors, \$0.285m (2010-11, \$0.291m), predominately unpaid audit contractors.

The majority of non-financial liabilities were leave provisions and revenues received in advance which arises from the introduction of instalment billing arrangements in 2010-11. The latter decreased to \$0.209m at 30 June 2012 from \$0.308m at 30 June 2011 primarily due to earlier completion of financial audit work in 2011-12.

Instalment billing assists the cash flows of both our Office and clients but can result in audit clients paying fees when audit work is incomplete resulting in the recognition of revenues received in advance.

Employee benefits increased by \$0.122m to \$1.050m at 30 June 2012 due to an overall increase in salaries and days leave accrued. At 30 June 2012 days leave accrued were:

- Recreation leave, 567 days (2011, 629 days)
- Long service leave, 1 718 days (2011, 1 647 days)
- In lieu of overtime, 145 days (2011, 55 days).

# Independent Auditor's Report



## INDEPENDENT AUDITOR'S REPORT TO THE GOVERNOR OF TASMANIA IN RELATION TO THE TASMANIAN AUDIT OFFICE

### Report on the Financial Report

We have audited the accompanying financial report, of the Tasmanian Audit Office (the Office), which comprises the statement of financial position as at 30 June 2012 and the statement of comprehensive income, the statement of cash flows and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the certification of the financial statements.

### Auditor-General's Responsibility for the Financial Report

The Auditor-General is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Financial Management and Audit Act 1990* and *Audit Act 2008*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion of the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Auditor-General, as well as evaluating the overall presentation of the financial report.

### **Clements Dunne & Bell Partnership. Chartered Accountants.**

Independent member of BKR International and Walker Wayland Australasia  
Ltd

Level 14, 350 Queen Street, Melbourne Victoria 3000 Australia.

Telephone (03) 8618 2222. Fax (03) 8618 2200. Website [www.cdb.com.au](http://www.cdb.com.au)

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# Independent Auditor's Report



## INDEPENDENT AUDITOR'S REPORT TO THE GOVERNOR OF TASMANIA IN RELATION TO THE TASMANIAN AUDIT OFFICE

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

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

### Opinion

In our opinion, the financial report of the Tasmanian Audit Office presents fairly, in all material respects the financial position of Tasmanian Audit Office as of 30 June 2012 and of its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Financial Management and Audit Act 1990* and *Audit Act 2008*.

A handwritten signature in blue ink that reads 'Clements Dunne &amp; Bell'.

CLEMENTS DUNNE & BELL PARTNERSHIP  
Chartered Accountants  
Melbourne

A handwritten signature in blue ink that reads 'A. Wehrens'.

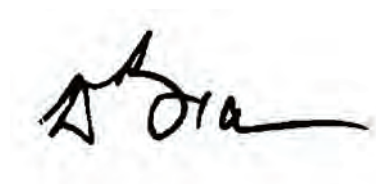
Andrew Wehrens  
Partner  
17 August 2012

**Clements Dunne & Bell Partnership. Chartered Accountants.**  
Independent member of BKR International and Walker Wayland Australasia  
Ltd  
Level 14, 350 Queen Street, Melbourne Victoria 3000 Australia.  
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# Certification of Financial Statements for the year ended 30 June 2012

We certify that the accompanying financial statements of the Tasmanian Audit Office are in agreement with the relevant accounts and records and have been prepared in compliance with the Treasurer's Instructions issued under the provisions of the Financial Management and Audit Act 1990 to present fairly the financial transactions for the year ended 30 June 2012 and the financial position as at the end of that year.

At the date of signing, we are not aware of any circumstances that would render any particulars included in the financial statements to be misleading or inaccurate.

A handwritten signature in black ink, appearing to read 'M Blake', with a long horizontal stroke extending to the right.

Mike Blake  
Auditor-General  
13 August 2012

A handwritten signature in black ink, appearing to read 'Ric De Santi', with a long horizontal stroke extending to the right.

Ric De Santi  
Chief Operating Officer  
13 August 2012

# Statement of Comprehensive Income for the year ended 30 June 2012

This Statement of Comprehensive Income should be read in conjunction with the accompanying notes. Budget information refers to original estimates and has not been subject to audit.

Explanations of material variances between budget and actual outcomes are provided in Note 3 of the accompanying notes.

	Notes	2012 Budget \$'000	2012 Actual \$'000	2011 Actual \$'000
<b>Continuing operations</b>				
<b>Revenue and other income from transactions</b>				
Revenue from Government				
Appropriation revenue - RBL	1.6(a), 3.1(a), 5.1	454	385	377
Appropriation revenue - recurrent	1.6(a), 5.1	2 120	2 027	2 046
User charges	1.6(b), 5.2	4 581	4 723	4 691
Interest	1.6(c)	22	-	21
Other revenue	1.6(d), 3.1(b), 5.3	46	128	69
<b>Total revenue and other income from transactions</b>		<b>7 223</b>	<b>7 263</b>	<b>7 204</b>
<b>Expenses from transactions</b>				
Employee benefits	1.7(a), 6.1	4 580	4 395	4 012
Depreciation and amortisation	1.7(b), 6.2	174	144	188
Payroll tax	1.7, 3.1(c)	242	199	232
Audit contractors	1.7	1 126	1 052	1 246
Accommodation	1.7, 3.1(d)	435	491	421
Information technology	1.7, 3.1(e)	170	116	171
Materials and supplies	1.7, 3.1(h)	214	207	217
Other expenses	1.7(c), 3.1(f), 6.3	289	422	453
<b>Total expenses from transactions</b>		<b>7 230</b>	<b>7 026</b>	<b>6 940</b>
<b>Net result from transactions (net operating balance)</b>		<b>(7)</b>	<b>237</b>	<b>264</b>
<b>Other economic flows included in net result</b>				
Net gain on write-off/sale of non-financial assets	1.8(a), 7.1	-	-	2
<b>Total other economic flows included in net result</b>		<b>-</b>	<b>-</b>	<b>2</b>
<b>Net result</b>		<b>(7)</b>	<b>237</b>	<b>266</b>
<b>Comprehensive result</b>		<b>(7)</b>	<b>237</b>	<b>266</b>

# Statement of Financial Position as at 30 June 2012

This Statement of Financial Position should be read in conjunction with the accompanying notes. Budget information refers to original estimates and has not been subject to audit.

Explanations of material variances between budget and actual outcomes are provided in Note 3 of the accompanying notes.

	Notes	2012 Budget \$'000	2012 Actual \$'000	2011 Actual \$'000
<b>Assets</b>				
<i>Financial Assets</i>				
Cash and deposits	1.9(a), 3.2(a), 11.1	790	470	760
Receivables	1.9(b), 3.2(b), 8.1	344	847	468
Work in progress	1.9(c), 3.2(c), 8.2	195	435	361
<i>Non-financial assets</i>				
Leasehold improvements, plant and equipment	1.9(d), 3.2(d), 8.3	247	448	448
Intangibles	1.9(e), 3.2(e), 8.4	288	121	31
Other assets	3.2(f), 8.5	-	35	69
<b>Total assets</b>		<b>1 864</b>	<b>2 356</b>	<b>2 137</b>
<b>Liabilities</b>				
Payables	1.10(a), 3.2(g), 9.1	93	285	291
Provisions	1.10(b), 9.2	-	18	17
Employee benefits	1.10(c), 3.2(h), 9.3	1 220	1 050	928
Revenue received in advance	1.10(e), 3.2(i), 9.5	14	209	308
Other liabilities	3.2(j), 9.6	62	10	46
<b>Total liabilities</b>		<b>1 389</b>	<b>1 572</b>	<b>1 590</b>
<b>Net assets</b>		<b>475</b>	<b>784</b>	<b>547</b>
<b>Equity</b>				
Contributed capital		1 168	1 168	1 168
Accumulated deficit		(693)	(384)	(621)
<b>Total equity</b>		<b>475</b>	<b>784</b>	<b>547</b>

# Statement of Cash Flows for the year ended 30 June 2012

This Statement of Cash Flows should be read in conjunction with the accompanying notes.  
Budget information refers to original estimates and has not been subject to audit.

Explanations of material variances between budget and actual outcomes are provided in Note 3 of the accompanying notes.

	Notes	2012 Budget \$'000	2012 Actual \$'000	2011 Actual \$'000
<b><i>Cash flows from operating activities</i></b>		Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
<b>Cash inflows</b>				
Appropriation receipts - recurrent		2 120	2 027	2 061
Appropriation receipts - RBL		454	385	377
User charges		4 581	4 252	4 529
GST receipts	3.3(a)	612	487	483
Interest received	3.3(b)	22	-	21
Other cash receipts	3.3(c)	-	131	62
<b>Total cash inflows</b>		<b>7 789</b>	<b>7 282</b>	<b>7 533</b>
<b>Cash outflows</b>				
Employee benefits		(4 154)	(3 930)	(3 695)
Superannuation		(441)	(401)	(372)
GST payments	3.3(d)	(612)	(487)	(482)
Other cash payments		(2 339)	(2 524)	(2 476)
<b>Total cash outflows</b>		<b>(7 546)</b>	<b>(7 342)</b>	<b>(7 025)</b>
<b>Net cash from operating activities</b>	3.3(f), 11.2	<b>243</b>	<b>(60)</b>	<b>508</b>

<b>Cash flows from investing activities</b>				
<b>Cash inflows</b>				
Proceeds from the disposal of non-financial assets		-	-	2
<b>Total cash inflows</b>		<b>-</b>	<b>-</b>	<b>2</b>
<b>Cash outflows</b>				
Payments for acquisition of non-financial assets	3.3(e)	(150)	(230)	(93)
<b>Total cash outflows</b>		<b>(150)</b>	<b>(230)</b>	<b>(93)</b>
<b>Net cash used by investing activities</b>		<b>(150)</b>	<b>(230)</b>	<b>(91)</b>

<b>Net increase (decrease) in cash and cash equivalents held</b>		<b>93</b>	<b>(290)</b>	<b>417</b>
<b>Cash and deposits at the beginning of the reporting period</b>		<b>697</b>	<b>760</b>	<b>343</b>
<b>Cash and deposits at the end of the reporting period</b>	11.1	<b>790</b>	<b>470</b>	<b>760</b>



# Statement of Changes in Equity for the year ended 30 June 2012

This Statement of Changes in Equity should be read in conjunction with the accompanying notes.

	Contributed Equity \$'000	Accumulated Deficit \$'000	Total Equity \$'000
<b>Balance as at 1 July 2011</b>	<b>1 168</b>	<b>(621)</b>	<b>547</b>
Total comprehensive result	-	237	237
<b>Balance as at 30 June 2012</b>	<b>1 168</b>	<b>(384)</b>	<b>784</b>

<b>Balance as at 1 July 2010</b>	<b>1 168</b>	<b>(887)</b>	<b>281</b>
Total comprehensive result	-	266	266
<b>Balance as at 30 June 2011</b>	<b>1 168</b>	<b>(621)</b>	<b>547</b>

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# Note | Significant Accounting Policies

## I.1 Objectives and Funding

The Office is structured to provide audit assurances to Parliament concerning the Financial Statements of the Treasurer, and all state entities, and the economy, efficiency and effectiveness of those entities.

The Office charges fees for financial audit services. Since 1 July 2008 the Office has been funded by a direct Parliamentary appropriation for undertaking performance and compliance audits, special investigations and the publishing of statutory reports to Parliament. The Office is also funded through a Parliamentary appropriation for the Auditor-General's salary and associated allowances.

These Financial statements encompass all funds through which the Office controls resources to carry on its functions.

## I.2 Basis of Accounting

The Financial Statements are a general purpose financial report and have been prepared in accordance with:

- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board; and
- The Treasurer's Instructions issued under the provisions of the *Financial Management and Audit Act 1990*.

The Financial Statements were signed by the Auditor-General and the Chief Operating Officer on 13 August 2012.

Compliance with Australian Accounting Standards may not result in compliance with International Financial Reporting Standards, as the AAS include requirements and options available to not-for-profit organisations that are inconsistent with IFRS. The Office is considered to be not-for-profit and may adopt some accounting policies under the AAS that do not comply with IFRS.

The Financial Statements have been prepared on an accrual basis and, except where stated, are in accordance with the historical cost convention. The accounting policies are consistent with the previous year.

The Financial Statements have been prepared on the basis that the Office is a going concern. The continued existence of the Office in its present form, undertaking its current activities, is dependent on Government policy and partially on continuing appropriations by Parliament for the Office's performance and compliance audits and reporting to Parliament.

## I.3 Reporting Entity

All the Office's activities are classified as controlled with these Financial Statements including all controlled activities. The Office is a single reporting entity.

## I.4 Functional and Presentation Currency

These Financial Statements are presented in Australian dollars, which is the Office's functional currency.

## I.5 Changes in Accounting Policies

### (a) Impact of new and revised Accounting Standards

In the current year, the Office adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. These include:

- AASB 1054 Australian Additional Disclosures – This Standard in conjunction with AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project, removes disclosure requirements from other Standards and incorporates them in a single Standard to achieve convergence between Australian and New Zealand Accounting Standards. There is no financial impact.
- AASB 2009-12 Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] – This Standard makes editorial amendments to a range of Australian Accounting Standards and Interpretations. There is no financial impact.

- AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASBs 1, 7, 101, & 134 and Interpretation 13] – This Standard amends a range of Australian Accounting Standards and Interpretation as a consequence of the annual improvements project. The amendments to AASB 7 clarify financial instrument disclosures in relation to credit risk. The carrying amount of financial assets that would otherwise be past due or impaired, whose terms have been renegotiated, is no longer required to be disclosed. There is no financial impact. The amendments to AASB 101 clarify the presentation of the Statements of Changes in Equity. The disaggregation of other comprehensive income reconciling the carrying amount at the beginning and the end of the period for each component of equity is no longer required. There is no financial impact.
- AASB 2010-5 Amendments to Australian Accounting Standards [AASBs 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] – This Standard makes editorial amendments to a range of Australian Accounting Standards. There is no financial impact.
- AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASBs 1 & 7] – This Standard introduces additional disclosure relating to transfers of financial assets in AASB 7. An entity shall disclose all transferred financial assets that are not derecognised and any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. There is no financial impact.
- AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans Tasman Convergence Project [AASBs 1, 5, 101, 107, 108, 121, 128, 132 & 134 and Interpretations 2, 112 & 113] – this Standard, in conjunction with AASB 1054, removes disclosure requirements from other Standards and incorporates them in a single Standard to achieve convergence between Australian and New Zealand Accounting Standards. There is no financial impact.
- AASB 2011-15 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation [AASBs 127, 128 & 131] – this Standard extends the relief from consolidation, the equity method and proportionate consolidation by removing the requirement for the consolidated financial statements prepared by the ultimate or any intermediate parent entity to be IFRS compliant, provided that the parent entity, investor or venturer and the ultimate or intermediate parent entity are not-for-profit non-reporting entities that comply with Australian Accounting Standards. There is no financial impact.

**(b) Impact of new and revised Accounting Standards yet to be applied**

The following applicable Standards have been issued by the AASB and are yet to be applied:

- AASB 9 Financial Instruments – This Standard supersedes AASB 130 Financial Instruments: Recognition and Measurement, introducing a number of changes to accounting treatments. The Standard was reissued in December 2010. It is not anticipated that there will be a material financial impact.
- AASB 1053 Application of Tiers of Australian Accounting Standards – This Standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements. The Standard does not have any financial impact on the Office. However, it may affect disclosures if reduced disclosure requirements apply.
- AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASBs 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050, & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129, & 1052] – This Standard makes amendments to Australian Accounting Standards and Interpretations to introduce reduced disclosure requirements for certain types of entities. There is no financial impact.
- AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASBs 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19, & 127] – This Standard makes consequential amendments to other Australian Accounting Standards and Interpretations as a result of issuing AASB in December 2010. It is not anticipated that there will be any financial impact.
- AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASBs 101 & 1054] – This Standard makes amendments to introduce reduced disclosure requirements for certain types of entities. There is no expected financial impact of applying these changes, as the Office is a Tier 1 entity.
- AASB 2011-6 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements [AASBs 127, 128 & 131] – This Standard extends relief from consolidation, the equity method and proportionate consolidation by removing the requirement for the consolidated financial statements prepared by the ultimate or any intermediate parent entity to be IFRS compliant, provided that the parent entity, investor or venturer and the ultimate or intermediate parent entity comply with Australian Accounting Standards or Australian Accounting Standards – Reduced Disclosure Requirements. It is not expected to have a financial impact.

- AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASBs 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 and 17] – This Standard replaces the existing definition and fair value guidance in other Australian Accounting Standards and Interpretations as the result of issuing AASB 13 in September 2011. It is not expected to have a financial impact.
- AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 [AASBs 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] – This Standard replaces the existing definition of fair value guidance in other Australian Accounting Standards and Interpretations as the result of issuing AASB 13 in September 2011. There is no expected financial impact.
- AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASBs 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] – This Standard requires to group items presented in other comprehensive income on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). It is not expected to have a financial impact.
- AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASBs 1, 8, 101, 124, 134, 1049 & 2011-8 and Interpretations 14] – This Standard makes amendments to other Australian Accounting Standards and Interpretation as a result of issuing AASB 119 Employee Benefits in September 2011. It is not expected to have a financial impact.
- AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements – This Standard gives effect to Australian Accounting Standards – Reduced Disclosure Requirements for AASB 119 (September 2011). There is no financial impact.

**(c) Change in accounting estimates**

During the year the Office undertook a major upgrade to its Finance One software suite moving from version 11.3 to 11.9 affecting general ledger, payroll and job costing. The upgrade resulted in an extension to the remaining useful life of the software. This extended period has been estimated at three years, being the expected time before another major upgrade will be required. Amortisation will continue to be on a straight line basis and no residual value is attributed to the software. The effect on current and future periods is shown below:

	2011-12	2012-13	2013-14	2014-15
	\$	\$	\$	\$
<b>Statement of Comprehensive Income</b>				
Additional amortisation	-	29 209	29 209	29 209
<b>Statement of Financial Position</b>				
Cost of Software Upgrade	87 628	87 628	87 628	87 628
Accumulated Amortisation	-	(29 209)	(58 419)	(87 628)
Carrying Value of Capitalisation	87 628	58 419	29 209	-

Should the expenditure not have been capitalised in 2011-2012 the effect on the Surplus/(Deficit) would have been a surplus of \$150 052 instead of a surplus of \$237 680.

## I.6 Income from Transactions

Income is recognised in the Statement of Comprehensive Income when an increase in future economic benefits, related to an increase in an asset or a decrease of a liability, has arisen that can be measured reliably.

**(a) Revenue from 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**

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period and calculated on the basis of actual hours spent to date on individual audits multiplied by the appropriate charge out rate per employee. Stage of completion is determined



by assessing the extent of work performed to date as compared to total services to be performed. Revenue is recognised only to the extent that related costs are recoverable.

**(c) Interest**

Interest on funds invested is recognised as it accrues using the effective interest rate method.

**(d) Other revenue**

Revenue from sources other than those identified above is recognised when an increase in future economic benefits, related to an increase in an asset or a decrease of a liability, has arisen that can be measured reliably.

## I.7 Expenses from Transactions

Expenses are recognised in the Statement of Comprehensive Income when a decrease in future economic benefits, related to a decrease in an asset or an increase of a liability, has arisen that can be measured reliably.

**(a) Employee benefits**

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

**(b) Depreciation and amortisation**

All non-financial assets having a limited useful life are systematically depreciated over their useful lives in a manner which reflects the consumption of their service potential.

Depreciation is provided for on a straight line basis, using rates which are reviewed annually. Major depreciation periods are:

Furniture and fittings	4-10 years
Computer equipment - hardware	3-4 years
Office equipment	3-10 years

All intangible assets having a limited useful life are systematically amortised over their useful lives reflecting the pattern in which the asset's future economic benefits are expected to be consumed by the Office. Major amortisation rates are:

Computer equipment - software	3-5 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 improvements to the Office, whichever is the lesser. Major amortisation rates are:

Leased buildings - Hobart	14.28%
Leased buildings - Launceston	10.00%

**(c) Other expenses**

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

## I.8 Other Economic Flows included in Net Result

Other economic flows measure the change in volume or value of assets or liabilities that do not result from transactions.

**(a) Gain/(loss) on sale of non-financial assets**

Gains or losses from the sale of Non-financial assets are recognised when control of the assets has passed to the buyer.

**(b) Impairment – Financial assets**

Financial assets are assessed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset is considered to be impaired if one or more events have had a negative affect on the estimated future cash flows of that asset.

An impairment loss, in respect of a financial asset measured at amortised cost, is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognised in the Statement of Comprehensive Income. Nil in 2011-12.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

**(c) Impairment – Non financial assets**

All non-financial assets are assessed to determine whether any impairment exists. Impairment exists when the recoverable amount of an asset is less than its carrying amount. Recoverable amount is the higher of fair value less costs to sell and value in use. As the Office is not-for-profit, value in use is based on depreciated replacement cost where the asset would be replaced if deprived of it.

All impairment losses are recognised in Statement of Comprehensive Income. Nil in 2011-12.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(d) Other gains/(losses) from other economic flows**

Other gains/(losses) from other economic flows includes gains or losses from reclassifications of amounts from reserves and/or accumulated surplus to net result, and where material from the revaluation of the present values of the long service leave liability due to changes in the bond interest rate.

The Office calculated the impact of the revaluation of the present values of the long service leave liability due to changes in the bond interest rate. The impact was determined to be immaterial. The change in the present value of the long service leave liability is mainly due to the increase in accumulated balances and increases in salaries during 2011-12.

## 1.9 Assets

Assets are recognised in the Statement of Financial Position when it is probable that future economic benefits will flow to the Office and the asset has a cost or value that can be measured reliably.

**(a) Cash and deposits**

Cash means notes, coins, any deposits held at call with a bank or financial institution, as well as funds held in the Special Deposits and Trust Fund. Deposits are recognised at their nominal amounts.

**(b) Receivables**

Receivables are recognised at amortised cost, less any impairment losses. Due to the short settlement period, receivables are not discounted back to their present value.

The Office has recognised a receivable for the Auditor-General's leave entitlement equivalent to the liability for those entitlements on the basis that they will be funded by Parliamentary appropriation.

**(c) Work in progress**

Work in progress is determined with reference to the stage of completion of the transaction at the end of the reporting period and calculated on the basis of actual hours spent to date on individual audits multiplied by the appropriate charge out rate per employee. Impairment losses are recognised when there is an indication that there is a measurable decrease in the recoverability of work in progress.

**(d) Leasehold improvements, plant and equipment**

*(i) Valuation basis*

All non-current physical assets are recorded at historic cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The costs of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of leasehold improvements, plant and equipment have different useful lives, they are accounted for as separate items (major components) of relevant assets.

*(ii) Subsequent costs*

The cost of replacing part of an item of leasehold improvements, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Office and its costs can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of day-to-day servicing of leasehold improvements, plant and equipment are recognised in profit or loss as incurred.

*(iii) Asset recognition threshold*

The asset capitalisation threshold adopted by the Office is \$1 000. Assets valued at less than \$1 000 are charged to the Statement of Comprehensive Income in the year of purchase (other than where they form part of a group of similar items which are material in total or if the asset is considered to be an attractive item).

**(e) Intangibles**

An intangible asset is recognised where:

- it is probable that an expected future benefit attributable to the asset will flow to the Office; and
- the cost of the asset can be reliably measured.

Intangibles are reported at cost less any accumulated amortisation and any accumulated impairment loss.

The carrying amounts of intangibles are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

## I.10 Liabilities

Liabilities are recognised in the Statement of Financial Position when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.

**(a) Payables**

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

**(b) Provisions**

A provision arises if, as a result of a past event, the Office has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. Any right to reimbursement relating to some or all of the provision is recognised as an asset when it is virtually certain that the reimbursement will be received.

**(c) Employee benefits**

Liabilities for wages and salaries and annual leave are recognised when an employee becomes entitled to receive a benefit. Those liabilities expected to be realised within 12 months are measured as the amount expected to be paid. Other employee entitlements are measured as the present value of the benefit at 30 June 2012, where the impact of discounting is material, and at the amount expected to be paid if discounting is not material.

A liability for long service leave 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.

**(d) Superannuation**

*(i) Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense when they fall due.

*(ii) Defined benefit plans*

A defined benefit plan is a post employment benefit plan other than a defined contribution plan.

The Office does not recognise a liability 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.

**(e) Revenue Received in Advance**

Three per cent of the unexpended balance of appropriation to the Office for performance and compliance audits and reporting to Parliament is able to be carried forward and is recognised as a liability, revenue received in advance in the initial year. The carry forward from the initial year is recognised as revenue in advance (refer notes 5.1 and 9.5).

The Office invoices for financial audit work on an agreed instalment basis. Where work has been invoiced but work has not been undertaken, an amount is recognised as revenue in advance.

## I.11 Leases

The Office has entered into a number of operating lease agreements for leasehold improvements, plant and equipment, where the lessors effectively retain all the risks and benefits incidental to ownership of the items leased. Equal instalments of lease payments are charged to the Statement of Comprehensive Income over the lease term, as this is representative of the pattern of benefits to be derived from the leased assets.

In respect of the lease for accommodation, the Office is required to restore the current premises to the original condition prior to fit out by the Office. A make-good provision provides for this work to be carried out at the expiry of the lease period in 2015. The provision represents the Office's estimate of the cost to restore the current premises. This estimate is reviewed annually.

The Office is prohibited by Treasurer's Instruction 502 Leases from holding finance leases.

## I.12 Unrecognised Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, and trade and other payables that are recognised at amortised cost. Difference between amortised cost and fair value are not recognised in the Statement of Financial Position being immaterial.

