Tasmanian Audit Office

Report of the Auditor-General No. 7 of 2017-18

Auditor-General's Report on the Financial Statements of State entities

Volume 1

Treasurer's Annual Financial Report and results of General Government Sector Entities 2016-17

November 2017

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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.

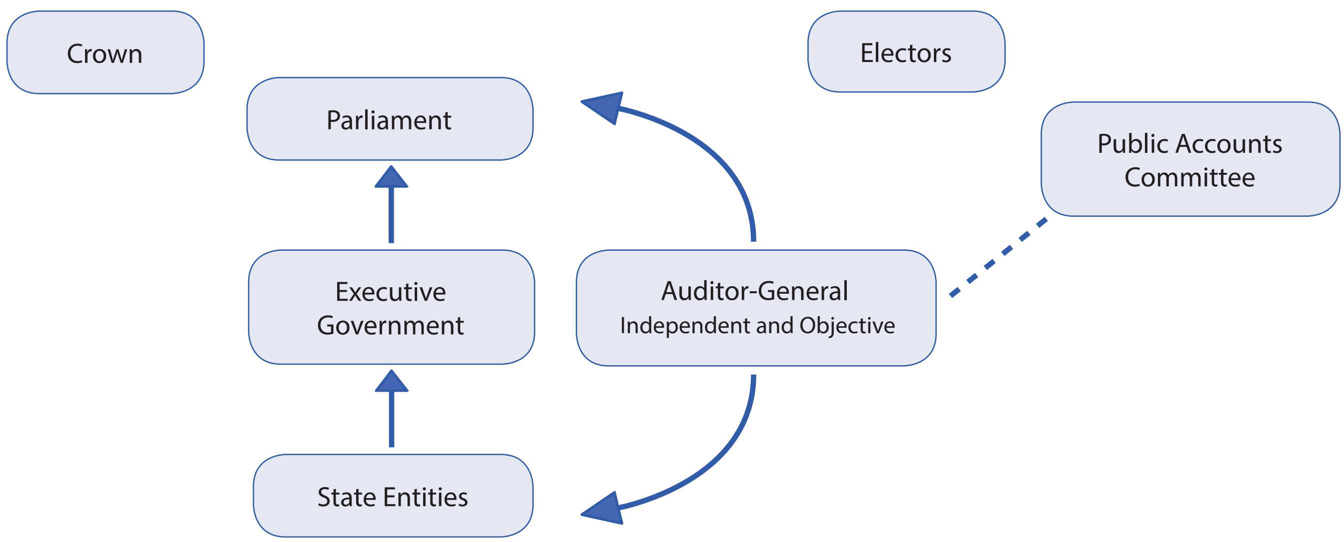
We can also carry out investigations but only relating to public money or to public property. In addition, the Auditor-General is now responsible for state service employer investigations.

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

The Auditor-General's role as Parliament's auditor is unique.



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TASMANIA

2017

PARLIAMENT OF TASMANIA

Report of the Auditor-General
No. 7 of 2017-18

Volume 1

Treasurer's Annual Financial Report and results of General Government Sector Entities 2016-17

November 2017

Presented to both Houses of Parliament in accordance with the requirements of Section 29 of the *Audit Act 2008*

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

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30 November 2017

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President

Dear Mr Speaker

Report of the Auditor-General No. 7 of 2017-18, Auditor-General's Report on the Financial Statements of State entities, Volume 1 – Treasurer's Annual Financial Report and results of General Government Sector Entities 2016-17

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the Treasurer's Annual Financial Report and results of General Government Sector Entities.

Yours sincerely

Rod Whitehead

Auditor-General

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EXECUTIVE SUMMARY

INTRODUCTION

The Tasmanian Public Sector, also referred to as the Total State Sector (TSS), comprised the General Government Sector (GGS), the Public Non-Financial Corporations (PNFC) and the Public Financial Corporations (PFC) sectors, with entities classified according to the nature of activities they undertake.

The focus of this Report is on the GGS, which consisted of Government departments and not-for-profit State entities controlled and mainly financed by the Tasmanian Government. The primary function of these entities was to provide public services which were mainly non-market in nature and were for the collective consumption of the community.

Other State entities included in this Report were statutory authorities and other non-profit entities not consolidated into the GGS financial statements.

GUIDE TO USING THIS REPORT

Guidance relating to the use and interpretation of financial information included in this Report can be found on our website: *www.audit.tas.gov.au*

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

STATE ENTITIES COVERED IN THIS REPORT

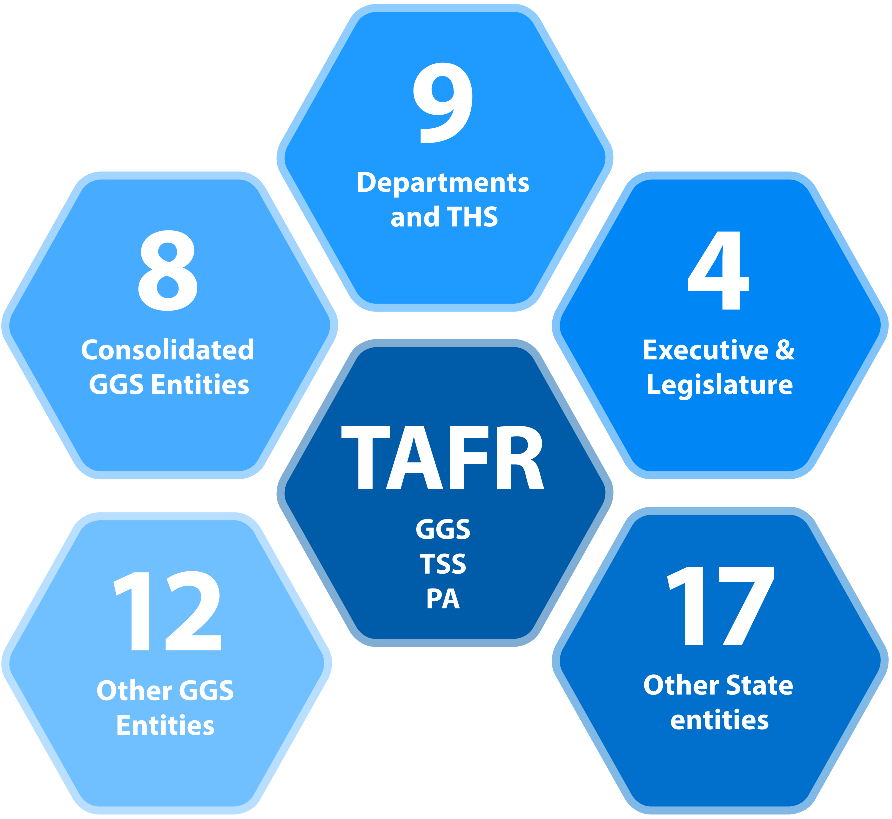
The Treasurer's Annual Financial Report (TAFR) included the audited GGS and TSS financial statements and the Public Account (PA) statements. It also included other information, such as an overview of the Fiscal Strategy and the Loan Council Outcome, which were not audited. This Report provides a financial analysis of the GGS and TSS sector and of the PA statements.

The Report also contains individual Chapters on each of the eight Government departments and Tasmanian Health Service (THS). The Departments include:

- Department of Education (DoE)
- Department of Health and Human Services (DHHS)
- Department of Justice (DoJ)
- Department of Police, Fire and Emergency Management (DPFEM)
- Department of Premier and Cabinet (DPAC)
- Department of Primary Industries, Parks, Water and Environment (DPIPWE)
- Department of State Growth (State Growth)
- Department of Treasury and Finance (Treasury)

Results and assessments of the financial performance and position of other GGS entities, Executive and Legislature and other State entities have been summarised in a separate Chapter.

The diagram below identifies all of the entities covered by this Report.



The Report also contains our conclusion on compliance with the *Firearms Act 1996* in relation to the disposal of firearms and ammunition.

DEVELOPMENTS

Mersey Community Hospital Transfer

The purpose of the *Tasmanian Public Finance Corporation Amendment (Mersey Community Hospital) Act 2017*, which received royal assent on 30 June 2017, was to facilitate the payment of dividends from the Tasmanian Public Finance Corporation (Tascorp) to the PA to fund the operating costs of the Mersey Community Hospital on an annual basis.

The Act provided that, following the payment of $730.40 million from the Australian Government in exchange for the Tasmanian Government accepting ownership of the Mersey Community Hospital, the Treasurer was to make an equivalent payment to the Tascorp in the form of an equity contribution. The funds were received from the Australian Government on 29 June 2017 and the equity transfer occurred on the same day. The equity contribution, financial returns, and capital gains and losses that accrue from investment of the equity contribution, comprise the Mersey Community Hospital Fund (the Fund).

Tascorp must invest the monies in the Fund and pay a dividend out of the Fund by 15 June each year for the purpose of supporting the operating costs of the Mersey Community Hospital.

Tasmanian Government Superannuation Reform

The *Public Sector Superannuation Reform Act 2016* created the Superannuation Commission with effect from 1 April 2017 and transferred trustee responsibility from the former Retirement Benefits Fund (RBF) to the Superannuation Commission, from that date. The RBF Accumulation Scheme was transferred to Tasplan, with the transfer of the management and administration of the five closed defined benefit schemes to the Superannuation Commission.

Related party transaction disclosures

For 2016-17, the exemption to Australian Accounting Standards Board (AASB) 124 *Related Party Disclosures* was removed for public sector non-for-profit entities. Consequently, GGS entities were required to disclose related party transactions and outstanding balances, including commitments, for the first time in the 2016-17 financial statements. In addition, it was determined that Ministers were also related parties to the Departments and other GGS entities in accordance with AASB 124.

To facilitate disclosure with the requirements of the standard, the DPAC included a separate note disclosure of all Ministers remuneration, as part of its disclosure of key management personnel remuneration. Ministerial remuneration was disclosed in aggregate (totals only) but separated into components including salary, other short-term benefits, superannuation, other long-term benefits and long service leave and termination benefits. As the disclosure applied prospectively, comparative information was not required in 2016-17.

With respect to related party transactions for Ministers, Treasury co-ordinated the collection of declarations and other information to identify any potential transactions that required disclosure, and then advised each of the associated entities the results of the review. For the 2016-17 financial year, there were no related party transactions identified for Ministers.

As all members of Cabinet were subject to the Ministerial disclosures, with any related party transactions to be reported by the relevant State entity, there was no additional aggregated presentation of information on the Cabinet group within TAFR, at either the GGS or TSS level.

Financial Management Act 2016

The new *Financial Management Act 2016* (FMA) received royal assent on 17 October 2017 and will be applicable from 1 July 2018. The FMA broadens the scope of Tasmania's financial management framework. Currently, only government departments and parliamentary and integrity entities operate within the financial management framework, with other GGS entities operating in accordance with their individual enabling legislation. The new FMA includes all GGS entities under a single framework.

The FMA will also see a change to the PA, where it will move from the current two fund structure, being the Consolidated Fund and the Special Deposits and Trust Fund (SDTF), to a single fund structure with a single set of rules, providing the Government with significantly enhanced control over the entire PA. Any money held by Government in trust will be clearly accounted for in Agency Trust Accounts, as determined by the Treasurer, and will not form part of the PA. The FMA will also change the existing carry forward arrangements.

The FMA will commence from 1 July 2018, associated Treasurer's Instructions will be issued and also apply from 1 July 2018. Until they have been released, the full impact of the new Act on financial reporting cannot be determined.

FINDINGS FROM FINANCIAL AUDITS

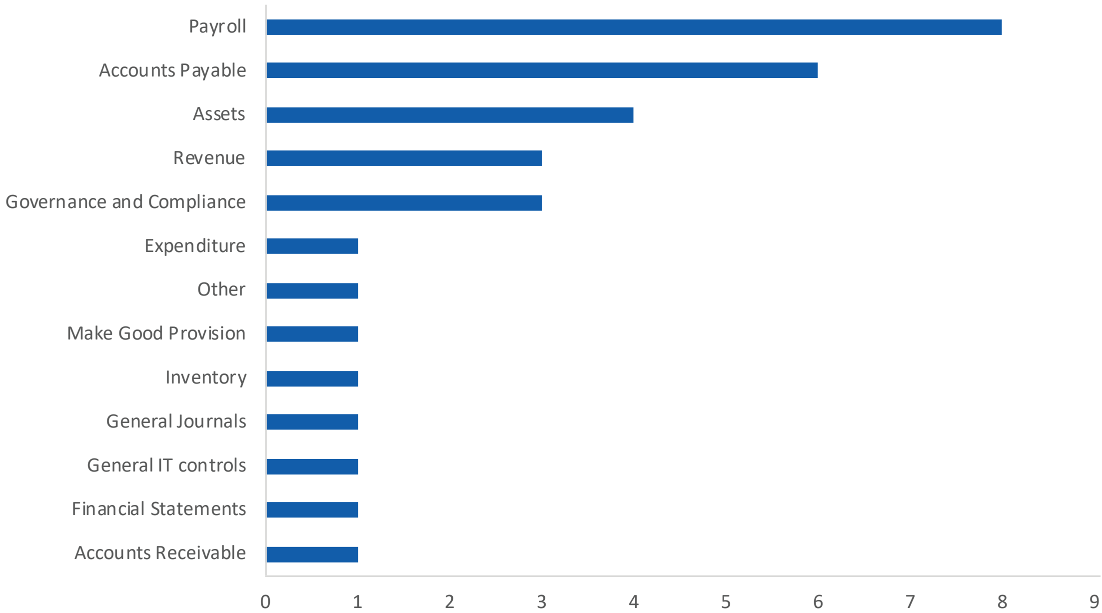
Audits of Departments and GGS entities were completed satisfactorily; however a number of matters were raised during the course of the audits. Depending on the significance of the matters, they were either discussed and cleared with management (generally low risk issues) or formally communicated to those charged with governance. Where required, responses to these matters were sought from management and these will be followed up during the course of the next audit.

32	21
Audit matters raised this year	Audit matters raised in prior periods assessed as unresolved

As a result of our audits, we raised 32 audit matters, with five matters rated as high risk and 21 rated as moderate risk.

The areas where findings were most commonly raised were payroll and accounts payable, as illustrated in Figure 1 below.

Figure 1: Current year audit findings



Findings relating to payroll included weaknesses in to controls around system changes and valuation of leave balances. Accounts payable findings also related to weaknesses in controls, including approvals for system changes. Matters specific to each audit are discussed within individual Chapters.

SUBMISSION OF FINANCIAL REPORTS AND TIMELINESS OF AUDIT OPINIONS

In addition to the requirement for all State entities to submit financial statements within 45 days after the end of each financial year, section 19 of the *Audit Act 2008* (the Audit Act) required the Auditor-General to finalise audits within 45 days from the day the financial reports were received. Appendix B details when financial statements were received and audit opinions were issued.

The Treasurer is required to prepare TAFR by no later than 31 October immediately following the financial year to which the report relates. The Treasurer submitted the GGS financial statements and PA statements for audit on 29 September 2017. Final GGS and TSS financial statements were signed on 23 October 2017.

96%	98%
Financial statements submitted on time	Audits completed on time

Financial Statements for the Aboriginal Land Council and River Clyde Trust were not received within the 45 day deadline. The Aboriginal Land Council financial statements were received on 15 August 2017, one day after the deadline, whereas signed financial statements for the River Clyde Trust were received on 22 November 2017.

Apart from the River Clyde Trust audit, which is yet to commence, the audit of Treasury was the only audit not completed within the 45 day timeframe. The audit of Treasury was completed on 10 October 2017, which was twelve days after the statutory deadline.

CERTIFICATION OF SUBMITTED FINANCIAL REPORTS

Section 17 of the Audit Act requires State entities to submit financial statements to the Auditor-General within 45 days after the end of the financial year. Previously, we required State entities to submit statements certified by the accountable authority. For Departments, the responsible authority is the Secretary, whereas there are numerous other accountable authorities across the different GGS entities.

For 2016-17, we changed the process for submission of financial statements whereby statements submitted within 45 days only needed to be certified by the Chief Financial Officer (or equivalent). This allowed the audit to be completed and clearance provided to GGS entities and audit committees, if relevant, prior to certification by the Secretary or accountable authority.

In 2016-17, 21 of the 50 GGS entities chose to submit management certified financial statements.

AUDIT OPINIONS ON FINANCIAL STATEMENTS

48	1
Unmodified audit opinions issued on financial statements	Modified audit opinion

The audits of Government departments and THS were completed satisfactorily and unmodified audit opinions were issued in all cases.

For other GGS and State entities, unmodified audit reports were issued in all cases except for the National Trust of Australia (Tasmania).

Separate unmodified audit opinions were issued on the GGS and TSS financial statements and PA statements on 27 October 2017, with no issues identified.

MODIFIED AUDIT OPINION

This year, as in previous years, we modified our audit opinion on the financial statements of the National Trust of Australia (Tasmania) because it held heritage collections, but not all of these assets were recognised in the financial statements.

CHANGES TO AUDIT OPINIONS

Figure 2: Australian auditing standards revision for auditors report

ASA 700 (REVISED) OVERARCHING STANDARD FOR FORMING AN OPINION AND REPORTING ON A FINANCIAL REPORT

ASA 701	**ASA 705**	**ASA 706**	**ASA 570**	**ASA 720**
Communicating Key Audit Matters in the Independent Auditors Report (New)	Modifications to the Opinion in the Independent Auditor's Report (Revised)	Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report (Revised)	Going Concern (revised)	The Auditor's Responsibility Relating to Other Information (revised)

For the year ended 30 June 2017, we reviewed and amended the layout and content of the auditor's report. Key changes were:

- the opinion paragraph presented at the start of the auditor's report followed by the basis of opinion
- increased detail of auditor's responsibilities
- the audit coverage of other information
- explicit commentary on management's responsibilities in relation to going concern.

We have taken a staged approach to the implementation of the new auditing standard, ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*. We intend to issue audit reports which include key audit matters for Departments from 2017-18 and all other GGS entities from 2018-19.

Although the 2016-17 audit reports did not communicate key audit matters, the most prevalent key areas considered during the audits of GGS entities were valuation of non-current physical assets, information systems and revenue recognition. Key matters specific to each audit are discussed within individual Chapters.

SUBMISSIONS AND COMMENTS RECEIVED

Copies of chapters and other relevant extracts of the report, with a request for submissions or comments, was provided to the each Department and other GGS entities who, in the opinion of the Auditor-General, had a special interest in the report. Responses, or a fair summary of them, are included in Appendix C..

SECTOR ANALYSIS

FINANCIAL SNAPSHOT 2016-17

This Chapter contains an analysis of the GGS and TSS financial statements and of the PA statements. Comments should be read alongside the TAFR. The major focus of this Chapter is to compare 2016-17 results with the previous year and analyse trends over the past four years or a longer period where relevant.

In preparing this Chapter, we amended the Statement of Comprehensive Income, as disclosed within TAFR, by reclassifying certain revenue and expenditure items related to Australian Government capital funding.

Revenue from transactions included funding for capital programs; however the corresponding outflow was not part of expenses from transactions. To better portray the financial performance of the State, we excluded one-off capital funding transactions, items which were outside the normal course of operations and non-recurring items. We refer to the result after adjusting for these items as the 'Underlying Net Operating Balance', which may differ from the Underlying Net Operating Balance disclosed in TAFR.

The Net Operating Balance was the difference between revenue and expenses from transactions, excluding other economic flows, such as movements in fair values and gains or losses on sale of assets.

To be consistent with TAFR, figures in this Chapter are shown as whole dollars for millions, with billions reflected with two decimal places. Dollar amounts presented in tables, the text and figures have been rounded.

This Report uses terms which may differ from the terminology adopted by TAFR.

Preliminary Outcome information was sourced from the 2016-17 *Preliminary Outcomes Report* found on Treasury website at www.treasury.tas.gov.au.

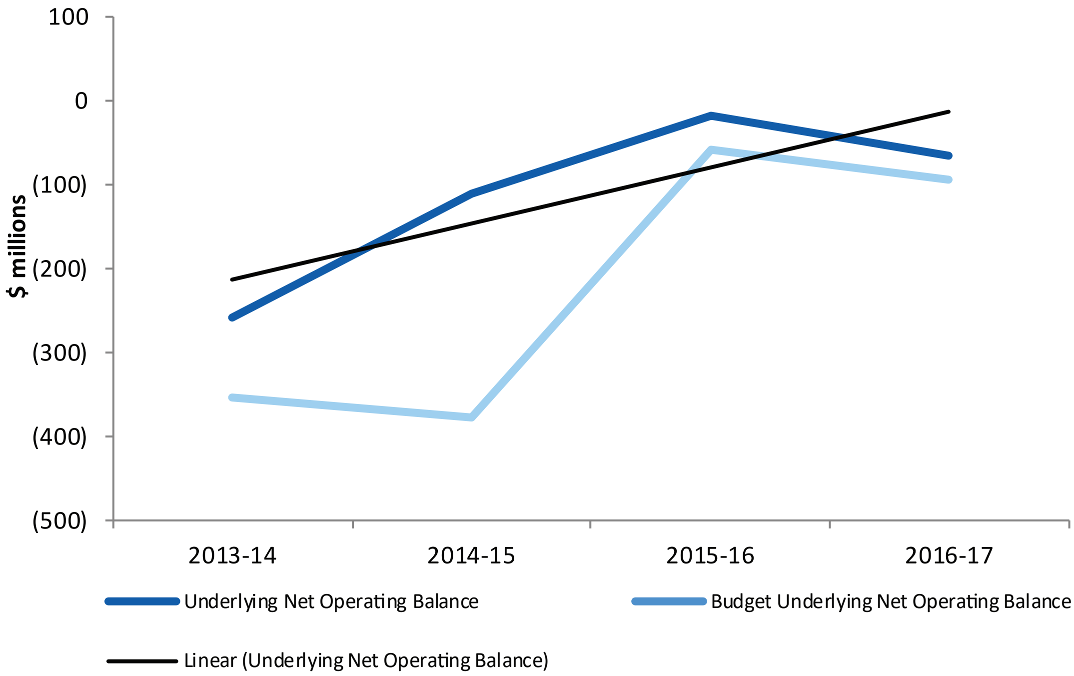
UNDERLYING NET OPERATING BALANCE

General Government Sector

($67m)	**($19m)**	**($111m)**	**($259m)**
2016-17	2015-16	2014-15	2013-14
▼ **253%**	▲ **83%**	▲ **57%**	▲ **29%**

Figure 3 provides an overview of underlying results for the past four years. It shows the GGS Underlying Net Operating balance improved each year, until the current year, however the trend does show an improvement over the four year period.

Figure 3: GGS Underlying Net Operating Balance (four-year trend)



Source: Tasmanian Audit Office

The GGS Underlying Net Operating Balance was a deficit of $67m in 2016-17, an increase of $48m from the deficit reported last year. This increased deficit was due to increased expenses of $302m, whereas revenue only increased by $254m. The increases in employee costs and superannuation contributions totalled $158m, which accounted for more than half of the increase in expenditure.

This year's Underlying Net Operating Balance deficit was an improvement on the budget deficit of $94m. Actual revenue was $205m higher than original budgeted revenue and actual expenditure was $177m higher than budgeted expenditure. Explanations for revenue and expense variations from budget are explained in TAFR.

The receipt of Australian Government funding for capital programs, particularly one-off major projects, has the effect of improving the net operating balance outcome. Given the nature of the Net Operating Balance measure, it reflects the receipt of revenue from the Australian Government but does not factor in the expenditure of these funds on infrastructure projects.