## I.13 Judgements and Assumptions

In the application of Australian Accounting Standards, the Office is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The only areas where estimates and judgements of any material amount are made regularly relate to the carrying amount of receivables, refer note 1.9(b), work in progress, refer note 1.9(c), revenue in advance, refer note 1.10(e), provisions for employee benefits, refer note 1.10(c) and payables refer note 1.10(a).

*(i) Receivables*

The Office has made an assumption, based on historical experience, that all user charges invoiced will be collected and it is therefore assumed there will be no impairment of receivables. A user charge is a debt due to the Crown and may be recovered by the Treasurer in a court.

*(ii) Work in progress and revenue in advance*

The Management of Financial Audit Services review the work in progress balance of every audit using judgement as to the status of each audit as at 30 June each year having regard to the extent of work done to date. This review determines the recoverability of any debit balance, and where deemed unrecoverable in billings post 30 June, the amounts are taken as a write down of revenue. Amounts billed in excess of that costed to the audits are reviewed to determine whether work to date has been completed under budget, resulting in surplus being taken to revenue as a write up, or whether work to date is behind schedule, indicating that the amounts have been billed in advance.

*(iii) Provision for employee benefits*

In calculating the long service leave provision the salary level used for all staff currently eligible to take long service is the salary band applicable as at 30 June 2012, based on the assumption that all staff will receive their next salary progression, including advanced assessment points, if applicable, and also because these staff are entitled to access their long service leave now. For staff not yet entitled to take long service leave the top of the salary band, including advance assessment points is used, based on the assumption that staff will have progressed to the top of the salary band by the time they become eligible to access long service leave.

The Office has made no assumptions concerning the future that may cause a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

*(iv) Payables*

The Office has a threshold of \$1 000 per creditor invoice for determining whether the expenditure will be accrued following the closure of creditors, which is two weeks post year-end.

## I.14 Budget Information

Budget information refers to original estimates as disclosed in the 2011-12 Budget Papers and is not subject to audit.

## I.15 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 Statements include a note expressing the amount to the nearest whole dollar.

## I.16 Office Taxation

The Office is exempt from all forms of taxation except Fringe Benefits Tax, Payroll Tax and the Goods and Services Tax. The Office will no longer be required to pay payroll tax on employee benefits from 1 October 2012.

## I.17 Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax, except where the GST incurred is not recoverable from the Australian Taxation Office. Receivables and payables are stated inclusive of GST. The net amount recoverable, or payable, to the ATO is recognised as an asset or liability within the Statement of Financial Position.

In the Statement of Cash Flows, the GST component of cash flows arising from operating, investing or financing activities which is recoverable from, or payable to, the Australian Taxation Office is, in accordance with the Australian Accounting Standards, classified as operating cash flows.



## Note 2 Office Output Schedules

### 2.1 Output Group Information

The Office only has a single output called Public Sector Management and Accountability to fulfil its Outcome Statement of ensuring that it provides independent assurance to the Parliament and community on the performance and accountability of the Tasmanian Public Sector. The summary of budgeted and actual revenues and expenses for this Output are the same as in the Statement of Comprehensive Income. Therefore, the inclusion of a separate Output Schedule is not necessary.

Explanations of material variances between budget and actual outcomes are provided in Note 3 below. A reconciliation of the net result of the Output Group to the net surplus on the Statement of Comprehensive Income is not necessary as the Office only has one output group. For the same reason there is no separate reconciliation between the total net assets deployed for the Output Group to net assets on the Statement of Financial Position.

## Note 3 Explanations of Material Variances between Budget and Actual Outcomes

The following are brief explanations of material variances between the original Budget estimates and actual outcomes. Variances are considered material where the variance exceeds the greater of 10 per cent of Budget estimate and \$40 000. The Statement of Comprehensive Income note 3.1 and Statement of Cash Flows note 3.3 include a revised budget column which depicts a change in allocation from the original budget as published in the Budget Papers. These changes were made to reflect actual anticipated cost allocations. The variance explanations are based upon original budget compared with actuals.

### 3.1 Statement of Comprehensive Income

	Note	Budget \$'000	Revised Budget \$'000	Actual \$'000	Variance \$'000	Variance %
Appropriation revenue - RBL	(a)	454	478	385	(69)	(15)
Other revenue	(b)	46	15	128	82	178
Payroll tax	(c)	242	239	199	43	18
Accommodation	(d)	435	435	491	(56)	(13)
Information technology	(e)	170	159	116	54	32
Other expenses	(f)	289	366	422	(133)	(46)

#### Notes to Statement of Comprehensive Income variances

(a) Actual costs incurred by the Auditor-General were below budget. This was mainly due to less travel and other expenses incurred during the financial year.

(b) The increase in other revenue mainly reflects the receipts received for Carry Forwards from last year, paid parental leave reimbursement, Auditor-General directors fees, payroll tax rebates and workers compensation reimbursement.

(c) The decrease in payroll tax is due to the Office no longer being required to pay payroll tax on employee benefits from 1 October 2012. As such, the Office has elected not to make any provision for this on-cost to leave entitlements in 2011/12.

(d) The variance is mainly due to the rent review increase during the financial year.

(e) The decrease in information technology reflects an over budgeting for expenditure.

(f) The increase in other expenses reflects the under budgeting for expenditure such as travel and transport and internal audit fees. In addition, TRMF insurance was not prepaid this year. The costs have been detailed at note 6.3.

## 3.2 Statement of Financial Position

	Note	Budget \$'000	Actual \$'000	Variance \$'000	Variance %
Cash and deposits	(a)	790	470	(320)	(41)
Receivables	(b)	344	847	503	146
Work in progress	(c)	195	435	240	123
Leasehold improvements, plant and equipment	(d)	247	448	201	81
Intangibles	(e)	288	121	(167)	(58)
Other assets	(f)	-	35	35	100
Payables	(g)	93	285	(192)	(206)
Employee benefits	(h)	1 220	1 050	170	14
Revenue received in advance	(i)	14	209	(195)	(1393)
Other liabilities	(j)	62	10	52	84

### Notes to Statement of Financial Position variances

(a) and (b) The low level of cash and deposits is mainly due to the high level of debtors due to be received. In addition, an unbudgeted workers compensation reimbursement was outstanding as at the end of the financial year. See note 12.1(b).

(c) There was a higher level of work in progress at year end than budgeted as a result of chargeable activity being higher than estimated.

(d) and (e) The variance is mainly due to the misallocation of the budget between intangibles and leasehold improvements, plant and equipment.

(f) The variance results from prepayments and the provision of lease make-good not included in the budget.

(g) The increase in payables resulted from late receipt of invoices for costs incurred prior to 30 June 2012. Whilst this often happens, the amounts were higher than normal.

(h) The decrease in employee benefits is as a result of long term employees leaving the Office during 2011-12.

(i) The variance results from a higher level of revenue in advance than budgeted. This arises from adoption of instalment billing arrangements.

(j) The variance results from the abolition of payroll tax resulting in no accrual at 30 June 2012.

## 3.3 Statement of Cash Flows

	Note	Budget \$'000	Revised Budget \$'000	Actual \$'000	Variance \$'000	Variance %
GST receipts	(a)	612	612	487	(125)	(20)
Interest received	(b)	22	-	-	(22)	(100)
Other cash receipts	(c)	-	-	131	131	100
GST payments	(d)	(612)	(612)	(487)	125	20
Payments for acquisition of non-financial assets	(e)	(150)	(150)	(230)	(80)	(53)
Net Cash from operating activities	(f)	243	216	(60)	(303)	(125)

## Notes to Statement of Cash Flows variances

(a) and (d) GST receipts and payments are below budget due to lower GST-related expenditure incurred and the budget being slightly overstated.

(b) The budget was revised downwards due to interest no longer being paid on the Office's Special and Trust Funds Deposit account.

(c) Refer 3.1(b).

(e) The payments for acquisition of non-financial assets are mainly due to the capitalisation of software upgrade costs not included in the budget.

(f) The net cash movement from operating activities is mainly due to the increased debtors as at 30 June 2012.

## Note 4 Events Occurring After Balance Date

There have been no events subsequent to balance date which would have a material effect on the Office's Financial Statements as at 30 June 2012.

## Note 5 Income from transactions

### 5.1 Revenue from Government

Revenue from Government includes revenue from appropriations, appropriations carried forward under section 8A(2) of the *Public Account Act 1986* and Items Reserved by Law.

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

	2012 Budget \$'000	2012 Actual \$'000	2011 Actual \$'000
<b>Revenue from Government</b>			
Appropriation revenue - recurrent	2 120	2 027	2 046
Appropriation Carried Forward	46	-	-
Items Reserved by Law – Auditor General's salary and associated allowances	454	385	377
<b>Total</b>	<b>2 620</b>	<b>2 412</b>	<b>2 423</b>

Section 8A(2) of the *Public Account Act* allows for an unexpended balance of an appropriation to be transferred to an Account in the Special Deposits and Trust Fund for such purposes and conditions as approved by the Treasurer. In the initial year, the carry forward is recognised as a liability, Revenue Received in Advance. The carry forward from the initial year is recognised as revenue in the reporting year, assuming that the conditions of the carry forward are met and the funds are expended. The Office carried forward from 2010-11 to 2011-12 \$15 142 in accordance with section 8A(2) of the *Public Account Act 1986* (refer note 9.5). The carry forward budgeted for 2012 did not eventuate and therefore no funds were carried forward from 2011-12 to 2012-13.

### 5.2 User Charges

	2012 \$'000	2011 \$'000
Financial Audit Services	4 723	4 691
<b>Total</b>	<b>4 723</b>	<b>4 691</b>

## 5.3 Other Revenue

	2012 \$'000	2011 \$'000
Contribution – Reserved by law – Auditor-General leave provisions	25	6
Miscellaneous	103	63
<b>Total</b>	<b>128</b>	<b>69</b>

## Note 6 Expenses from transactions

### 6.1 Employee Benefits

	2012 \$'000	2011 \$'000
Salaries	3 640	3 244
Annual leave	247	288
Long service leave	83	60
Fringe benefits tax	24	39
Superannuation – defined contribution scheme	277	249
Superannuation – defined benefit scheme	124	132
<b>Total</b>	<b>4 395</b>	<b>4 012</b>

Superannuation expenses relating to defined benefits schemes relate to payments into the Superannuation Provision Account held centrally and recognised within the Finance-General Division of the Department of Treasury and Finance. The amount of the payment is based on an employer contribution rate determined by the Treasurer, on the advice of the State Actuary. The current employer contribution is 12.3 per cent of salary.

Superannuation expenses relating to employee contribution schemes are paid directly to superannuation funds at a rate of nine per cent of salary. In addition, the Office is required to pay into the SPA a “gap” payment equivalent to 3.3 per cent of salary in respect of employees who are not members of the defined benefits schemes but whose salary is funded by appropriation.

### 6.2 Depreciation and Amortisation

#### (a) Depreciation

	2012 \$'000	2011 \$'000
Computer equipment - hardware	7	37
Office equipment, furniture and fittings	37	37
<b>Total</b>	<b>44</b>	<b>74</b>

(b) Amortisation

	2012 \$'000	2011 \$'000
Intangibles – computer software	10	33
Leasehold improvements	87	78
Lease make-good	3	3
<b>Total</b>	<b>100</b>	<b>114</b>
<b>Total depreciation and amortisation</b>	<b>144</b>	<b>188</b>

## 6.3 Other Expenses

	2012 \$'000	2011 \$'000
Audit fees – external	14	14
Audit fees – internal	65	23
Worker's compensation	44	16
Travel and transport	170	150
Training	40	77
Consultants	71	159
Insurance	12	8
Miscellaneous	5	5
Finance cost (unwinding of lease make-good discount)	1	1
<b>Total</b>	<b>422</b>	<b>453</b>

## Note 7 Other economic flows included in net result

### 7.1 Net Gain on Non-financial Assets

	2012 \$'000	2011 \$'000
Net gain on disposal of physical assets	-	2
<b>Total net gain on non-financial assets</b>	<b>-</b>	<b>2</b>



## Note 8 Assets

### 8.1 Receivables

	2012 \$'000	2011 \$'000
User charges (inclusive of GST)	711	404
Contribution – Reserved by law – Auditor-General long service leave receivable	86	61
Interest	-	3
Worker's compensation receivable	25	-
Report receivable – State's contribution	25	-
<b>Total</b>	<b>847</b>	<b>468</b>
Settled within 12 months	761	407
Settled in more than 12 months	86	61
<b>Total</b>	<b>847</b>	<b>468</b>

### 8.2 Work in Progress

	2012 \$'000	2011 \$'000
Work in progress comprises unbilled revenue as at 30 June	435	361
<b>Total</b>	<b>435</b>	<b>361</b>
Settled within 12 months	435	361
Settled in more than 12 months	-	-
<b>Total</b>	<b>435</b>	<b>361</b>

### 8.3 Leasehold Improvements, Plant and Equipment

#### (a) Carrying amount

	2012 \$'000	2011 \$'000
<b>Computer equipment - hardware</b>		
At cost	315	208
Less: Accumulated depreciation	(206)	(199)
<b>Total</b>	<b>109</b>	<b>9</b>

	2012 \$'000	2011 \$'000
<b>Office equipment, furniture and fittings</b>		
At cost	216	199
Less: Accumulated depreciation	(184)	(146)
<b>Total</b>	<b>32</b>	<b>53</b>
<b>Leasehold improvements</b>		
At cost	536	528
Less: Accumulated amortisation	(229)	(142)
<b>Total</b>	<b>307</b>	<b>386</b>
<b>Total leasehold improvements, plant and equipment</b>	<b>448</b>	<b>448</b>

**(b) Reconciliation of movements**

Reconciliations of the carrying amounts of each class of leasehold improvements, plant and equipment at the beginning and end of the current and previous financial year are set out below. Carrying value means the net amount after deducting accumulated depreciation and amortisation.