Given this situation, the Underlying Net Operating Balance has been used for a number of years as a measure that removes the distorting impact of one-off Australian Government funding for specific capital projects. The Underlying Net Operating Balance measure was developed at a time when there were abnormally high levels of one-off Australian Government funding for infrastructure projects.

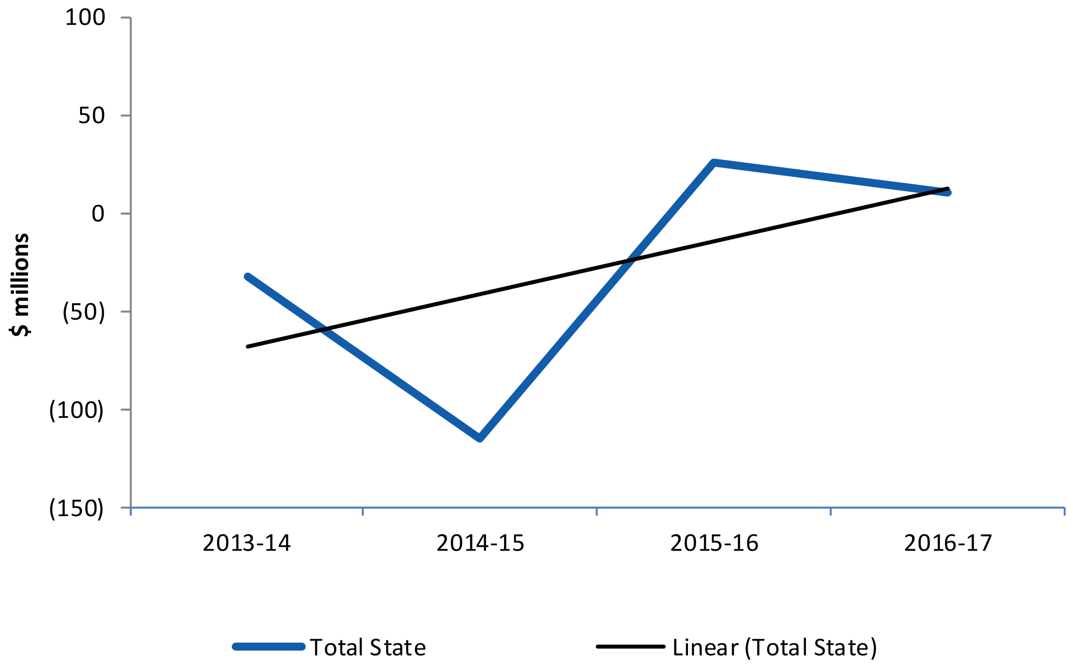
Total State Sector

$10m	**$26m**	**($114m)**	**($31m)**
2016-17	2015-16	2014-15	2013-14
▼ **62%**	▲ **123%**	▼ **259%**	▲ **76%**

The TSS Underlying Net Operating Balance was a surplus of $10m in 2016-17, $16m lower than the surplus reported in the prior year.

Figure 4 provides an overview of underlying results for the past four years. It shows that although the TTS Underlying Net Operating balance varied over the past four years, it was trending in a positive direction, consistent with the GGS result.

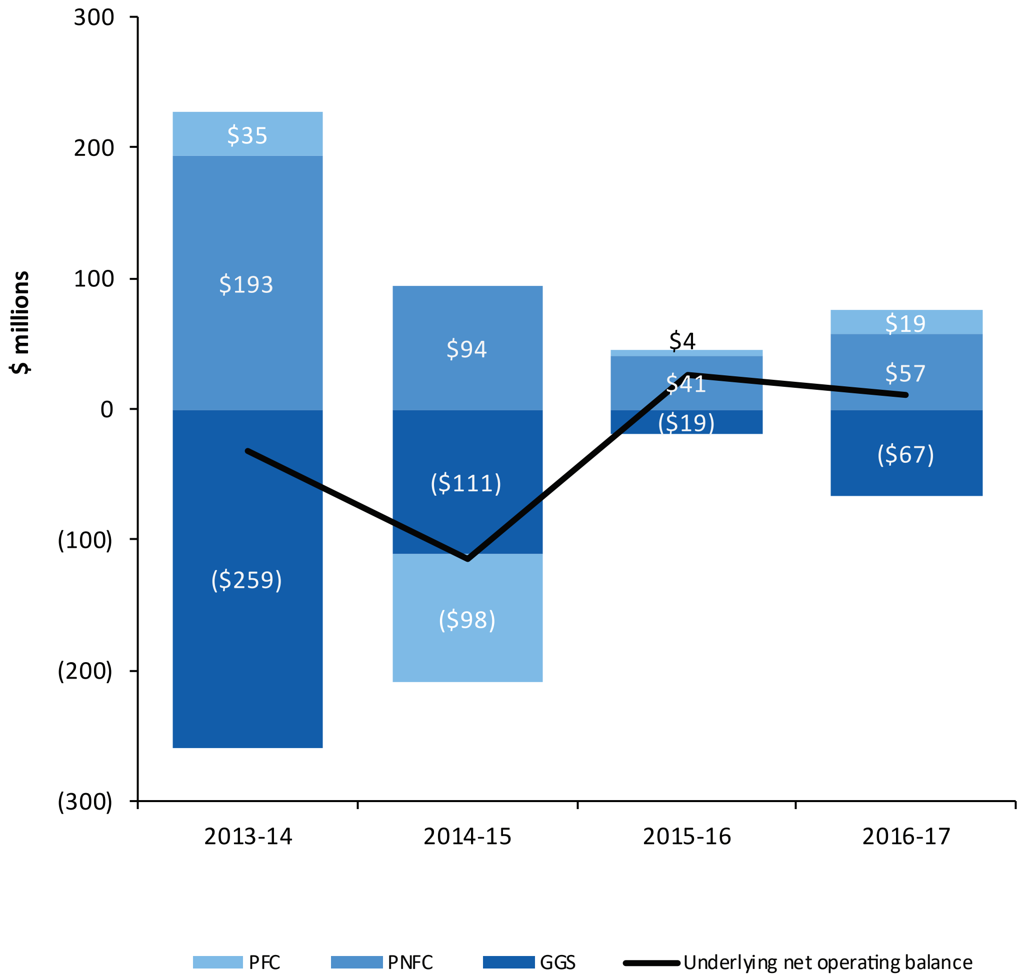
Figure 4: Total State Underlying Net Operating Balance (four-year trend)



Source: Tasmanian Audit Office

Figure 5 shows the Net Underlying Operating Balance disaggregated into GGS, PFC and PNFC sectors, before inter-sector eliminations.

Figure 5: Disaggregated net underlying operating balance



The graph illustrates GGS results were the main cause of deficits reported at the TSS level, although deficits from GGS declined until the current year. The PNFC sector recorded positive Net Underlying Operating Balances in each of the four years, although results declined each year until the current year. The PFC sector incurred a deficit in 2014-15 only.

REVENUE

General Government Sector

$4.37bn	$1.10bn	$0.41bn	$0.30bn
Australian Government Grants	State Taxation	Sales of Goods & Services, Fees and Fines	Dividends and Income Tax equivalents

GGS revenue, excluding one-off Australian Government capital funding, totalled $5.61bn in 2016-17. This was $254m, or 5.0%, higher than last year. The increase was mainly the result of higher general purpose grant payments, which includes goods and services tax (GST) and higher specific purpose payments, both included as part of other Australian Government payments and increased State taxes.

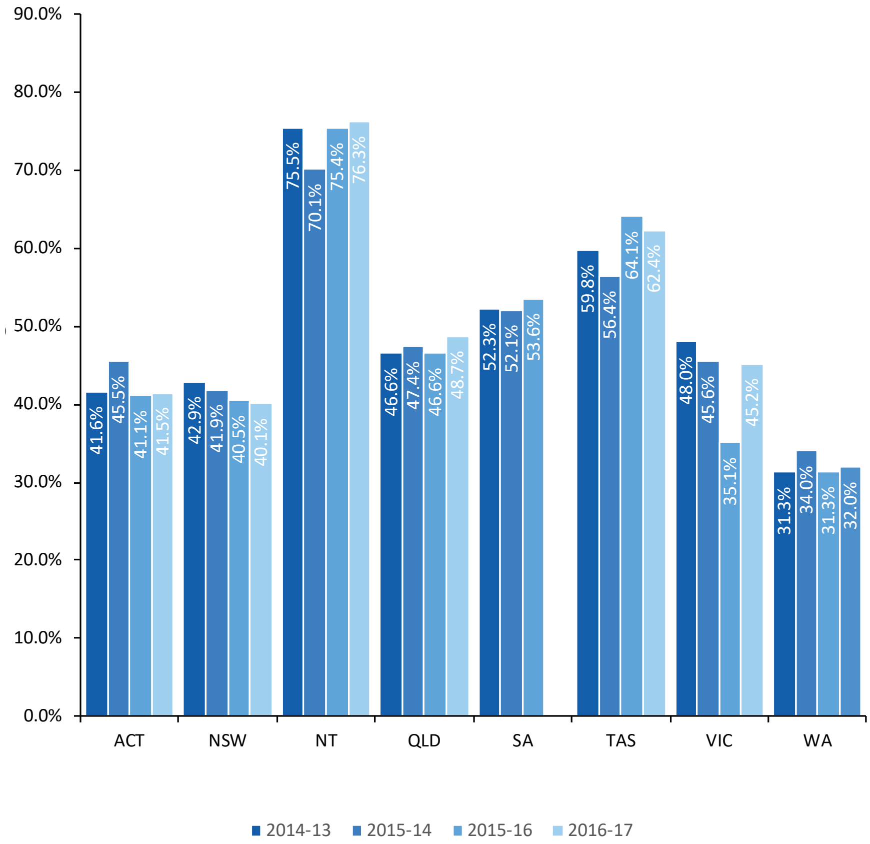
Similar to previous years, funding from the Australian Government represented the majority of GGS revenue. Other Australian Government payments, which comprised Specific Purpose Payments, National Partnerships Payments and other grants and subsidies received were the second highest sources of revenue. Overall, funding from the Australian Government totalled 62.4% of underlying operating revenue in 2016-17 and this was higher than the four-year average of 60.7%.

The dependence on Australian Government funding represents a high fiscal risk to the State's budget. The risks to Tasmania's GST revenue were linked directly to the State's share of the national population, the size of the GST revenue pool and Tasmania's relativity factor.

Australian Government funding through national partnership payments, specific purpose payments and other grants and subsidies has an impact on Tasmania's share of GST revenue, because the Commonwealth Grants Commission considers the level of Australian Government funding received by each State when determining its need for GST revenue. While Tasmania's percentage share of the national GST pool for 2016-17 was known ahead of the 2016-17 Tasmanian Budget, the level of other Australian Government funding received in 2016-17 will have an impact on Tasmania's GST share over the forward estimates period. Receipt of an above population share of national partnership payments and specific purpose payments will generally result in a reduction in future untied GST revenue, and vice versa

Figure 6 is a comparison of the level of reliance on Australian Government grant funding as a percentage of total GGS revenue across all states and territories.

Figure 6: State by State Comparison of Grants received as a proportion of total GGS Revenue (four-year trend)



Source: Tasmanian Audit Office
Note: Information obtained from publically available equivalents of TAFR for other States. Some information is outstanding as at the time of tabling.

Compared to the other states, Tasmania recorded the second highest average proportion of grants to total GGS with 60.7%. Only the Northern Territory was higher at 74.3%.

The inherent uncertainty associated with distribution of GST revenue and other funding from the Australian Government was identified as a key risk by Treasury in its Tasmanian Government Fiscal Sustainability Report, issued in April 2016 and we concur with this assessment.