2012	Computer equipment \$'000	Office equipment, furniture and fittings \$'000	Leasehold improvements \$'000	Total \$'000
<b>Carrying value at 1 July</b>	<b>9</b>	<b>53</b>	<b>386</b>	<b>448</b>
Additions	107	16	8	131
Disposals	-	-	-	-
Depreciation and amortisation	(7)	(37)	(87)	(131)
<b>Carrying value at 30 June</b>	<b>109</b>	<b>32</b>	<b>307</b>	<b>448</b>

2011	Computer equipment \$'000	Office equipment, furniture and fittings \$'000	Leasehold improvements \$'000	Total \$'000
<b>Carrying value at 1 July</b>	<b>45</b>	<b>89</b>	<b>409</b>	<b>543</b>
Additions	1	1	55	57
Disposals	-	-	-	-
Depreciation and amortisation	(37)	(37)	(78)	(152)
<b>Carrying value at 30 June</b>	<b>9</b>	<b>53</b>	<b>386</b>	<b>448</b>

## 8.4 Intangibles

### (a) Carrying amount

	2012 \$'000	2011 \$'000
<b>Intangibles with a finite useful life</b>		
Software at cost	362	262
Less: Accumulated amortisation	(241)	(231)
<b>Total</b>	<b>121</b>	<b>31</b>
<b>Total intangibles</b>	<b>121</b>	<b>31</b>

### (b) Reconciliation of movements

	2012 \$'000	2011 \$'000
<b>Carrying amount at 1 July</b>	<b>31</b>	<b>28</b>
Additions	100	36
Amortisation expense	(10)	(33)
<b>Carrying amount at 30 June</b>	<b>121</b>	<b>31</b>

## 8.5 Other Assets

### (a) Carrying amount

	2012 \$'000	2011 \$'000
<b>Other current assets</b>		
Prepayments	27	58
GST receivable	-	-
<b>Total</b>	<b>27</b>	<b>58</b>
Utilised within 12 months	27	58
Utilised in more than 12 months	-	-
<b>Total</b>	<b>27</b>	<b>58</b>
<b>Other non-current assets</b>		
Lease make-good	16	16
Less: Accumulated amortisation	(8)	(5)
<b>Total</b>	<b>8</b>	<b>11</b>
<b>Total other assets</b>	<b>35</b>	<b>69</b>

(b) Reconciliation of movements in lease make-good

	2012 \$'000	2011 \$'000
<b>Carrying amount at 1 July</b>	<b>11</b>	<b>14</b>
Additions	-	-
Amortisation expense	(3)	(3)
<b>Carrying amount at 30 June</b>	<b>8</b>	<b>11</b>

## Note 9 Liabilities

### 9.1 Payables

	2012 \$'000	2011 \$'000
Creditors	259	286
Payroll tax payable	26	5
<b>Total</b>	<b>285</b>	<b>291</b>
Settled within 12 months	285	291
Settled in more than 12 months	-	-
<b>Total</b>	<b>285</b>	<b>291</b>

Settlement is usually made within 30 days.

### 9.2 Provisions

(a) Carrying amount

	2012 \$'000	2011 \$'000
Provision for lease make-good	18	17
<b>Total</b>	<b>18</b>	<b>17</b>
Settled within 12 months	-	-
Settled in more than 12 months	18	17
<b>Total</b>	<b>18</b>	<b>17</b>

(b) Reconciliation of movements in provisions

	2012 \$'000	2011 \$'000
<b>Balance at 1 July</b>	<b>17</b>	<b>16</b>
Increases	1	1
<b>Balance at 30 June</b>	<b>18</b>	<b>17</b>

The lease make-good provision provides for work to be carried out at the expiry of the lease period in 2015, to restore the current premises to the original condition prior to fit out by the Office.

### 9.3 Employee Benefits

	2012 \$'000	2011 \$'000
Accrued salaries	147	82
Annual leave	219	267
Long service leave	536	547
Superannuation	94	9
State service accumulated leave scheme	4	4
Leave in lieu of overtime	50	19
<b>Total</b>	<b>1 050</b>	<b>928</b>
Settled within 12 months	846	436
Settled in more than 12 months	204	492
<b>Total</b>	<b>1 050</b>	<b>928</b>

### 9.4 Superannuation

(a) **Type of plan**

Retirement Benefits Fund Scheme

The RBF contributory scheme is an unfunded defined benefits scheme for which the Office has a liability in respect of Tasmanian Public Sector employees under the age of 65 and appointed prior to 15 May 1999. The scheme provides eligible employees with a lump sum or pension benefits on attainment of retirement age. The benefits are calculated based on the number of years of service and the employee's average salary for the previous three years.

The scheme was closed to new members on 15 May 1999. Further details are provided in note 6.

## 9.5 Revenue received in advance

	2012 \$'000	2011 \$'000
<b>Revenue received in advance</b>		
Appropriation carried forward from current year under section 8A of the <i>Public Account Act 1986</i>	-	15
Other revenue received in advance	209	293
	<b>209</b>	<b>308</b>
Settled within 12 months	209	308
Settled in more than 12 months	-	-
<b>Total</b>	<b>209</b>	<b>308</b>

## 9.6 Other Liabilities

	2012 \$'000	2011 \$'000
<b>Other liabilities</b>		
Employee benefits – on-costs	3	46
GST liability	7	-
<b>Total</b>	<b>10</b>	<b>46</b>
Settled within 12 months	10	18
Settled in more than 12 months	-	28
<b>Total</b>	<b>10</b>	<b>46</b>

## Note 10 Commitments and Contingencies

	2012 \$'000	2011 \$'000
<b>By type</b>		
<i>Lease Commitments</i>		
Operating leases	1 523	1 909
<b>Total lease commitments</b>	<b>1 523</b>	<b>1 909</b>
<i>Other commitments</i>		
Contract Audits	1 110	1 619
<b>Total other commitments</b>	<b>1 110</b>	<b>1 619</b>
<b>Total by type</b>	<b>2 633</b>	<b>3 528</b>



	2012 \$'000	2011 \$'000
<b>By maturity</b>		
<i>Operating lease commitments</i>		
One year or less	462	436
From one to five years	1 013	1 377
More than five years	48	96
<b>Total operating lease commitments</b>	<b>1 523</b>	<b>1 909</b>
<i>Other commitments</i>		
One year or less	642	794
From one to five years	468	825
More than five years	-	-
<b>Total other commitments</b>	<b>1 110</b>	<b>1 619</b>
<b>Total</b>	<b>2 633</b>	<b>3 528</b>

**(a) Operating Leases**

Operating leases relate to Office accommodation and motor vehicles. For Launceston Office accommodation the remaining lease term is six years, with an option to extend for a further 10 years. For Hobart Office accommodation the remaining lease term is three years. All operating lease contracts contain certain market review clauses. The motor vehicle leases are governed by the Government's contract where vehicles are leased and replaced.

The 2012 Motor Vehicle Lease Commitments have been calculated based on the lease agreements entered into by the Office as at 30 June 2012 and the value and remaining term of the outstanding lease payments. The 2011 Comparative amounts have been updated to reflect this calculation rather than an estimate based on an ongoing lease term / agreement and unchanged payments.

**(b) Other Commitments**

Commitments exist for the payments of future auditing services under contract as at the reporting date.

## Note II Cash Flow Reconciliation

### II.1 Cash and Deposits

Cash and deposits includes the balance of the Special Deposits and Trust Fund Accounts held by the Office, and other cash held.

	2012 \$'000	2011 \$'000
<b>Special Deposits and Trust Fund balance</b>		
Special Deposits and Trust Account T644	470	760
<b>Total cash and deposits</b>	<b>470</b>	<b>760</b>

## 11.2 Reconciliation of Net Result to Net Cash from Operating Activities

	2012 \$'000	2011 \$'000
Net result	237	266
Depreciation and amortisation	144	188
(Gain) loss from sale of non-financial assets	-	(2)
Decrease (increase) in Receivables	(379)	(96)
Decrease (increase) in Prepayments	34	43
Decrease (increase) in Work in progress	(74)	(180)
Decrease (increase) in tax assets	7	1
Increase (decrease) in Employee entitlements	122	(58)
Increase (decrease) in Payables	(6)	220
Increase (decrease) in Other liabilities	(145)	126
<b>Net cash from operating activities</b>	<b>(60)</b>	<b>508</b>

## Note 12 Financial Instruments

### 12.1 Risk Exposures

#### (a) Risk management policies

The Office has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The Auditor-General has overall responsibility for the establishment and oversight of the Office's risk management framework. Risk management policies are established to identify and analyse risks faced by the Office, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

#### (b) Credit risk exposures

Credit risk is the risk of financial loss to the Office if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Financial Instrument	Accounting and strategic policies (including recognition criteria, measurement basis and credit quality of instrument)	Nature of underlying instrument (including significant terms and conditions affecting the amount. Timing and certainty of cash flows)
<b>Financial Assets</b>		
Receivables	The Office's Business Plan critical success factor of sustainable business performance is supported by the key performance measures of maintaining unbilled wip at < \$200 000 and a 95% target of maintaining aged debtors at < 30 days. The unbilled wip target was not met at 30 June 2012, however 95 % of debtors at 30 June were < 30 days.	Normal credit terms are 30 days.
Cash and deposits	The Office's Business Plan critical success factor of sustainable business performance is supported by the key performance measure of maintaining a positive cash balance of \$200 000. This target was met as at 30 June 2012.	Cash means notes, coins and any deposits held at call with a bank or financial institution.

The carrying amount of financial assets recorded in the Financial Statements, net of any allowances for losses, represents the Office's maximum exposure to credit risk without taking into account of any collateral or other security.

There has been no change to credit risk policy since the previous reporting period.

The current user charges consist of 35 separate debtors, with 13 of these having balances in excess of \$20 000. Past history and the fact that user charges are a debt to the Crown, indicate there is no risk to the credit quality of these financial assets.

The following tables analyse financial assets that are past due but not impaired:

Analysis of financial assets that are past due at 30 June 2012 but not impaired				
	Current \$'000	Past due 30 days \$'000	Past due 60 days \$'000	Total \$'000
User charges	566	115	30	711
Contribution – Reserved by law – Auditor-General long service leave receivable	-	-	86	86
Interest	-	-	-	-
Worker's compensation receivable	25	-	-	25
Report receivable – State's contribution	25	-	-	25
<b>Total</b>	<b>616</b>	<b>115</b>	<b>116</b>	<b>847</b>

Analysis of financial assets that are past due at 30 June 2011 but not impaired				
	Current \$'000	Past due 30 days \$'000	Past due 60 days \$'000	Total \$'000
User charges	404	-	-	404
Contribution – Reserved by law – Auditor-General long service leave receivable	-	-	61	61
Interest	3	-	-	3
<b>Total</b>	<b>407</b>	<b>-</b>	<b>61</b>	<b>468</b>

### (c) Liquidity risk

Liquidity risk is the risk that the Office will not be able to meet its financial obligations as they fall due. The Office's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due.

The Office, as part of its risk management plan, manages liquidity risk through processes that ensure effective audit operations, timely billing of work in progress and recovery of debtors and effective cash flow management. This includes managing annual and long service leave arrangements to minimise potential negative cash flow impacts.

Financial Instrument	Accounting and strategic policies (including recognition criteria and measurement basis)	Nature of underlying instrument (including significant terms and conditions affecting the amount. Timing and certainty of cash flows)
<b>Financial Liabilities</b>		
Payables	The Office's Business Plan critical success factor of sustainable business performance is supported by the key performance measure of maintaining a positive cash balance of \$200 000, in order to have sufficient liquidity to meet its liabilities when they fall due. This target was met at 30 June 2012.	As per Treasurer's Instruction 1125 the Office pays within suppliers' credit terms. Where there are no credit terms specified Office policy is to pay within 30 days.

The following tables detail the undiscounted cash flows payable by the Office by remaining contractual maturity for its financial liabilities. It should be noted that as these are undiscounted, totals may not reconcile to the carrying amounts presented in the Statement of Financial Position:

2012	Maturity analysis for financial liabilities		
	1 Year \$'000	Undiscounted Total \$'000	Carrying Amount \$'000
<b>Financial liabilities</b>			
Payables	285	285	285
<b>Total</b>	<b>285</b>	<b>285</b>	<b>285</b>

2011			
<b>Financial liabilities</b>			
Payables	291	291	291
<b>Total</b>	<b>291</b>	<b>291</b>	<b>291</b>

**(d) Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The primary market risk that the Office is exposed to is interest rate risk.