Total State Sector

$4.37bn	$1.06bn	$3.48bn	$0.01bn
Australian Government Grants	State Taxation	Sales of Goods and Services, Fines and Regulatory fees	Dividends and Income Tax equivalents

TSS revenue, excluding one-off Australian Government capital funding, totalled $8.48bn in 2016-17. This was $411m, or 5.0%, higher compared to last year. The increase was principally due to increased sales of goods and services of $174m, stemming from increases from the PNFC sector. Figures for Australian Government grants and state taxation mirror the results within GGS, after accounting for inter-sector eliminations.[1]

1. A detailed analysis of revenue within the PNFC and PFC sectors is included within Volume 2 of our Report to Parliament.

CAPITAL INVESTMENT - GENERAL GOVERNMENT SECTOR

$1.17bn

Total capital spend last four years

$1.50bn

Total budgeted capital spend last four years

$0.33bn

Total spending gap last four years

Ongoing investment in infrastructure is a key element of the Government's Fiscal Strategy and is essential to the delivery of services to the community whether it be roads, hospitals, schools, housing, health centres or many other forms of essential public infrastructure. Over the 2016-17 Budget and Forward Estimates period, the Government allocated $1.82bn to infrastructure investment.

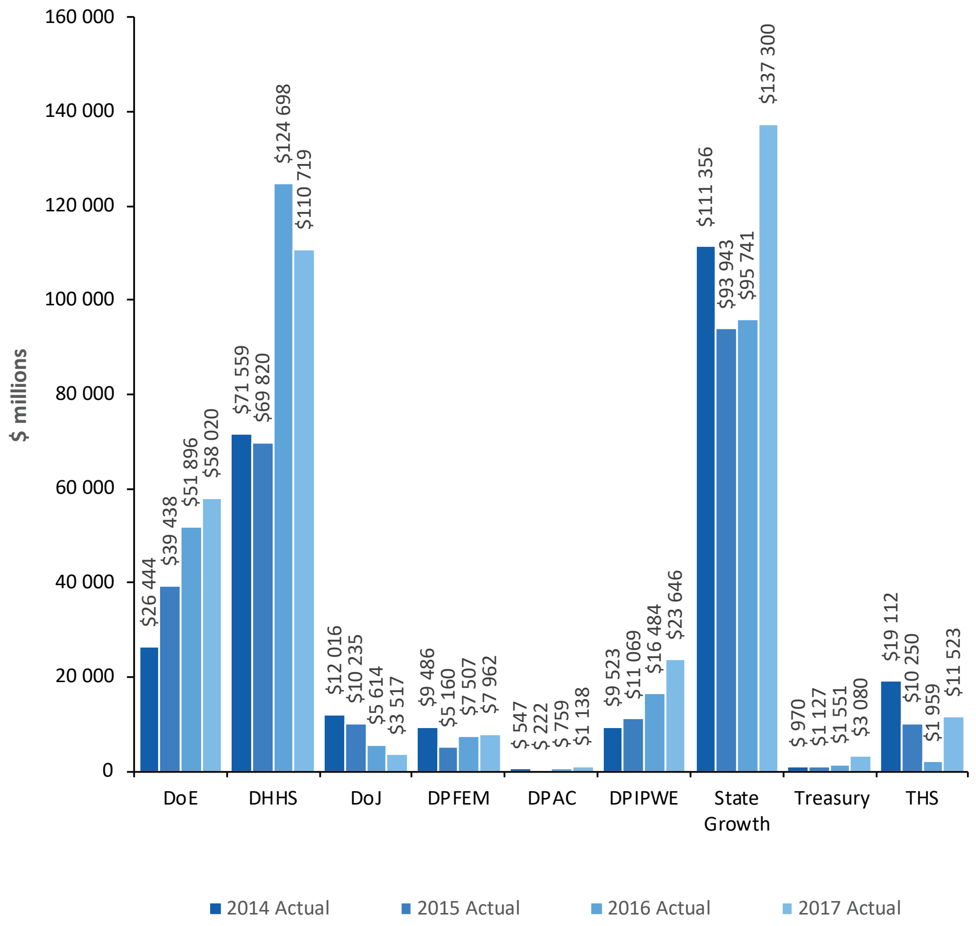
Major infrastructure expenditure over this period includes:

- $457m for the Royal Hobart Hospital Redevelopment
- $656m for roads funding
- $113m for education and LINCs infrastructure projects
- $90m for the Northern Cities Major Development Initiative
- $185m of capital provisions set aside by the Government, which will be allocated to future infrastructure investment projects or used to provide capacity to meet cost variation and the impact of the re-scheduling of projects.

For 2016-17, GGS cash payments for non-financial assets totalled $416m, with Departments and THS contributing to the majority of this balance with $356m. Actual cash payments were $109m lower than original budget of $525m.

Figure 7 shows actual cash payments for acquisition of non-financial assets over the past four years for each department.

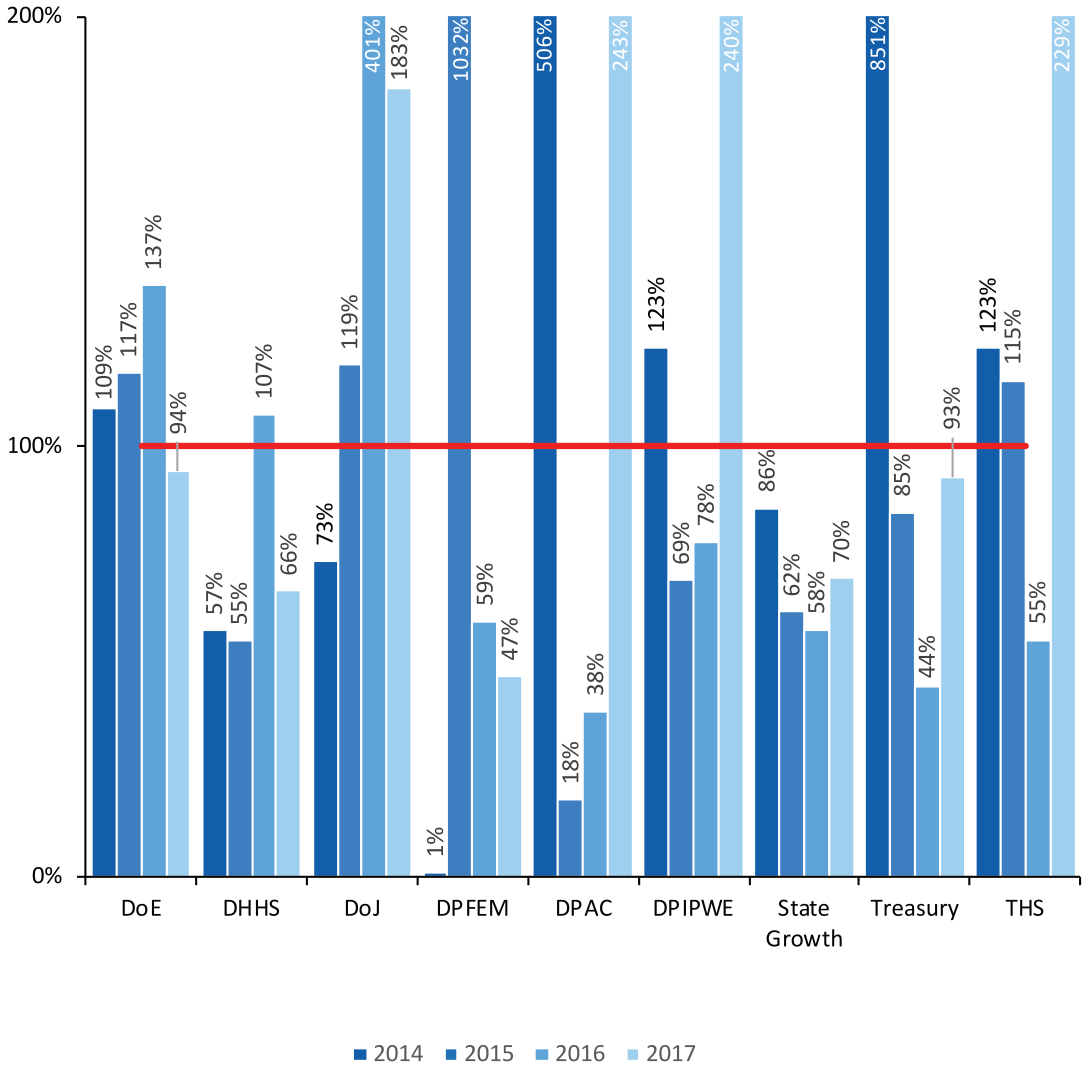
Figure 7: Actual capital expenditure (four-year trend)



State Growth had the highest level of capital expenditure over the last four years with an annual average of $110m, followed by DHHS and DoE with $94m and $44m, respectively.

Figure 8 shows the percentage actually spent on capital expenditure as a percentage of budget over four years.

Figure 8: Percentage spend of budgeted capital expenditure (four-year trend)



Most Departments spent their allocated capital budget over the last four years. However, Departments with the highest capital expenditure in dollar terms consistently did not spend allocated capital budgets within the year, as noted below:

- State Growth, spent $137m in 2016-17, which was only 70% of allocated budget of $197m. Over the past four years, State Growth spent only 69% of its capital budget.
- DHHS spent $111m in 2016-17 of their $166m budget, with only 72% of its capital budget spent over the last four years.

On average, DoE was able to expend all of its capital budget, recording 114% over the four year period.

Major variances between actual and budgeted capital spend were due to timing and reprioritisation of capital programs as outlined below:

- State Growth spent $59m less than budgeted amount, primarily due to timing adjustments to the Roads Program and capital program including:
    - Midland Highway, $29m
    - Huon Highway/Summerleas Road, $12m

  - Road Safety and Traffic Management, $4m
  - Northern Cities Major Development, $2m
- DHHS spent $55m less than budgeted amount, due to revised cash flows associated with the following projects:
  - Royal Hobart Hospital Redevelopment, $50m
  - New Housing, $7m.

The figures show State Growth and DHHS consistently spending below capital expenditure targets over the past four years. Estimates of capital expenditure are based on advice provided by agencies and project planners, using the most current information available. These capital expenditure estimates can subsequently change for a range of necessary and legitimate reasons. Significant work is undertaken throughout the Budget year to review and adjust capital expenditure levels. This has included actions to reallocate funding between projects and bringing forward future project expenditure.

Comments regarding the level of actual capital expenditure to budget were provided by the Secretary of State Growth and the Secretary of DHHS. They are both included within Appendix C.

NET WORTH AND NET DEBT

GSS		TSS	
$9.68bn	$0.79bn	$9.68bn	$0.81bn
Net Worth	Net Debt	Net Worth	Net Debt

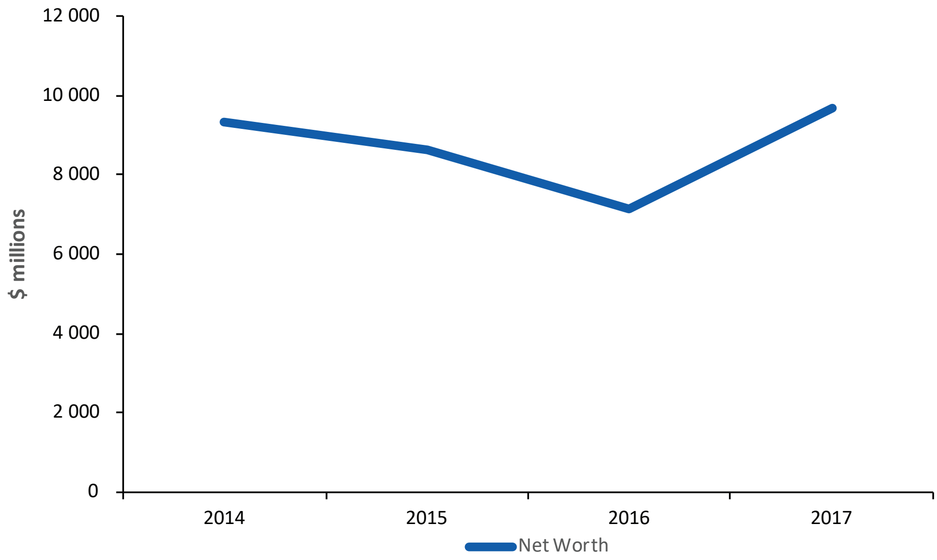
Net Worth

GSS Net Worth, also referred to as net assets, increased by $2.53bn to $9.69bn at 30 June 2017. Net Worth was calculated as total assets less total liabilities. Net Worth included non-financial assets such as land and other infrastructure assets, which may be sold and used to repay debt. It also included certain financial assets and liabilities not captured by the Net debt measure, most notably, accrued employee superannuation liabilities, ownership of equities, debtors and creditors.

Figure 9 shows GGS Net Worth trended downwards since 2014. This was due to a combination of operating deficits, lower assets and higher liabilities. The current year result reflected decreased superannuation liabilities, $968m, and an increase in the value of equity investments in the PNFC and PFC sectors, $864m.

Equity investments are included in GGS Net Worth, however these balances are removed and replaced with the assets and liabilities of the PNFC and PFC entities in arriving at TSS Net worth. As the PNFC and PFC entities are recognised at fair value, which is equivalent to their net asset value, in GGS Net Worth, the Net Worth balance is the same in both GGS and TSS financial statements.

Figure 9: Net Worth (four-year trend)



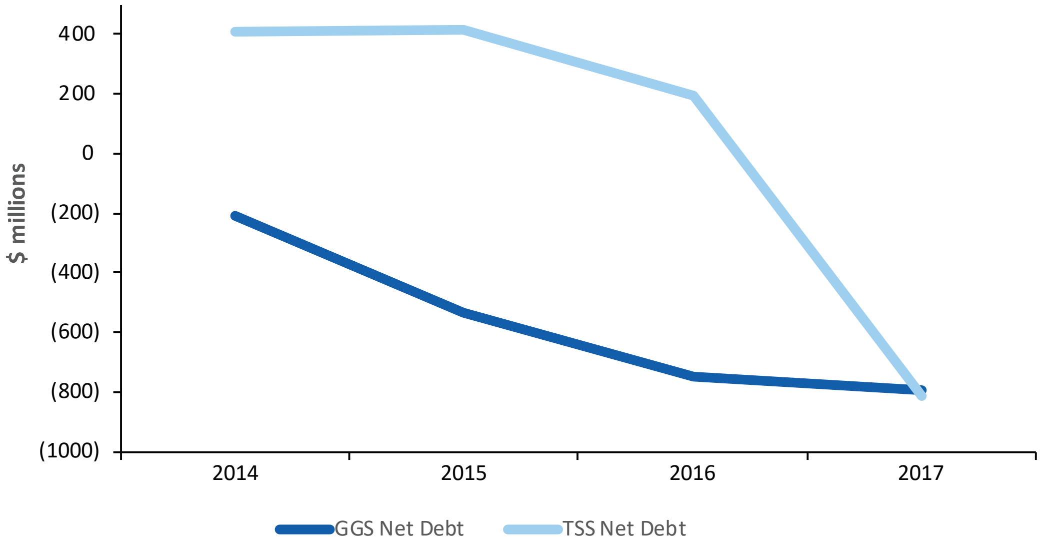
Source: Tasmanian Audit Office

Net Debt

A financial measure, Net Debt, is a measure used to help assess the overall strength of a Government's fiscal position. Net Debt comprises borrowings less cash, deposits and investments. The GGS showed a negative Net Debt position in all of the past four years because cash, deposits and investments exceeded borrowings in each of those years with Net Debt being negative $791m at 30 June 2017. The actual position was better than budgeted Net Debt of negative $301m and the level of negative Net debt continued to grow since June 2014.

Figure 10 provides an overview of GGS and TSS Net Debt for the past four years. It shows the GGS Net Debt from 2014 steadily decreased which shows a positive trend as cash, deposits and investments exceeded borrowings.

Figure 10: Net Debt (four-year trend)



Source: Tasmanian Audit Office

The GGS Net debt level was consistent with the prior year, improving to $791m, with the movement principally due to decreased borrowings.

The TSS result improved significantly, from a Net Debt figure of $196m in the prior year to a negative Net Debt figure of $811m in the current year. This $1.01bn Net debt decrease was principally due to the impact of the $730m equity contribution provided by the GGS to Tascorp, relating to the one-off payment received for the transfer of ownership of the Mersey Community Hospital from the Australian Government to the Tasmanian Government. This transfer allowed:

- TSS borrowings to decrease by $419m from $6.58bn to $6.17bn in 2017
- TSS Investments to increase by $613m from $5.99bn to $6.60bn.

FISCAL STRATEGY

The Government's Fiscal Strategy is based on enduring principals of strong and sound financial management that should be pursued by Government, regardless of changes in the financial and economic environment.

To address these principals, the Fiscal Strategy established six key strategic actions to be pursued:

1. Annual growth in General Government operating expenses will be lower than the long-term average growth in revenue.
2. General Government debt and defined benefit superannuation liabilities will be managed to ensure the combined annual servicing cost is less than six per cent of General Government cash receipts.
3. A competitive tax environment will be maintained with an objective for state taxes to be efficient, fair, simple, stable and sustainable.
4. Government businesses will be required to deliver services to Tasmanians at the lowest sustainable cost, while also providing an appropriate financial return to the Government.
5. Tasmanian Government infrastructure investment will maintain existing assets, respond to economic and population growth and reflect the changing needs of the community .
6. Public sector efficiency, productivity and financial transparency will be improved

Following our audit of TAFR, we examined the strategic actions that included financial measures, those being Strategic Actions 1, 2 and 5.

Strategic Action 1. Annual growth in General Government operating expenses will be lower than the long-term average growth in revenue.

The long-run revenue growth rate was 5.5% at the end of 2016-17 (calculation based upon the per annum increase from 1999-00 actuals to 2016-17 actuals). This compared to annual growth in GGS expenditure of 5.7% for the 2016-17 year. The expenditure growth increase was principally due to employee costs, $120m or 5.3%, and grant expenditure, $98m or 8.7%.

It is noted Treasury budgeted for growth in expenditure to increase by 1.4% over the next five years, based on the Forward Estimates as noted in the 2017-18 Budget Papers.

Treasury previously stated that,

> *"….it is essential that expenditure continues to be constrained over the medium to long-term. This includes ongoing constraint in public sector wage outcomes and careful management of public sector employment levels, to ensure that ongoing expenditure is not allocated against variable revenue".*

We concur with this view and in light of the current year result, it is important this principle is followed to ensure the budgeted outlook can be reached.

Strategic Action 2. General Government debt and defined benefit superannuation liabilities will be managed to ensure the combined annual servicing cost is less than six per cent of General Government cash receipts.

During 2016-17, the total of borrowing costs and defined benefits superannuation expense amounted to $234m. This figure equated to 4.1% of GGS cash receipts, which meant, for the 2016-17 financial year, the target was achieved.

Strategic Action 5. Tasmanian Government infrastructure investment will maintain existing assets, respond to economic and population growth and reflect the changing needs of the community.

During 2016-17, the GGS invested $416m in non-financial assets. This investment was $158m greater than depreciation of $257m. However, the GGS figure does not distinguish between capital works on new assets in contrast to replacement assets. If expenditure on new assets was excluded from the calculation it would give a better reflection of investment in existing assets and provide a better comparison to the annual depreciation charge.

DEFINED BENEFIT SUPERANNUATION LIABILITY

Superannuation Commission

There were significant changes regarding the administration of Superannuation within the State Government Sector in 2016-17.

The *Public Sector Superannuation Reform Act 2016* created the Superannuation Commission with effect from 1 April 2017 and transferred trustee responsibility from the former RBF to the Superannuation Commission, from that date. The RBF Accumulation Scheme was transferred to Tasplan, with the transfer of the management and administration of the five closed defined benefit schemes to the Superannuation Commission.

The functions and powers of the Superannuation Commission are specified in the *Public Sector Superannuation Reform Act 2016* and the *Public Sector Superannuation Reform Regulations 2017*. The Superannuation Commission is supported by the Office of the Superannuation Commission (OSC), which commenced as a branch of Treasury on 1 April 2017.

The Superannuation Commission is responsible for the management of the funded assets of the RBF Defined Benefit (Contributory) Scheme, the Tasmanian Ambulance Service Superannuation Scheme, the State Fire Service Superannuation Scheme, the Parliamentary Superannuation Fund and the Parliamentary Retiring Benefits Fund. Each of the defined benefit funds have been closed to new members.

The operating costs of OSC and the Superannuation Commission administering the five public sector defined benefits schemes are funded directly by appropriation to Treasury, rather than through operating expenses charged directly against scheme assets.

Defined benefit superannuation liability

At 30 June 2017, the GGS unfunded defined benefit liability was $7.87bn (30 June 2016, $8.84bn).

The unfunded superannuation liability comprised the following defined benefit schemes and arrangements:

- Retirement Benefit Fund (RBF) Contributory Scheme, $7.81bn ($8.76bn)
- Parliamentary Superannuation Schemes (Parliamentary Superannuation Fund (PSF) and Parliamentary Retiring Benefits Fund (PRBF)), $17m ($20m)
- Judges Contributory Pensions, $36m ($46m)
- Housing Tasmania superannuation liability, $12m ($13m), recognised in the financial statements of DHHS
- Tasmanian Ambulance Service Superannuation Scheme (TASSS), $1m surplus ($5m liability), recognised in the financial statements of DHHS.

The decreased net liability of $0.97bn in 2016-17 was caused by a combination of:

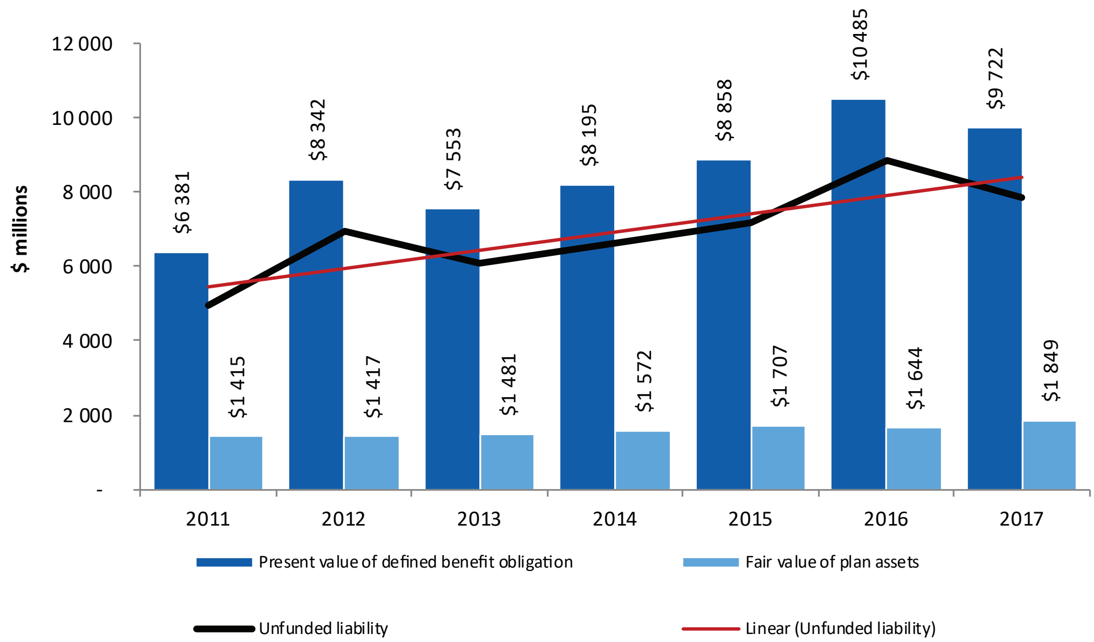
- decreased present value of the superannuation liability of $0.75bn, primarily made up of:
  - changes in financial assumptions, $0.89bn, which mainly reflected a change in the discount rate from 2.7% at 30 June 2016 to 3.3% at 30 June 2017. Because of the inverse relationship between the discount rate and the valuation of the liability, the liability will decrease when the discount rate rises
  - benefits paid of $0.39bn
  - offset by current service cost and interest costs of $0.16bn and $0.28bn, respectively

- an increase in the fair value of Plan assets of $0.21bn, which included:
  - employer contributions of $0.27bn
  - actual return on plan assets, including interest income of $0.27bn
  - offset by benefits paid as noted previously.