There has been no change to policies in relation to market risk since the previous reporting period.

At the reporting date, the interest rate profile of the Office's interest bearing financial instruments was:

	2012 \$'000	2011 \$'000
<b>Fixed rate instruments</b>		
Financial assets	-	760
<b>Total</b>	<b>-</b>	<b>760</b>

Changes in variable rates of 200 basis points at reporting date would have the following effect on the Office's Statement of Comprehensive Income and Statement of Financial Position:

Sensitivity Analysis of Office's Exposure to Possible Changes in Interest Rates				
	Statement of Comprehensive Income		Statement of Financial Position	
	200 basis points increase \$'000	200 basis points decrease \$'000	200 basis points increase \$'000	200 basis points decrease \$'000
<b>30 June 2012</b>				
Financial asset – 2%	-	-	-	-
<b>Net sensitivity</b>	-	-	-	-
<b>30 June 2011</b>				
Financial asset – 2%	15	(15)	15	(15)
<b>Net sensitivity</b>	<b>15</b>	<b>(15)</b>	<b>15</b>	<b>(15)</b>

From 1 July 2011 the Special Deposit and Trust Fund T644 did not earn interest as a result of a change in Government policy.

## 12.2 Categories of Financial Assets and Liabilities

	2012 \$'000	2011 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	470	760
Receivables and work in progress	1 282	829
<b>Total</b>	<b>1 752</b>	<b>1 589</b>
<b>Financial Liabilities</b>		
Amortised cost	285	291
<b>Total</b>	<b>285</b>	<b>291</b>

## 12.3 Comparison between Carrying Amount and Net Fair Value of Financial Assets and Liabilities

	Carrying Amount 2012 \$'000	Net Fair Value 2012 \$'000	Carrying Amount 2011 \$'000	Net Fair Value 2011 \$'000
<b>Financial assets</b>				
Cash in Special Deposits and Trust Fund	470	470	760	<b>760</b>
Receivables and work in progress	1 282	1 282	829	829
<b>Total financial assets</b>	<b>1 752</b>	<b>1 752</b>	<b>1 589</b>	<b>1 589</b>
<b>Financial liabilities (Recognised)</b>				
Trade creditors	285	285	291	291
<b>Total financial liabilities (Recognised)</b>	<b>285</b>	<b>285</b>	<b>291</b>	<b>291</b>

## 12.4 Net Fair Values of Financial Assets and Liabilities

The Office does not recognise any financial assets or financial liabilities at fair value.

### *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 creditors are approximated by their carrying amounts.

## Note 13 Auditor's Remuneration

The Governor, on recommendation of the Treasurer, in accordance with the *Audit Act 2008*, appoints the Auditor of the Tasmanian Audit Office. Clements Dunne and Bell Partnership were appointed in 2009.

	2012 \$'000	2011 \$'000
Financial audit fees	12	12
Other audit services	2	2
	<b>14</b>	<b>14</b>

Other audit services relate to the audit of the Office's key performance indicators.



# Note 14 Key Management Personnel Compensation

## Key Management Personnel

The Office's remuneration policy is in line with Reserve-by Law arrangements for the Auditor-General, Senior Executive Service arrangements for the Deputy-Auditor General and the General Manager, Performance Audit Services (PAS) and the State Service Award for the General Manager, Strategy and Governance (S&G). The position of General Manager, S&G was vacated in January 2012 and has not been recruited for as at 30 June 2012. However, after this vacancy the General Manager, S&G duties were split between the Deputy-Auditor General and the Manager – Information & Communications Technology & Information Management. Following an internal restructure, from 1 July 2012 the Executive Management Group will now consist of the Chief Operating Officer (Deputy Auditor-General), Technical and Quality Director, General Manager Financial Audit Services, General Manager Business Support Services (formerly the General Manager, S&G) and the General Manager Performance Audit Services.

The Deputy Auditor-General and the General Manager PAS - contracts allow for bonus arrangements designed to align key business unit objectives with the Office's strategic objectives and critical success factors. In the case of these two Executives and the Auditor-General, contractual arrangements also allow for the provision of a motor vehicle, superannuation contributions and reimbursement of reasonable expenses incurred on official business.

Further details of the Office's remuneration arrangements for its key management personnel are as follows:

- The remuneration policy is in line with statutory, Senior Executive Service and State Service arrangements.
- All key management personnel receive a base salary and superannuation payments. In the case of the Auditor-General, superannuation payments are at the rate of 15%. For the other three key management personnel, this is 12.3%. Other than statutory annual and long-service leave arrangements, there are no other retirement benefits. However, each member of key management is entitled to sacrifice part of their salary to increase payments towards superannuation.

The Auditor-General, Deputy Auditor-General and General Manager PAS receive an executive vehicle for personal and business use and access to parking during business hours. The General Manager S&G was also provided with car parking.

All key management personnel are provided with a mobile phone for business and limited personal use.

- Performance incentives for the Deputy Auditor-General and General Manager PAS vary between nil, 5% and 10% and are generally only paid once predetermined key performance indicators have been met. The Auditor-General decides on bonuses to be paid based on annual performance assessments.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to the date of retirement. In the event of any redundancy, key management personnel are paid in line with arrangements in force applying to Heads of Agencies, members of the Senior Executive Service or State Service employees as applicable.

## Non-executive directors

The Office has no non-executive directors. However, it does have two independent members on its Audit Committee including the Chair. Their remuneration is as follows:

Chair - \$6,000 per annum.

Member - \$4,000 per annum.

The Deputy Auditor-General was a member of the Audit Committee and received no remuneration for this. He vacated this position in December 2011. The vacated position was filled by the General Manager PAS who receives no additional remuneration for this.

The following table of benefits and payments details, in respect to the financial year, the components of remuneration for each member of the Office's key management personnel:

**Table of Benefits and Payments for the Year Ended 30 June 2012**

		Post-employment benefits			Long-term benefits		Total
		Salary and leave \$'000	Bonus \$'000	Other* \$'000	Super-annuation \$'000	LSL \$'000	\$'000
<b>Key Management Personnel</b>							
H M Blake, Auditor-General	2012	351	-	13	49	8	<b>421</b>
	2011	322	-	20	45	12	<b>394</b>
E R De Santi, Deputy Auditor-General	2012	175	13	13	22	11	<b>234</b>
	2011	164	8	18	21	10	<b>221</b>
G A Driscoll, General Manager - Performance Audit Services	2012	125	9	15	15	3	<b>167</b>
	2011	117	9	23	14	3	<b>166</b>
D J Strong, General Manager – Strategy & Governance	2012	82	-	3	10	3	<b>98</b>
	2011	104	-	2	12	7	<b>125</b>
<b>Total Key Management Personnel</b>		<b>709</b>	<b>23</b>	<b>44</b>	<b>96</b>	<b>17</b>	<b>889</b>

\*Other includes phone, car parking & car benefits

The table does not include termination benefits as none were paid during the year.

During the year a spouse of one of the key management personnel was an employee of the Office. They received benefits and payments during the year of \$19 729 (2011, \$51 778).

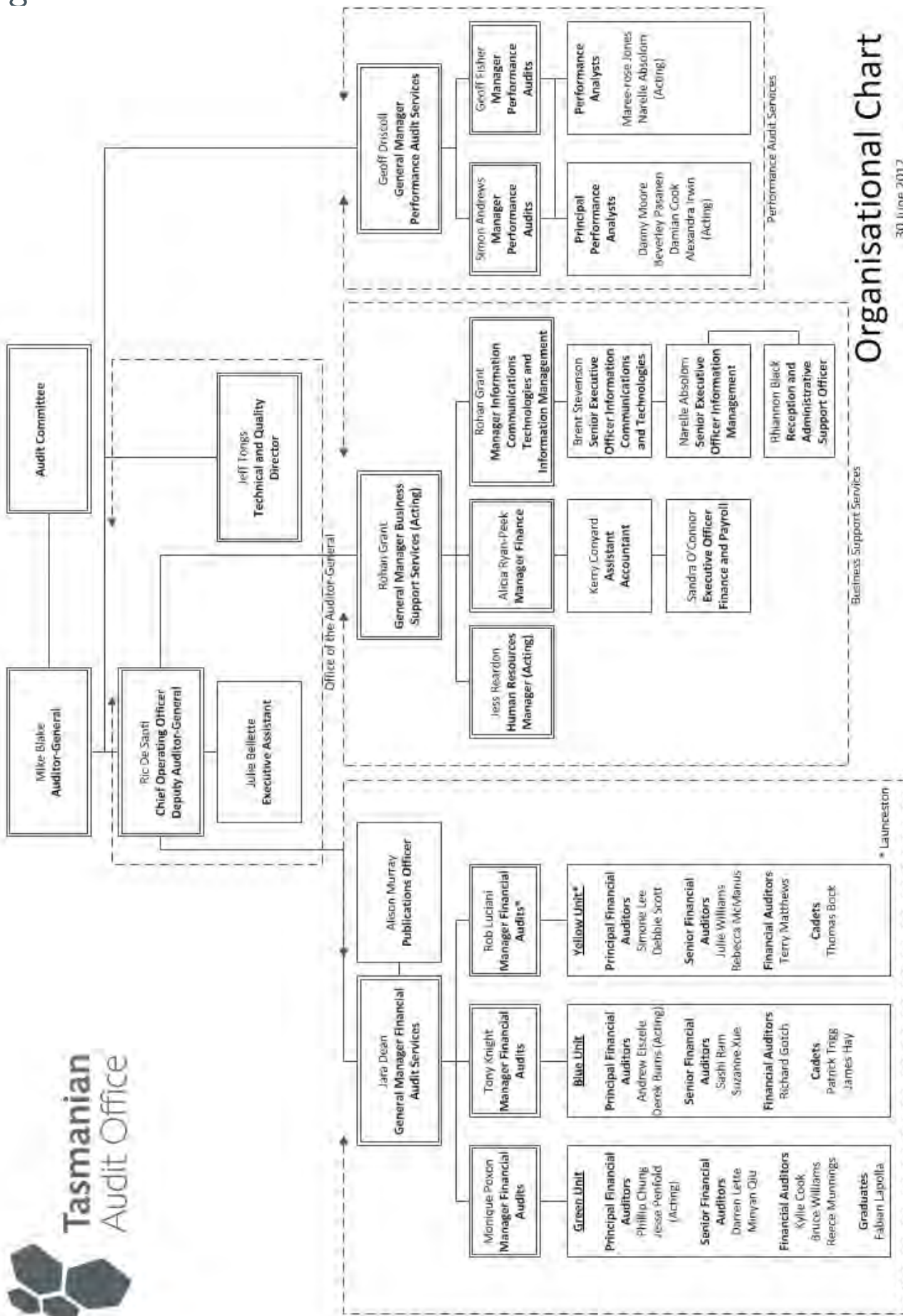
## Note 15 Principal Address and Registered Office

Level 4  
15 Murray St  
Hobart TASMANIA 7000

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Organisational Chart  
30 June 2012



# Corporate Governance Framework

**Principle 1 Effective Management oversight** (ASX principle 1 – Lay solid foundations for management and oversight and ASX principle 2 – Structure the Board to add value)

The Auditor-General is a statutory appointment under the *Audit Act 2008* and the head of agency under the *State Service Act 2000*. He guides and monitors the business and affairs of the Office on behalf of the Parliament. The TAO does not, therefore, operate under a Board which means there is a risk of no independent input into the operations of the TAO.

This principle is also addressed by the existence of the Audit Committee whose role is to provide independent assurance and assistance to the Auditor-General on the Office's governance, risk, control, and compliance framework, its external accountability responsibilities and in meeting the Office's corporate objectives.

The revised organizational structure from 1 January 2012 facilitated greater accountability of the Office against its strategic objectives by separating the Auditor-General from day to day administration of the Office. It also provides enhanced independence for the Technical and Quality Director from the conduct of audits.

The performance of the Auditor-General is evaluated by Parliamentary and Client surveys.

The Auditor-General is supported by:

- Strategic Leadership Group (SLG)
- Executive Management Group (EMG)
- Audit Committee
- The appointment of selected individual staff to statutory positions that are provided with the training and resources necessary to fulfil their allocated functions. Their roles are outlined to them at the time of their appointment.

The objectives of the SLG are to:

- report to the Auditor-General on progress against the Office's strategic plan including devolving, refining and implementing associated action plans
- provide an advisory forum for the Auditor-General to raise operation or strategic matters she/he consider relevant
- openly discuss all matters that may affect the strategic direction of the Office, its people and reputation to make decisions in the best interest of the Office and its people
- endorse and promote the Office's values in all aspects that affect the strategic direction of the Office
- monitor and respond to the effects on the Office's strategic direction of changes in government policy, statutory requirements or the Office's risk profile.