The State Actuary undertook a triennial review of the RBF Contributory Scheme, the PRBF and the PSF as at 30 June 2016. The review was completed in August 2017 and recommended no change in the current schedule of employer contributions for the contributory scheme. That is, employer contributions are to increase gradually over the period from 1 July 2016 to 1 July 2019 from 82.5% to 88.5%, in line with the previous review. However, it was noted that the level of contributions may change dependent on the future experience of the Fund, in particular future investment returns, pension increases, and mortality experience. The State Actuary also recommended no change in the current level of Government contributions for the PSF scheme, however the State Actuary noted that for the PRBF scheme, regular contributions should cease and instead additional contributions made (if necessary) at or about the time of each member's exit, based on the State Actuary's advice. This is due to the PRBF being expected to have sufficient assets to meet benefits payable.

Figure 11 below shows movements in the unfunded liability, being the difference between the present value of the defined benefit obligation and fair value of plan assets.

Figure 11: Unfunded Superannuation Liability (seven-year trend)

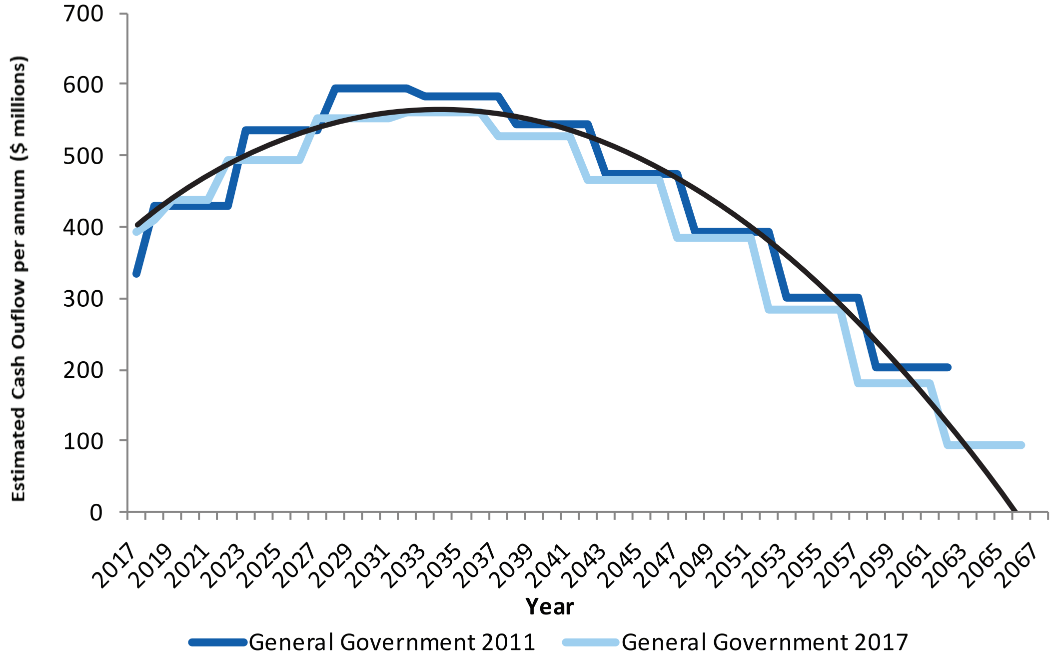


Source: Tasmanian Audit Office

The graph illustrates the upward trend of the State's obligation arising from current and former members of the public sector defined benefit superannuation schemes. The Tasmanian Government is ultimately responsible for meeting obligations of the schemes, all of which are now closed to new membership. Superannuation payments are met on an emerging costs basis from the Consolidated Fund, funded partly by agency contributions and by a Reserved by Law contribution, which comprises the balance of the Government's share of pension and lump sum benefit costs.

Figure 12 illustrates the expected nominal (un-discounted) cash outflows required to meet the emerging cost of superannuation benefits payable to members as estimated at 30 June 2017. The estimated cash outflows represent the total cost of benefits payable and do not take into account the share of benefits funded from Scheme assets.

Figure 12: Undiscounted Defined Benefit Superannuation Cash Outflows (2017–2067)

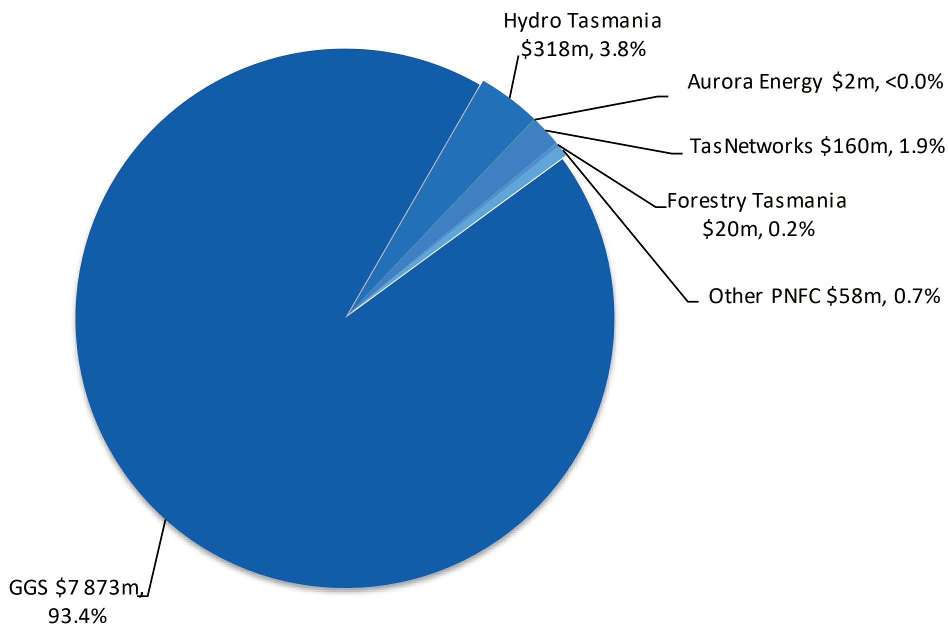


Source: Tasmanian Audit Office

Figure 12 shows cash required to meet defined benefit pensions and lump sum payments will peak approximately 16 to 20 years from now at around $567m per annum. A key budget risk is the cost to the Budget will increase significantly in coming years, increasing by 68.0% over the next 14 years and peaking in 2029-30, rather than 2030-31 as was projected in the 2014-15 Budget.

Discussion in this Chapter has focused on the GGS superannuation liability only, as this makes up the vast majority of the superannuation liability to the State, as illustrated in Figure 13 below.

Figure 13: Net Defined Benefit Superannuation Liabilities



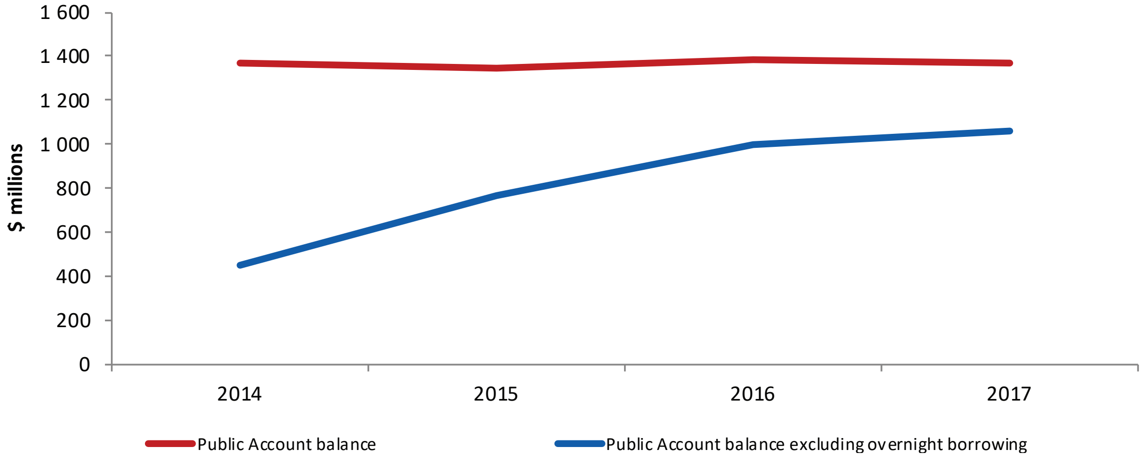
Source: Tasmanian Audit Office

PUBLIC ACCOUNT

When reviewing the commentary below, it should be noted the PA statements are reported on a cash basis meaning there is no distinction between receipts or payments of a capital or operating nature and borrowings received or paid.

Figure 14 shows the total cash held by the GGS at the end of June for the last four years.

Figure 14: Cash balance (four-year trend)

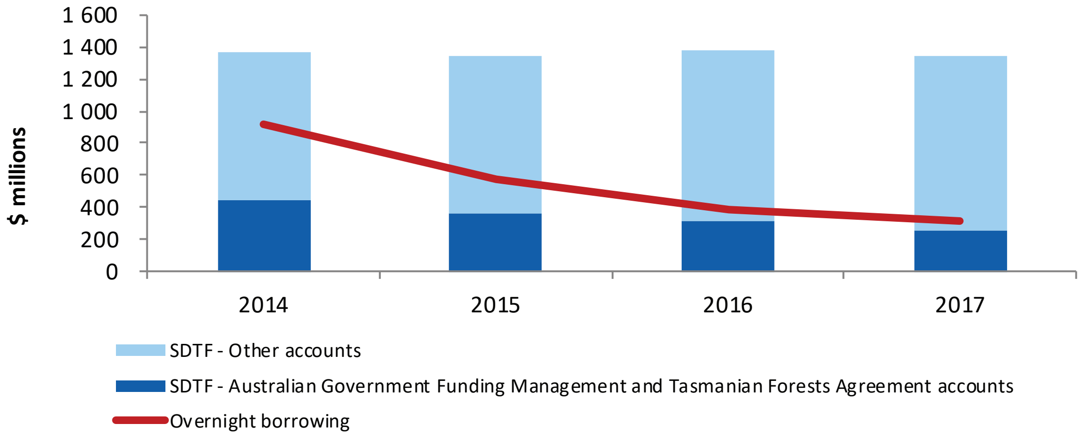


Source: Tasmanian Audit Office

As shown in Figure 14, cash held in the PA totalled $1.37bn at 30 June 2017 (30 June 2016, $1.38bn). Included in the balance was an overnight loan of $310m ($385m), which was repaid on 1 July 2017. If the overnight loan was eliminated, the cash balance would have been $1.01bn ($1.00bn).

Figure 15 shows the composition of the PA by separating the Australian Government Funding Management and Tasmanian Forests Agreement accounts from other SDTF.

Figure 15: Public Account composition



Source: Tasmanian Audit Office

The balance of cash and deposits in the PA of $1.37bn at 30 June 2017 ($1.38bn) comprised $258m of Australian Government funds ($313m) and $1.12bn in other SDTF accounts ($1.07bn). The balance of Australian Government funds included unspent monies held in:

- Tasmanian Forests Agreement Account, $8m, for implementation of the Tasmanian Forests Intergovernmental Agreement (TFIA)
- Australian Government Funding Management Account, $250m, which included $122m ($177m) for the redevelopment of the Royal Hobart Hospital.

The SDTF balance in each of the years under review included an overnight loan from Tascorp. The effect of this arrangement was to gross up Government's cash holdings to at least equal the balance of accounts in the SDTF at 30 June. The amount of overnight borrowing decreased this year, from $385m in 2016 to $310m in 2017, as a result of the Consolidated Fund Surplus of $73m, which was available to repay debt.

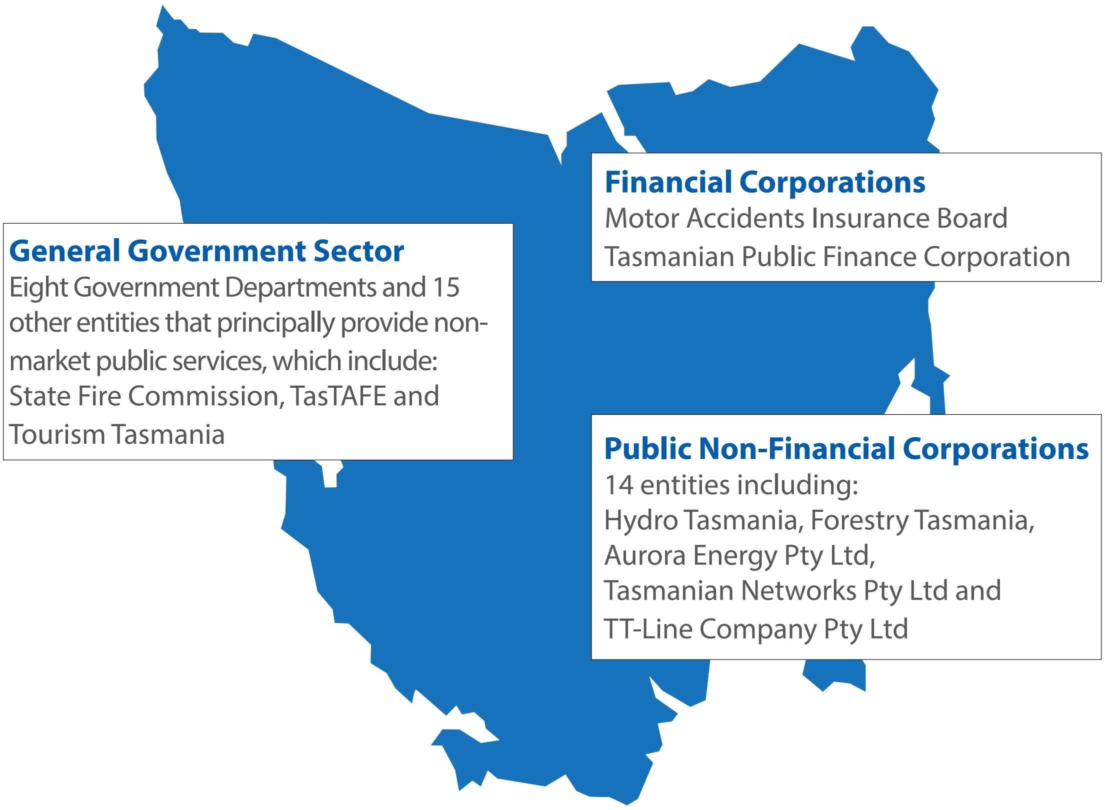
The Consolidated Fund Outcome was a surplus of $73m in 2016-17, compared to a surplus of $197m in 2015-16. The Consolidated Fund Surplus was $53m higher than the surplus in the published 2016-17 Budget. This was primarily due to State sourced receipts exceeding budget by $105m, offset partly by total expenditure increasing by $13m.

TREASURER'S ANNUAL FINANCIAL REPORT

INTRODUCTION

TAFR included the audited GGS, TSS and PA statements. It also included other information, such as an overview of the Fiscal Strategy and the Loan Council Outcome, which were not audited.

The structure of Tasmanian Total State Sector is detailed below:



KEY RESULTS AND DEVELOPMENTS

General Government Sector

The GGS incurred a net Underlying Operating Deficit of $67m in 2016-17, a decrease from the 2015-16 deficit of $19m.
The GGS recorded a Net Operating Balance surplus in 2016-17 of $804m. This improved result was significantly influenced by the receipt of $730m from the Australian Government as part of the Mersey Community Hospital transfer to the Tasmanian Government.
Australian Government funding reached 62.4% of operating revenue in 2016-17, higher than the four-year average of 60.7%, demonstrating significant and on-going reliance by Tasmania on this funding.
Dividends and income tax equivalent revenue from Government businesses increased by 33.8% to $297m in 2016-17 (2015-16, a 41.9% decrease to $222m). This meant this source of revenue represented 4.6% of Total revenue in 2016-17 (4.1%), which was a marginal improvement on the prior year result.
Expenditure related to employees totalled $2.96bn, or 52.2% of total expenses in 2016-17. This year's increase in employee related costs was limited to $134m, or 4.7%.
Supplies, consumables and other expenses increased by $65m, or 5.6%. This was principally due to significant increases within THS, $51m, and DHHS, $15m. The increase within THS reflected additional expenditure associated with the listing of Hepatitis C medications on the Pharmaceuticals Benefits Scheme. DHHS recorded additional expenditure related to an increase in the number and duration of children in special care package placements.

Other economic flows included a significant revaluation decrease in the present value of the superannuation liability of $1.22bn, primarily due to a higher discount rate used in the actuarial calculation, from 2.7% to 3.3%. (Due to the inverse relationship between the discount rate and the present value, the liability decreased as the discount rate increased).

Superannuation defined contribution and defined benefit payments this year totalled $434m ($396m). Payments related to the defined benefits schemes are expected to continue to increase until 2029-30.

The decreased superannuation liability and the impact of the Mersey Hospital funding were the main influences on the increased Equity, of $2.53bn to $9.69bn at 30 June 2017.

Purchases of non-financial assets increased by $64m to $416m in 2016-17, which included higher capital works at DHHS, principally for the Royal Hobart Hospital Redevelopment and at State Growth, for construction works on the Midlands Highway.

Tasmanian State Sector

The TSS achieved a net Underlying Operating Surplus of $10m in 2016-17, a decrease on the prior year result ($26m surplus).

Other economic flows included a positive flow related to the decrease in the present value of the superannuation liability of $1.36bn, primarily due to a higher discount rate used in the actuarial calculation, from 2.7% to 3.3%.

The decrease in the superannuation liability led to an operating surplus of $1.95bn.

Total assets of the TSS increased by $1.68bn from the prior year, with increased investments of $0.61bn and infrastructure assets of $0.57bn.

During this period, TSS liabilities decreased by $842m, primarily because:

- the net unfunded defined benefit liability decreased by $1.22bn (from $9.75bn to $8.53bn)
- borrowings decreased by $419m (from $6.58bn to $6.16bn)
- offset by an increase in Other Liabilities of $755m (from $3.33bn to $4.09bn), which included adjustments for derivative instruments and provision for outstanding and unreported claims at MAIB.

BACKGROUND

Legislative requirements

Section 26E of the *Financial Management and Audit Act 1990 (*FMAA) required the Treasurer to prepare, each year, an annual financial report, which contained the results of the GGS and transactions within the PA and the PA's balances.

The Treasurer was required to table this annual financial report by no later than 31 October immediately following the financial year to which the report relates. The financial statements were also prepared to ensure compliance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Financial reporting frameworks

The GGS and TSS financial statements were both prepared in accordance with AASB 1049. They incorporate the reporting requirements of the Australian Accounting Standards Board and the Uniform Presentation Framework (UPF), which was based on the reporting standards of the Australian Bureau of Statistics' (ABS) Government Finance Statistics framework. Explanations of the UPF Key Fiscal Aggregates were provided in notes to the financial statements and are not reproduced here.

General Government Sector

The GGS consisted of all government departments and not-for-profit State entities controlled and mainly financed by government. Government departments are entities established by executive government processes that have legislative, judicial, or executive authority over other units and which provided goods and services to the community or to individuals on a non-market basis. They also made transfer payments to redistribute income and wealth. Not-for-profit State entities were created for the purpose of producing or distributing goods and services and were not a primary source of income, profit or other financial gain for Government.

Total State Sector

The TSS included all GGS, PNFC and PFC entities. PNFC entities were mainly engaged in the production of market goods and/or non-financial services. These entities had a variety of functions and responsibilities, were established in varying ways and had different relationships with the Budget. PFC entities were mainly engaged in financial intermediation or provision of auxiliary financial services. In Tasmania, there were two entities in the PFC Sector, Tascorp and the MAIB.

Public Account

The PA statements are a special purpose financial report prepared on a cash accounting basis, incorporating all transactions, be they operational or capital in nature, entered into by government departments from the SDTF and Consolidated Fund. Explanations for applying this basis for preparing the PA statements were provided in Note 1 to the Statements and were not reproduced here.

SDTF consisted of various accounts established by the Treasurer. The majority of these accounts represented departmental operating accounts, where funds appropriated from the Consolidated Fund by an annual Appropriation Act are deposited. In addition, operating accounts can retain funds that are approved by the Treasurer.

Other accounts in the SDTF included trust funds, whole-of-government accounts, business unit accounts and accounts established under legislation.

CONCLUSION

The Treasurer submitted the TAFR financial statements and PA statements for audit on 29 September 2017, meeting the statutory deadline. Final TAFR financial statements were signed by the Treasurer and the Secretary of Treasury on 23 October 2017.

Separate unqualified audit opinions were issued on the GGS and TSS financial statements and PA statements on 27 October 2017.

The audits were completed with satisfactory results and no outstanding matters. The statements presented fairly, in all material respects, the financial performance and position of the GGS, TSS and PA and were prepared in accordance with the prescribed financial reporting frameworks.

AUDIT RESULTS

Key matters considered during the audit

Inclusion of all entities

The GGS section of TAFR consolidated the financial information of 24 GGS entities into one financial report. The TSS section of TAFR consolidated the financial information of the GGS and 16 Government businesses and their subsidiaries into one financial report.

We audited the completeness of the GGS and TSS balances in TAFR by ensuring all relevant State entities were included in the respective financial statement balances. We also ensured financial transactions and balances were agreed to audited financial statements.

Testing of elimination entries and adjustments

Elimination adjustments were made to remove inter-entity transactions from TAFR.

Adjustments were also made to the calculation of the superannuation liability for the TSS financial statements. The PNFC and PFC entities use a corporate bond rate in calculating the discount rate to be used in the calculation of their superannuation liability within their own financial statements. However, in arriving at a superannuation liability for the TSS, the liabilities for these entities are converted to the government bond rate, as per the calculation used for GGS entities. As a result, this conversion to the lower discount rate increased the value of the liabilities.

Our audit procedures included testing that elimination entries and other adjustments were appropriate and they were correctly calculated and recorded.

Verification of disclosures

The TAFR financial statements were prepared in accordance with AASB 1049. In reviewing the financial statements, we:

- reviewed relevant accounting standards, Treasurer's Instructions and Treasurer's Guidelines to determine compliance with the relevant accounting framework
- confirmed balances within note disclosures were correctly calculated
- assessed the adequacy of relevant disclosures in the financial statements, including items such as contingencies and commitments.

DEPARTMENT OF EDUCATION

INTRODUCTION

DoE was responsible for providing educational services to students from birth. It provided educational services through child and family centres, primary and high schools and colleges. It also provided education to international students through Government Education and Training International (GETI).

DoE was also responsible for LINC Tasmania which provided library services, adult literacy support, online access and archive and heritage services through the Tasmanian Archive and Heritage Office (TAHO).