The Auditor-General delegates to EMG responsibility for the operation and administration of Office functions and activities to the Chief Operating Officer (COO) and heads of the business units who ensure the efficiency of operations. Heads of business units report to EMG. The COO reports to the Auditor-General on a monthly basis.

The main responsibilities of EMG are satisfied by:

- EMG meetings – these are held on a regular basis usually once every month or whenever a need arises. Meetings are arranged administratively by the COO who will arrange an agenda, together with papers concerning items for discussion and minutes of discussions and actions.
- Items reviewed at each meeting include but are not limited to financial results for the period, performance against budgets, TAO and business unit objectives, balanced scorecard reports, reports from Business Unit Heads, risk management, achievements against governance responsibilities and discussion on strategic matters.
- Discussions and decisions regarding recruitment, policy development, business cases, capital expenditure and individual items of recurrent expenditure exceeding \$10,000.
- Reviewing and considering reports from the chair persons of Executive Sub-Committees.

The main responsibilities of the Heads of the Business units, in addition to those detailed previously include:

- effectively and efficiently manage their respective units in order to achieve respective business unit objectives
- achieving budgeted revenue and operate within budgeted expenditure
- ensuring audits are completed to satisfactory levels of quality
- managing risk.

The main responsibilities of the Executive Sub-Committees are as documented in their respective Charters establishing each of them. These Charters detail their composition, objectives, meeting arrangements and reporting responsibilities.

For all major projects, as determined by SLG or EMG, a Steering Committee is established to provide oversight or progress and ensure that project deliverables are met. Chairs of Steering Committees report to either SLG, EMG or one of its sub-committees.

**Principle 2 Appropriate leadership, ethics, culture and responsible decision-making** (ASX principle 3 Promote ethical and responsible decision-making – actively promote ethical and responsible decision-making)

The objective of this principle is for the Auditor-General and EMG to ensure that all staff in the Office act with utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Office.

This principle is achieved by TAO implementing:

- relevant planning processes involving all staff. This includes agreement on strategic objectives and associated critical success factors and reporting mechanisms
- an effective code of conduct - TAO applies the code of conduct established in the *State Service Act 2000* details of which are available to all staff on the TAO intranet in a document titled Guide to Conduct in the Tasmanian Audit Office
- its agreed values which are Professionalism, Respect, Camaraderie, Customer service and Continuous improvement. These values are embedded in EMG meeting arrangements and considered whenever decisions are made
- processes to ensure that TAO complies with its statutory obligations and the appointment of appropriate staff to fulfil statutory positions
- a requirement for staff to annually declare conflicts of interest and understanding of, and compliance with, the code of conduct and values
- relevant policies and procedures
- prompt action to investigate reports of practices that are unethical or contrary to the Office's values.

All staff in the Office have a degree of responsibility for leadership. In this regard we will operate as one team supporting each other with the common objective of achieving individual and corporate objectives.

As required by its Charter, the Audit Committee assesses the effectiveness of the implementation of our ethics and cultural arrangements.

**Principle 3 Safeguard integrity in financial reporting** (ASX principle 4 – Have a structure to independently verify and safeguard the integrity of the Office's financial reporting and ASX principle 5 Promote timely and balanced disclosure of all material matters concerning the TAO).

There are two elements to this principle:

Integrity in financial reporting – in this regard, the TAO will:

- apply appropriate short and long term budgeting processes
- prepare monthly financial reports within seven working days of month end which will include explanatory analysis, Business Unit reports and financial projections
- ensure heads of Business units manage their financial performance so as to achieve allocated budgets
- prepare annual financial statements consistent with Treasurer's Instructions and, therefore, Australian Accounting Standards. These will be regarded as minimum requirements. Where relevant, additional disclosures will be made, consistent with the need to be fully transparent and accountable for our financial performance



- ensure the annual financial statements are accompanied by representations of compliance by each member of the EMG and certification of the financial report by the COO and the Auditor-General. These representations and certifications will be completed by 31 July each year
- ensure the annual financial statements are independently audited.

Integrity in annual reporting – in this regard, TAO will:

- prepare an annual report that accounts to Parliament performance in achieving our strategic and corporate objectives at both a business unit and office wide level. This report will be prepared and submitted to the Treasurer in mid-September for tabling by 30 September each year
- demonstrate leadership by including in the annual report:
  - an appropriate Management Discussion and Analysis
  - reviewed Key Performance Indicators
- disclose key management compensation. include in the annual report details of the TAO's governance and risk management practices.

Consistent with its Charter, the Audit Committee reviews TAO's financial statements before they are certified as well as the annual report.

The external auditors, who are appointed by the Governor for a five-year period, shall present their audit plan and audit findings to the Audit Committee for review. The Committee advises the Auditor-General on any significant matters that may arise from such review.

The development of true and fair financial reports and of reliable indicators of performance requires the existence of effective corporate policies and internal systems. These are the responsibility of the COO , the Gneral Manager - Business Support Services and the Manager Finance.

**Principle 4 External Stakeholder relationships** (ASX principle 6 – Respect the rights of shareholders and facilitate the effective exercise of those rights)

The Auditor-General's client is the Parliament of Tasmania. TAO's clients are:

- the Auditor-General
- agencies, government business enterprises, state-owned companies, local government entities and other public bodies being audited
- auditing firms engaged to conduct financial or performance audits on the Office's behalf.

TAO's stakeholders include members of Parliament, the Public Accounts Committee, the media, the public, agency management and TAO staff.

Practices TAO will apply to ensure effective communication and relations with these stakeholders include:

The Auditor-General will:

- offer to meet with Members of Parliament from time to time (not less than biennially) to, amongst other things, gauge their assessment of our performance and assess their views on projects undertaken and reports tabled
- meet with the Premier, Treasurer and Leaders of the Opposition parties biannually for the same reason
- conduct biennial independent surveys of Parliamentarians and Agencies aimed at assessing our performance
- comply with the informal memorandum of understanding with the PAC aimed at maintaining and improving respective understanding each other's roles and improving public sector accountability
- meet with Secretaries, CEOs and equivalents levels of management in Councils and other public sector entities from time to time to, amongst other things; gauge their assessment of our performance
- meet with relevant media at least annually.

The COO and heads of the FAS and PAS business units will:

- meet with senior client management, including those charged with governance, as appropriate. The objectives will be to ensure strong understanding of client operations, effectively planned and completed audits and

management of risk. Relevant surveys will be conducted from time to time

- present audit findings to the appropriate forums including to Parliamentarians
- meet with relevant media from time to time
- arrange client training forums as required.

The GM – BSS, where relevant, and subject to advance approval of the COO, will participate in state-wide committees established to consider, review and manage corporate policies in the General Government Sector. Where such involvement may prejudice the Office's independence, approval will not be granted.

The Technical and Quality Director will meet with contracted auditors as appropriate.

**Principle 5 Recognise and manage risk** (ASX principle 7 – Recognise and manage risk – establish a sound system of risk oversight and management and internal control)

It is TAO policy that all risks be identified, assessed, monitored and managed. This is a responsibility the Auditor-General and members of the EMG. The approach applied is consistent with the Risk Management Standard AS/NZS 4360, which requires TAO to:

- establish a context
- identify the risk
- analyse the risk
- evaluate the risk
- treat the risk
- monitor and review the action
- communicate and consult with all parties.

To address this TAO has developed, approved and placed on the intranet our risk management policy and the mechanisms applied to manage, report and regularly evaluate its risks.

These processes resulted in:

- the development of a risk based three year internal audit plan
- the risk management policy mentioned previously
- a Risk Register documenting all identified risks identified ranked with the first being extreme requiring management, regular assessment and reporting to the last being low level requiring only infrequent review
- the development of risk management plans for the nine highest rated operational risks
- a reporting regime for the Auditor-General and EMG.

The TAO manages these risks in the following manner by:

- structuring SLG and EMG agendas to include a focus on managing identified risks
- regularly re-assessing our performance in managing risks and our rating of risks
- allocating risk management responsibilities
- requiring Business Units to take responsibility for risks relevant to them by including these in annual business plans
- including in the Charter of the Audit Committee a requirement for it to review TAO risk management practices and its risk based internal audit program
- including in the three year internal audit program a requirement for TAO's internal auditor to assess our progress in managing risks
- requiring heads of business units to certify annually to the Auditor-General that they have complied with allocated responsibilities relating to managing risk
- including in TAO's annual report a summary of our risk management policies and any outcomes there-from, see Appendix 7.

In addition to the risk management policies and practices outlined, the COO and GM - BSS are required to design internal controls and associated reporting mechanisms to ensure that, bearing in mind our small staff numbers and therefore the associated difficulty in ensuring adequate separation of responsibilities:

- TAO's financial, human resource and information systems
- ensure controls operate effectively
- TAO's business continuity and disaster recovery systems operate effectively and are regularly tested
- effective internal reporting mechanisms are in place including relevant exception reporting.

**Principle 6 Remunerate fairly and responsibly** (ASX principle 8 – Remunerate fairly and responsibly – ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear)

The Auditor-General will assess on a regular basis the performance and salary packages of the COO, the GM – PAS and the Technical and Quality Director. The COO will deal with other members of the EMG. This will be done within the context of the Tasmanian Public Sector.

TAO has established a Remuneration Committee being members of the EMG. Heads of Business units will evaluate the performance of respective staff in accordance with TAO's performance management system including the timely assessment of performance relating to annual salary progressions and advanced assessments.

In the absence of a TAO specific industrial agreement, the Remuneration Committee must ensure that the remuneration arrangements accord with the relevant Tasmanian Public Sector award(s). This Committee's deliberations will include comparative assessment of outcomes from the Office's performance management system as it relates to all staff.

## Composition of Office Committees

### Strategic Leadership Group

The members of the group are:

- Mike Blake – Chair
- Ric De Santi
- Geoff Driscoll
- Geoff Fisher
- Simon Andrews
- Jeff Tongs
- Jara Dean
- Anthony Knight
- Robert Luciani
- Monique Poxon
- Rohan Grant
- Jessica Reardon
- Vacant – General Manager BSS
- Vacant – Manager Finance

### Executive Management Group and Remuneration Committee

The members of the group are:

- Ric De Santi – Chair
- Geoff Driscoll
- Jeff Tongs
- Jara Dean
- Rohan Grant

### Human Resources Committee

The members of the committee are:

- Ric De Santi - Chair
- Simon Andrews
- Jesse Penfold
- Kerry Conyard

### Occupational Health and Safety Committee

The members of the committee are:

- Jessica Reardon – Chair
- Geoff Driscoll
- Reece Munnings
- Beverley Pasanen
- Julie Bellette

### Information Management Committee

The members of the committee are:

- Jara Dean – Chair
- Geoff Fisher
- Derek Burns
- Jeff Tongs
- Vacant – Manager Finance

### Procurement Review Committee

The members of the committee are:

- Geoff Driscoll - Chair
- Jara Dean
- Vacant – Manager Finance

### Quality Review Steering Committee

The members of the committee are:

- Monique Poxon - Chair
- Ric De Santi
- Simon Andrews
- Jeff Tongs

## Service on Other Committees

During 2011-12, our senior staff were members of the following committees, professional associations, panels, working parties and community organisations:

### Mike Blake

- Australasian Council of Auditors-General - Member.
- Australian Auditing and Assurance Standards Board – Member (appointment ended on 31 December 2011).
- Institute of Public Administration - Tasmanian Division – Member (retired at the AGM in November 2011).
- Tasmanian Council of Professional Bodies – Chair.
- National Board of the Institute of Chartered Accountants – Member.
- Integrity Commission – ex-officio Member.
- On the expert panel supporting the Australian Accounting Standards Board.
- Treasurer (honorary) of an Anglican Parish in Hobart.

### Ric De Santi

- Tasmanian Audit Office Audit Committee – Member (until December 2011).
- CPA Australia - Tasmanian Divisional Council – Divisional Councilor and past President.
- ASIC Liaison Committee - Tasmania - CPA Australia representative.
- CPA Public Sector Network – Tasmanian representative.
- Tasmanian Council of Professional Bodies - proxy for CPA Australia.
- ACAG - Financial Reporting and Auditing Committee - Tasmanian Audit Office representative.
- ACAG - Practice Management Group – Tasmanian Audit Office representative.
- Public Sector Management Office - Agency Business Advisory Committee - Tasmanian Audit Office Representative (from February 2012).
- Integrity Commission – Lead Agency Reference Group (observer representing Tasmanian Audit Office).
- St Aloysius Catholic College Board – Chair.
- Kingston-Channel Parish Pastoral Council – Member.
- Tasmanian Catholic Education Office – Systemic Schools Budget Committee – Board representative.

### Geoff Driscoll

- Tasmanian Audit Office Audit Committee – Member (from December 2011).
- ACAG – Heads of Performance Audit Group - Tasmanian Audit Office representative.

### David Strong (until Feb 2012)

- CPA Australia - Tasmanian Divisional Council – Divisional Councilor and past President.
- ACAG - Contact Officer - Tasmanian Audit Office representative.
- ACAG - Practice Management Group – Tasmanian Audit Office representative.
- Public Sector Management Office - Agency Business Advisory Committee - Tasmanian Audit Office representative.
- Guilford Young College – Board Member.
- Tasmanian Council of Professional Bodies – CPA Australia Tasmanian Division representative.

- Institute of Public Administration Australia – Tasmania – Committee Member.

## Jara Dean

- ACAG - Practice Management Group – Tasmanian Audit Office representative.

## Jeff Tongs

- National IPSAM User Group - Tasmanian Audit Office representative.
- ACAG - Financial Reporting and Auditing Committee - Tasmanian Audit Office representative.
- ACAG - Quality Assurance Committee – Tasmanian Audit Office representative.
- ACAG - IS Audit Group - Tasmanian Audit Office representative.

## Rachael Daniels (until January 2012)

- Department of Premier and Cabinet – Human Resources Management Group - Tasmanian Audit Office representative.

## Rohan Grant

- Department of Premier and Cabinet - IT Managers Group - Tasmanian Audit Office representative.
- Department of Premier and Cabinet – Information Security Reference Group - Tasmanian Audit Office representative.
- Club 8, Rostrum Tasmania – Treasurer (honorary).
- 10th Hobart Scout Group, Wellington District – Committee Member.



# List of Clients and Audits during 2011-12

## Executive and Legislature

House of Assembly  
Office of the Governor  
Legislative Council  
Legislature-General

## Ministerial Departments

Department of Economic Development, Tourism and the Arts

Department of Education

Department of Health and Human Services

- Tasmanian Affordable Housing Limited

Department of Infrastructure, Energy and Resources

Department of Justice

Department of Police and Emergency Management

Department of Premier and Cabinet

Department of Primary Industries, Parks, Water and Environment

Department of Treasury and Finance

- General Government Financial Statements and Public Account Statements
- Total State Financial Statements

## Government Business Enterprises

Forestry Tasmania

- Newwood Holdings Pty Ltd \*
- Newwood Energy Pty Ltd \*
- Newwood Huon Pty Ltd \*
- Newwood Smithton Pty Ltd \*

Hydro-Electric Corporation

- Bell Bay Power Pty Ltd
- Bell Bay Three Pty Ltd
- Heemskirk Holdings Pty Ltd \*
- Heemskirk Wind Farm Pty Ltd \*
- Hydro Tasmania Consulting (Holding) Pty Ltd
- HT Wind Developments Pty Ltd \*
- HT Wind Operations Pty Ltd
- HT Wind New Zealand Pty Ltd \*
- Lofty Ranges Power Pty Ltd
- RE Storage Holding Pty Ltd
- Momentum Energy Pty Ltd
- Musselroe Holdings Pty Ltd \*
- Musselroe Wind Farm Pty Ltd
- Woolnorth Bluff Point Holdings Pty Ltd \*
- Woolnorth Studland Bay Holdings Pty Ltd \*

Motor Accidents Insurance Board

Port Arthur Historic Site Management Authority

Public Trustee

Tasmanian Public Finance Corporation

## State Owned Companies

Aurora Energy Pty Ltd

- Aurora Energy (Tamar Valley) Pty Ltd \*
- Auracom Pty Ltd \*
- Ezikey Group Pty Ltd \*

Metro Tasmania Pty Ltd

- Metro Coaches (Tas) Pty Ltd \*

Tasmanian Irrigation Pty Ltd

Tasmanian Ports Corporation Pty Ltd

- Flinders Island Ports Corporation Pty Ltd \*
- King Island Ports Corporation Pty Ltd \*

Tasmanian Railway Pty Ltd

Tasmanian Water and Sewerage Corporation (Southern Region) Pty Ltd

Tasmanian Water and Sewerage Corporation (Northern Region) Pty Ltd

Tasmanian Water and Sewerage Corporation (North Western Region) Pty Ltd

Tasmanian Water and Sewerage Corporation (Common Services) Pty Ltd

Tasracing Pty Ltd

Transend Networks Pty Ltd

TT Line Company Pty Ltd

## Local Government

### Councils:

Break O'Day Council

Brighton Council

- Microwise Australia Pty Ltd

Burnie City Council

- Burnie Airport Corporation Unit Trust
- Burnie Sports and Events Unit Trust
- Tasmanian Communications Unit Trust

Central Coast Council

Central Highlands Council

Circular Head Council

Clarence City Council

Derwent Valley Council

Devonport City Council

- Devonport Maritime and Heritage Authority

Dorset Council

Flinders Council

George Town Council

Glamorgan Spring Bay Council

Glenorchy City Council

Hobart City Council

Huon Valley Council

Kentish Council

King Island Council

# List of Clients and Audits during 2011-12

Kingborough Council

- Kingborough Waste Service Pty Ltd\*

Latrobe Council

Launceston City Council

Meander Valley Council

Northern Midlands Council

Sorell Council

Southern Midlands Council

- Heritage Building Solutions Pty Ltd \*
- Heritage Education and Skills Centre Pty Ltd \*

Tasman Council

Waratah-Wynyard Council

West Coast Council

West Tamar Council

## Local Government Joint Authorities:

Copping Refuse Disposal Site Joint Authority

Cradle Coast Authority

Dulverton Regional Waste Management Authority

Local Government Association of Tasmania

Northern Tasmanian Regional Development Board Ltd

Southern Tasmanian Councils Association

Southern Waste Strategy Authority

## Other State Entities

Aboriginal Land Council of Tasmania

Ambulance Tasmania

ANZAC Day Trust

Board of Architects Tasmania

Brittons Swamp District Water Board \*

Brittons Swamp Drainage Trust \*

Clyde Water Trust

Council of Law Reporting

Egg Lagoon Drainage Trust \*

Elizabeth Macquarie Irrigation Trust \*

Forests and Forest Industry Council – Helsham

Agreement Grant Account \*\*

Forest Practices Authority

Forthside Irrigation Water Trust \*

Housing Tasmania

Integrity Commission

Inland Fisheries Service

Jim Bacon Foundation

Lake Nowhere-Else Dam / Whitemark Creek Irrigation Trust \*

Lawrenny Irrigation Trust \*

Legal Aid Commission of Tasmania

Legal Profession Board

Lower Georges River Works Trust \*

Marine and Safety Tasmania

Medical Radiation Professionals Registration Board

Mowbray Swamp Drainage Trust \*

National Heritage Trust

National Trust of Australia (Tasmania)

Office of the Director of Public Prosecutions

Office of the Ombudsman and Health Complaints

Commissioner

Office of the Tasmanian Economic Regulator

Plumbers and Gasfitters Registration Board \*

Private Forests Tasmania

Property Agents Board

Property Agents Trust

Retirement Benefits Fund Board

- RBF Financial Planning Pty Ltd
- 66-80 Collins Street Pty Ltd \*
- RBF Property Pty Ltd \*

Richmond Irrigation Trust \*

Royal Tasmanian Botanical Gardens

Schools Registration Board of Tasmania \*

Solicitors' Trust

State Fire Commission

Tasmania Development and Resources

Tasmania Together Progress Board

Tasmanian Beef Industry (Research and Development) Trust

Tasmanian Building and Construction Industry Training Board

Tasmanian Community Fund

Tasmanian Dairy Industry Authority

Tasmanian Early Years Foundation

Tasmanian Heritage Council

Tasmanian Pharmacy Authority \*

Tasmanian Qualifications Authority

Tasmanian Skills Institute

Tasmanian Timber Promotion Board \*

Tasmanian Wilderness World Heritage Area \*\*

Teachers Registration Board

Theatre Royal Management Board

The Nominal Insurer

Togari Drainage Trust \*

Tourism Tasmania

University of Tasmania

- AMC Search Ltd
- Higher Education Research Data Collection \*\*
- UTASAT Pty Ltd \*

Wellington Park Management Trust

Workcover Tasmania Board

## Honorary Audits

Common Ground Tasmania Limited

University of Tasmania Foundations Inc.

\* Audits Dispensed with

\*\* Grant Acquittal

## External Audit Service Providers

The Office can appoint contractors under Section 33 of the *Audit Act 2008* to provide the following services:

- (a) financial attest audits of Tasmanian State entities or subsidiaries of those State entities, of any part thereof; or
- (b) performance audits examining the efficiency, effectiveness and economy of a State entity, a number of State entities, or a part of a State entity or a subsidiary of a State entity, or any part thereof; or
- (c) examination into any matter relating to the accounts of the Treasurer, a State entity or a subsidiary of a State entity, or any part thereof; or
- (d) examination into any matter relating to public money, other money or to public property or other property, or any part thereof; or
- (e) compliance audits examining the compliance by a State entity or a subsidiary of a State entity with written laws or its own internal policies, or any part thereof; and
- (f) draft reports to Parliament, or any part thereof on results of the above.

The following auditing firms are on the Panel of External Audit Services Providers to provide the above services:

Name of Firm
A G Synectic Audit & Assurance Pty Ltd - Devonport
Acumen Auditors Pty Ltd - Melbourne
BDO - Hobart
Deloitte – Hobart and Launceston
Ernst & Young - Melbourne
Kaizen Audit & Assurance Pty Ltd - Moonah
KPMG – Hobart and Launceston
MDHC Audit Assurance Pty Ltd - Melbourne
PKF - Hobart
PricewaterhouseCoopers - Melbourne
RSM Bird Cameron - Melbourne
Ruddicks - Launceston
WHK – Hobart and Launceston
Wise Lord and Ferguson - Hobart

The following table sets out the commitments to external audit providers for the 2011-12 financial statement audits.

Client	Contractor	Fee (\$'000) (excl. GST)
Aurora Energy Pty Ltd (including 3 subsidiaries, AFSL Licence and Regulatory Accounts)	Ernst Young	260
Break O'Day Council	Synectic	23
Circular Head Council	Synectic	25
Department of Education (including 1 subsidiary and AVETMISS)	KPMG	201
Hydro Electric Corporation (including 15 subsidiaries, AFSL Licence and Compliance Plan)	Wise Lord & Ferguson	357
Port Aruthur Historic Site Management Authority	WHK Tasmania	33
Property Agents Board	WHK Tasmania	2
Property Agents Trust (June and December Audits)	WHK Tasmania	3
The Solicitors' Trust	WHK Tasmania	2
State Fire Commision	Deloitte	45
Tascorp	Deloitte	104
Tasmanian Irrigation Pty Ltd	BDO	35

# Asset Management, Risk and Pricing Policy, and Government Procurement

## Asset management

The financial statements for 2011-12 are reported on an accrual basis, and contain full details of our assets. Office assets are recorded in accordance with our accounting policies and procedures, and these amounts are disclosed in the statements, together with appropriate policies.

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

### Major capital projects

By the very nature of our business we have limited investment in capital works. From time to time we undertake minor works associated with fit-outs of leased tenancies.

During 2011-12 the Office did not undertake any such works.

## Managing Risk

Reviewing key business risks is fundamental to our strategic and business processes. We also apply risk management to all major projects undertaken including those relating to our financial and performance auditing services, and to key corporate service functions.

During 2011-12 we continued to monitor our key risks and associated treatment plans. Our key business risks are:

- Inadequate management of risk.
- Issuance of inappropriate audit opinion/Parliamentary report.
- Inappropriate governance structure and processes.
- Inappropriate use of client information and/or audit working papers or findings.
- Inability to respond to a business continuity event.
- Inability to recruit/retrain competent and effective employees.
- Injury/harm to employees.
- Financial sustainability.
- Financial fraud.

We maintain strategic and operational risk registers, which provide a detailed assessment of the likelihood and consequences of various risks, and actions taken to mitigate these risks.

A report on the status of risk treatments identified on the registers is periodically presented to the EMG.

Our strategic internal audit program is structured around our risks with internal audits generally being undertaken based on our risks. As a result of a revision to our risks in 2010-11, we requested our internal auditors to review this re-assessment. This review of our risk management framework was completed in November 2011 details of which can be found under the heading “Independent scrutiny, both external and internal” in Section 2 of this Report. In addition, the Strategic Internal Audit Plan was updated.

In addition to internal audits, we address our risks through steps such as:

- identifying audit topics of public interest
- regularly meeting with Parliamentarians and key clients
- quality assurance reviews
- independent peer reviews
- allocating responsibility for managing risks to appropriate staff and in business plans
- continuing to improve the quality, readability and balance in our reporting
- ensuring we have a workplace that attracts and retains the staff we need
- prompt monthly financial reporting inclusive of financial projections
- ensuring we are properly governed.

## Insurance

Our insurance arrangements are with the Tasmanian Risk Management Fund and our insurance cover is for travel, general property, personal accident, transit, motor vehicles, general liability and workers compensation.

## Pricing policies

Audit fees for financial audits are our main source of revenue. The Office receives appropriation funding for performance and compliance audits and reports to Parliament on the result of financial audits. In addition, we receive a budget appropriation for the Auditor-General's salary and associated costs.

Fees and appropriations are determined on the basis of meeting the full cost of operating the Office.

The Auditor-General determines audit fees annually with details provided in a report to Parliament. Individual fees are determined by applying a number of criteria that include impact on Total State Financial Statements, size, history, risk, complexity, systems in place including strength of internal controls, organization and accounting changes and location. Time spent on audits is charged using pre-determined hourly rates for each member of staff. Clients are billed on an installment basis for base audit fees.

## Government Procurement

### Support for local business

The Tasmanian Audit Office ensures that Tasmanian businesses are given every opportunity to compete for Office business. It is the Office's policy to support Tasmanian business whenever it offers the best value for money for the Government. Periodically the Office calls for businesses to register for the provision external audit services on behalf of the Auditor-General (see Appendix 6).

The following details are provided in accordance with Treasurer's Instruction 1111 for all contracts awarded (excluding consultancies) and tenders called during 2011-12 with values in excess of \$50 000.

Details	2011-12
Total number of contracts awarded	2
Total number of contracts awarded to Tasmanian businesses	2
Total value of contracts awarded (including possible extensions)	\$118 449
Total value of contracts awarded to Tasmanian businesses (including possible extensions)	\$118 449
Number of tenders called	0
Number of bids received	0
Total number of bids received from Tasmanian businesses	0



#### Contracts over \$50 000 \*

Name of contractor	Location of contractor	Description of contract	Period of contract	Value of contract \$
Alphawest	Hobart	Purchase 50 laptops	n/a	60 378
Alphawest	Hobart	Purchase of server infrastructure and associated software	n/a	58 071

\*Refer to Appendix 6 for details of financial audit contract arrangements.

#### Consultancies over \$50 000

Nil.

#### Goods and Services Exemption TI 1107

Nil.

#### Procurement complaints

The Office did not receive any complaints from businesses in relation to its procurement practices or procedures.

## Superannuation Declaration

I, Howard Michael 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:

- AMP
- Care Super
- Hesta Super Fund
- Hostplus
- Media Super
- MLC
- Tasplan
- TWUSuper
- Vision Super



H M Blake

30 June 2012

## Recent Publications

Date	Number	Title
July 2011	100	Financial and economic performance of Forestry Tasmania
September 2011	No. 1 of 2011-12	Tourism Tasmania: is it effective?
September 2011	No. 2 of 2011-12	Children in out of home care
October 2011	-	Annual Report
November 2011	No. 3 of 2011-12	Financial Statements of State entities: Volume 1 – Analysis of the Treasurer’s Annual Financial Report 2010-11
November 2011	No. 4 of 2011-12	Financial Statements of State entities: Volume 2 – Executive and Legislature , Government Departments and other General Government Sector entities 2010-11
November 2011	No. 5 of 2011-12	Financial Statements of State entities: Volume 3 – Government Business Enterprises, State Owned Companies, Water Corporations and Superannuation Funds 2010-11
November 2011	No. 6 of 2011-12	Financial Statements of State entities: Volume 4 part I – Local Government Authorities 2010-11
December 2011	No. 7 of 2011-12	Financial Statements of State entities: Volume 5 – Other State entities 30 June 2011 and 31 December 2010
March 2012	No. 8 of 2011-12	The assessment of land-use planning applications
June 2012	No. 9 of 2011-12	Financial Statements of State entities: Volume 6 – Other State entities 30 June 2011 and 31 December 2011
June 2012	No. 10 of 2011-12	Public Trustee: Management of minor trusts
June 2012	No. 11 of 2011-12	Updating the Motor Registry System
June 2012	No. 12 of 2011-12	Follow-up of Special Reports 75-81
June 2012	-	Annual Report

# Compliance Index and Disclosure Requirements

The Compliance Index has been compiled in response to the Auditor-General's Special Report No. 4 of May 1991, Standard of Annual Reporting by Government Departments.

The four columns in the index have the following meaning:

## Section and Compliance

These columns refer to the statutory disclosure requirements in Tasmanian public sector legislation.

## Details

This is a brief statement of the instruction, clause, section or subsection of the corresponding statutory disclosure requirement.

## Page

This states where in the Annual Report the requirement is satisfied. In some instances, the requirement is complied with by the report in its entirety.

Key	Act
AA	<i>Audit Act 2008</i>
FMAA	<i>Financial Management and Audit Act 1990</i>
RTI	<i>Right to Information Act 2009</i>
PID	<i>Public Interest Disclosures Act 2002</i>
PSSRA	<i>Public Sector Superannuation Reform Act 1999</i>
SSA	<i>State Service Act 2000</i>
SSR	<i>State Service Regulations 2011</i>
TI	<i>Treasurer's Instructions</i>

Section	Compliance	Page	Details
<b>General</b>			
Table of contents		2	
Alphabetical index		121+	
Glossary		120	
<b>Overview</b>			
Strategic plan	SSR s9(a)(i)	33	An overview of the Office's Strategic Plan, including its aims, functions and related programs.
Performance report	SSA s36(1)(a) & (b) FMAA s27(1)(a)	9-17	A report on the performance of the functions and exercise of powers of the Auditor-General, under any written law.
Major Initiatives	SSR s9(a)(v)	37-40	Details of major initiatives taken by the Office to develop and give effect to Government policy.
Major Changes during the Year	SSR s9(a)(iv)	2, 21	Details of, and reasons for, any major changes which have taken place in relation to the programs, aims, functions or organisational structure of the Office.
Statement of compliance with TIs	TI 111 3(a)	115-119	
<b>Organisational Structure</b>			
Office Organisation Chart	SSR s9(a)(ii)	97	An organisational chart illustrating the Office's administrative structure, including regional offices, and showing offices of the Office.
Why We Are Structured This Way	SSR s9(a)(iii)	21	A description of the relationship between the organisational structure and the program management structure of the Office.
<b>Performance Management</b>			
Performance Summary	TI 201 (1)(a) & (e)	9-17	A narrative summary, together with quantitative measures where relevant of the objectives and functions of programs or activities, including significant outcomes, key efficiency measures, targets, proposed plans and any ministerial objectives.

Section	Compliance	Page	Details
Performance Constraints	TI 201 (1)(b)	Annual Report	Economic or other factors that have affected the achievement of operational objectives.
Carbon emissions - climate change and environmental impact	Premier's Agenda 2008 speech	Not reported	Outlines our corporate social responsibility initiatives
<b>Legislation Administered</b>			
Legislation Administered	SSR s9(d)	21	A list of legislation administered by the Office during the year.
Legislation Enacted during the Year	SSR s9(d)	21	A list of legislation enacted during the year for which the Office is responsible, including details of significant changes to legislation previously administered by the Office.
<b>Public Access and Awareness of Services Provided</b>			
Key Contacts	SSR s9(c)(ii)	Inside back cover	List of contact officers and points of public access in relation to services provided by the Office.
Community Awareness	SSR s9(c)(i)	34	Details of activities undertaken to develop community awareness of the Office and the services it provides.
Agency Publications	SSR s9(c)(i)	114	List of documents published by any internal or external body of the Office during the year.
Right to Information Requests	RTI	34	Right to Information details for the year.
Public Interest Disclosure Investigations	PID s86	35	List the number of public interest disclosures made to the Office and the procedures for making public interest disclosures to the Office.
<b>Human Resource Management</b>			
Recruitment and Selection	SSR s9(b)(i)	44	Details of recruitment policies and program including statistical information for the year.
Staff Development	SSR s9(b)(ii)	46	Information relating to employee training and development activities, including statistical information for the year.



Section	Compliance	Page	Details
Equal Employment Opportunities	SSR s9(b)(iii)	49	A description of the Office's workplace diversity programs, including statistical information for the year.
Industrial Democracy	SSR s9(b)(iv)	49	Details of the processes established to ensure employee participation in industrial relation matters within the Office.
Internal Grievance Procedures	SSR s9(b)(v)	50	Summary of internal grievance procedures.
Occupational Health and Safety	SSR s9(b)(vi)	48	Outline of Occupational Health and Safety strategies.
Appeals Process	SSR s9(c)(iii)	49	An outline of the processes available for appeals against decisions made by the Office.
Performance management	SSA s36(1)(ba)	47	The Office's approach to the development and implementation of performance management.
Superannuation Contributions	PSSRA s13	113	Certification by the relevant Office manager relating to contributions to non-RBF superannuation funds, including a report that the Office has met its obligations under the <i>Superannuation Guarantee (Administration) Act 1992</i> .
<b>Asset Management and Risk Management Policies</b>			
Pricing Policies	TI 201 (1)(c)	111	Pricing policies of goods and services provided, the last review date, and reference to documents that contain the pricing information, with details of cost recovery policies and their application, as appropriate.
Major Capital Projects	TI 201 (1)(d)	110	Information on major capital projects or undertakings.
Risk Management	TI 201 (1)(f)	110	Statement of risk management policies and an outline of significant risk management strategies and initiatives.
Asset Management	TI 201 (1)(g)	110	Statement of asset management policies and an outline of asset management strategies and initiatives.

Section	Compliance	Page	Details
<b>Government Procurement</b>			
Support for Local Business	TI 1111 3(a) & (b)	111	<p>Narrative statement in introduction/overview by Head of Agency summarising support for local businesses.</p> <p>Table summarising the Office's support for local business, including the number of procurement contracts awarded, the number of tenders called and the number of bids received, and the extent of local participation in procurement activities.</p>
Contracts Awarded during the Year	TI 1111 3(b)(ii)	111	Detailed information on all contracts awarded including a description of the contract, the total value of the contract and the name and locality of contractors.
Consultancies Awarded during the Year	TI 1111 3(b)(ii)	112	Detailed information on all consultancies awarded including the name of the consultant, a description of the consultancies, the total value of the contract and locality of consultants.
Other Matters	TI 201 (1)(l)	Annual Report	Any matters deemed relevant by the Auditor-General.
<b>Financial Statements</b>			
Financial Statements	AA s17(3) FMAA s27(1)(c) FMAA s27(2), (3) & (4) TI 201 (1)(j)	63-95	Financial Statements of the Office for the year; including financial statements of any statutory or public body not required to report under another Act.
Audit Opinion	AA s42(5) TI 201 (1)(k)	61-62	Independent Auditor's Report on the Office's Financial Statements.

# Abbreviations and Acronyms

Abbreviation	Description	Abbreviation	Description
ACAG	Australasian Council of Auditor-General	FCS	Fellow Chartered Secretaries
AHRI	Australian Human Resources Institute	FMAA	Financial Management and Audit Act 1990
AICD	Australian Institute of Company Directors	FTE	Full-time equivalent
ANAO	Australian National Audit Office	GCC	Global Corporate Challenge
APES	Accounting Professional and Ethical Standards	GST	Goods and Services Tax
ARAWARDS	Australasian Reporting Awards	HR	Human Resources
ASAE	Australian Standards on Assurance Engagements	ICAA	Institute of Chartered Accountants Australia
ASX	Australian Stock Exchange	ICT	Information Communications and Technology
AUASB	Australian Auditing and Accounting Standards Board	ILOT	In lieu of overtime
Audit Act	<i>Audit Act 2008</i>	IPSAM	Integrated Public Sector Audit Methodology
BSC	Balanced Scorecard	ISACA	Information Systems Audit and Controls Association
BSS	Business Support Services	KPI	Key Performance Indicator
CA	Chartered Accountant	Kwh	Kilowatt Hours
CAHRI	Certified Australian Human Resources Institute	LSL	Long Service Leave
CEO	Chief Executive Officer	NIA	National Institute of Accountants
CO2	Carbon Dioxide	NSW	New South Wales
COAG	Coalition of Australian Governments	OH&S	Occupational Health and Safety
CPA	Certified Practising Accountant	PAC	Public Accounts Committee
CSF	Critical Success Factor	PAS	Performance Audit Services
DoE	Department of Education	QAO	Queensland Audit Office
EDP	Electronic Data Processing Treasury Department of Treasury and Finance	RBF	Retirement Benefits Fund
EMG	Executive Management Group	RTI	Right to Information Act 2009
EOY	End of Year	S&T	States and Territories
FAS	Financial Audit Services	TI	Treasurer's Instructions
FCA	Fellow Chartered Accountants	URHF	Urban Renewal and Heritage Fund
FCPA	Fellow Certified Practising Accountant	VAGO	Victorian Auditor-General's Office
FCS	Fellow Chartered Secretaries	WA	Western Australia

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# AUDIT MANDATE AND STANDARDS APPLIED

## MANDATE

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

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

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

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

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

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

## STANDARDS APPLIED

Section 31 specifies that:

“The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

- (a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and
- (b) the Australian Auditing and Assurance Standards.”

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





## Tasmanian Audit Office

Photo courtesy of Tourism Tasmania and Kathryn Leahy

**Phone** (03) 6226 0100  
**Fax** (03) 6226 0199  
**email** [admin@audit.tas.gov.au](mailto:admin@audit.tas.gov.au)  
**Web** [www.audit.tas.gov.au](http://www.audit.tas.gov.au)

**Address** Level 4, Executive Building  
15 Murray Street, Hobart  
**Postal Address** GPO Box 851, Hobart 7001  
**Office Hours** 9am to 5pm Monday to Friday