KEY RESULTS AND DEVELOPMENTS

In 2016-17, DoE recorded an Underlying result deficit of $38.29m, compared to a surplus of $5.91m in 2015-16.

Employee benefits increased by $38.70m and this impacted the underlying result. This was due to an increase in staff during 2016-17 of 250 full time equivalents (FTEs) to undertake initiatives including:

- white ribbon/family violence initiatives
- expansion of the year 11-12 extension program into a further 17 schools
- refinements to the teacher staffing formula for 2017 for increasing District School leadership positions
- Ministerial Taskforce for Students with Disability
- the Literacy and Numeracy Middle Years Strategy.

Supplies and consumables increased by $17.1m in 2016-17 and mainly related to information technology expenses which increased $10.13m, due to the replacement of school networking contractors for Information Technology projects, Information Technology rack remediation for schools and the replacement of equipment.

Comprehensive income of $38.71m was a significant improvement from the prior year's result of $18.88m, reflecting the impact of a $33.29m revaluation of buildings during the year.

In 2016-17, DoE received $312.62m in administered revenue which was largely expended on payments of grants and subsidies to non-government schools totalling $312.56m.

DoE expended $46.10m on the capital investment program, which included the upgrade and redevelopment of:

- high schools at Latrobe, Montrose Bay, Prospect, Smithton, Kings Meadows, Parklands, approximately $27.00m
- primary schools including those located at Glenorchy, South Hobart, Lenah Valley, Windemere, Austins Ferry, approximately $7.40m.

CONCLUSION

In performing our audit we did not identify any significant deficiencies in internal control. We noted one moderate risk matter related to inactive users with authorisation rights within the bank account.

AUDIT RESULTS

Key matters considered during the audit

Land and buildings

DoE owned a significant number of properties throughout the State which were valued at $1.38bn. Many of these assets were specific purpose buildings with varying useful lives.

In 2016-17, movements in the value of buildings included:

- a $33.29m revaluation increase based on an indexation factor of 3.0% supplied by the Office of the Valuer-General
- capitalisation of work in progress balances related to completed projects, totalling $28.18m.

We reviewed DoE's inputs used in the previous valuation and the assessment of whether there had been a material change warranting a revision to the valuation at 30 June 2017. DoE's assessment resulted in the carrying value of building being increased by 3.0%, based on indexation provided by the Valuer-General.

School levies

DoE generated $12.25m of revenue through school levies from schools throughout the State. The Edupoint system was used by School Business Managers to report on school levies, with transactions ultimately recorded in DoE's primary finance system, Finance One.

Our audit procedures included:

- testing controls over receipting of school levies
- performing analytical procedures to assess the reasonableness of revenue generated
- reviewing the reconciliation between Edupoint and Finance One.

Significant employee benefit expense and liability

DoE and its divisions employed 7 848 paid FTEs. Employee expenses represented approximately 73.0% of recurrent expenditure.

The calculation of annual and long service leave liabilities included a number of assumptions, the inclusion of on-costs and, where applicable, inflation and discounting.

To ensure employee benefit expense and liabilities were not materially misstated we:

- performed substantive testing of new starters, terminations and payroll payments
- confirmed identified controls were operating
- tested a selection of payroll transactions and confirmed employee services were provided by reference to evidence held
- tested accrual of salaries
- confirmed year-end reconciliations
- performed detailed analytical procedures over wages and salaries accounts, based upon average full time equivalent employee numbers
- tested employee provisions against the requirements of AASB 119 *Employee Benefits*.

Capital work in progress

During 2016-17, DoE had a significant number of assets under construction throughout the State, the progress of which was reported to Treasury on a regular basis. During 2016-17, DoE expended $49.21m on assets under construction, with $28.18m capitalised into depreciable assets. In addition DoE commenced and capitalised specific purpose buildings valued at $5.39m within the year.

To gain assurance over the value of work-in-progress we:

- tested the appropriateness of the capitalisation of costs to capital work-in-progress
- verified capital work-in-progress during the year and at year end
- tested the appropriateness of the timing of capital project conversion to depreciable assets
- tested completion certificates associated with capital works payments to contractors
- assessed the appropriateness of the disclosures relating to commitments.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 16 provides a snapshot of financial results for 2016-17 in comparison to prior years.

Figure 16: DoE financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Reconciliation of Underlying result to net result								
Underlying result	(38 293)	▼	5 910	▲	(19 721)	▲	(38 861)	▼
Non operational capital funding	42 700	▲	28 906	▲	6 284	▼	16 794	●
Loss on revaluation of physical assets	0	●	0	▲	(31 301)	▼	0	●
Gain(loss) on sale of non-financial assets	(2 381)	▲	(2 736)	▲	(7 341)	▼	(2 261)	▼
Other revenue from government	3 396	▼	6 781	▼	9 427	▲	1 598	▼
Net result	5 422	▼	38 861	▲	(42 652)	▼	(22 730)	▼
Changes in revaluation reserve	33 287	▲	(19 980)	▲	(81 532)	▼	940	▼
Comprehensive result	38 709	▲	18 881	▲	(124 184)	▼	(21 790)	▼
Financial position[1]								
Cash and deposits	105 355	●	103 038	▲	86 587	▲	81 711	▲
Heritage assets	42 930	●	42 825	▼	66 513	●	66 116	●
Land and buildings	1 375 120	●	1 328 377	●	1 319 803	▼	1 448 820	▼
Employee provisions	(141 658)	▼	(133 985)	▲	(153 029)	▼	(142 332)	▲
Net assets	1 402 025	●	1 364 057	●	1 346 843	▼	1 472 211	▼
Key financial ratios								
Operating margin	1.0	●	1.0	●	1.0	●	1.0	●
Underlying result ratio	(3.9%)	▼	0.6%	▲	(2.1%)	▲	(3.8%)	▼
Net financial liabilities ratio[2]	(4.7%)	▼	(3.7%)	▲	(7.4%)	●	(7.2%)	▲

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

1. Assets are positive, liabilities are negative.

2. A positive number indicates liquid assets in excess of total liabilities.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

INTRODUCTION

DHHS is the largest of the Tasmanian Government agencies, responsible for managing and delivering integrated services that maintain and improve the health and wellbeing of Tasmanians and the Tasmanian community as a whole.

The role of DHHS is to plan and manage the health system on behalf of the Tasmanian Government, which funds the majority of health services.

DHHS included the operations of Housing Tasmania (Housing) and Ambulance Tasmania (Ambulance) and funding for THS was provided through DHHS. Unless otherwise stated, this Chapter reports financial information on a whole of agency basis.

KEY RESULTS AND DEVELOPMENTS

In 2016-17, DHHS recorded an Underlying deficit of $15.77m, a decline on the prior year's Underlying surplus of $16.40m.

In 2016-17, DHHS recorded a Net result of $53.71m, an increase of $19.95m on prior year of $33.76m. The improvement reflected:

- a lower value of assets transferred to THS on completion of construction of capital assets of $29.62m, compared to $72.78m last year
- actuarial gains on defined benefit superannuation plans for Ambulance Tasmania and Housing, totalling $12.21m, which arose from changes in financial assumptions, with the largest impact relating to an increased discount rate
- offset by the 2016-17 Underlying deficit.

The Comprehensive surplus of $143.86m was an improvement of $90.02m from the previous year due predominantly to revaluation increments on Housing's rental dwellings.

Capital grant expenditure decreased by $42.22m in 2016-17 to $30.56m. Grant expenditure for 2016-17 was primarily related to the Launceston General Hospital – J Block, $22.58m.

The increase in cash and deposits of $23.04m was primarily due to the appropriation carried forward under Section 8A(2) of the *Public Account Act 1986* amounting to $27.64m.

The increase in the value of rental dwellings of $59.26m was principally due to revaluation increments of $82.05m, offset by depreciation of $17.45m and the disposal of housing stock of $5.86m.

The decrease in interest bearing liabilities of $7.62m represented scheduled principal repayments in accordance with the Commonwealth-State Housing Agreement (CSHA).

The Child Health and Parenting Services Division transferred from DHHS to the THS on 1 January 2017. Net assets transferred were $0.30m.

CONCLUSION

In preparing the 2016-17 financial statements, DHHS identified a number of prior period errors relating to the existence and recognition of assets, as explained further below. This indicated a weakness in procedures relating to the maintenance of complete and accurate information in the asset register.

Our audit identified four moderate risk audit matters, which were reported to management. These matters related to a lack of segregation of duties around the payroll Quality Assurance Report review process, automatic salary progression within range without performance review and a number of weaknesses in information technology (IT) general controls, including:

- weak password parameters setting
- weak access controls noted around the security of data, provisioning and deletion of administrator and non-administrator users
- deficient policies and procedures.

Prior period errors

DHHS comparative figures for 2015-16 were restated in the Statement of Financial Position and Statement of Changes in Equity. These changes were a result of prior period errors which were corrected in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

DHHS identified a number of prior period errors relating to assets:

- three Housing rental properties were incorrectly revalued in the prior year resulting in an incorrect revaluation increment of $2.89m being recorded
- two properties valued at $0.66m were identified as missing from the DHHS asset register
- one Housing property valued at $6.10m had been transferred to another charitable organisation under the National Rental Affordable Scheme in 2013-14 but was not removed from the relevant asset register at the time
- land and buildings transferred to the former Tasmanian Health Organisations (THOs) on 1 July 2012 were still included in the DHHS asset register at a value of $4.37m.

In addition, an adjustment was made relating to the net assets transferred to the former THOs, now THS, arising from a misallocation in the inter-entity balance for GST and cash settlement transactions. As a result, Accumulated funds increased by $6.70m to write-back the overstatement of the net assets transferred.

Community Housing Stock Leverage Program

The Community Housing Stock Leverage Program was one of the key initiatives of the *Tasmanian Affordable Housing Action Plan 2015-2019*. Under this initiative, the Tasmanian Government sought innovative proposals to leverage new supply from the existing social housing portfolio. The intent is to transfer the legal title in 471 properties owned by Housing but under management by community housing organisations. These assets are currently disclosed as contingent assets as they have been derecognised in the DHHS financial statements. Legal title for these assets will be transferred in stages with around 237 properties transferring in the first tranche in 2017-18. The remaining assets will be transferred by 1 July 2019 if conditions have been met by the participating organisations.

AUDIT RESULTS

Key matters considered during the audit

Property, Plant and Equipment

DHHS had a significant property portfolio of $1.78bn, which comprised Housing land and buildings of $1.44bn. Housing land and buildings were recognised at fair value, the calculation of which required significant judgement and estimation.

The calculation of depreciation of Property, plant and equipment required estimation of asset useful lives and residual values which involved a high degree of subjectivity. Changes in assumptions underlying depreciation calculations could significantly impact depreciation charged.

DHHS also had substantial works-in-progress of $208.76m. Capital projects with significant levels of expenditure for the year included the Royal Hobart Hospital Redevelopment and projects under the Affordable Housing Strategy.

Audit procedures to address audit risks identified in relation to Property, plant and equipment included:

- reconciling movements and closing balances to asset registers
- assessing the competence of management's valuation expert
- assessing the appropriateness of the valuation approach and the key assumptions used
- testing the inputs and assumptions into the valuation model to ensure consistency with relevant and published data
- assessing depreciation expenses for each class of asset
- testing the classification of capital and maintenance costs
- testing asset additions and work-in-progress on a sample basis
- testing the transfer of completed assets to THS where applicable
- assessing the adequacy of relevant disclosures in the financial statements.

Grants and Subsidies Paid

DHHS administered a significant number of grants through its Grants Management Team, operating within the Community Sector Relations Unit. Grants and subsidies expenditure was recognised to the extent the services required to be performed by the grantee were conducted or the grant eligibility criteria were satisfied. Excluding grants transferred to THS, which included recurrent funding and capital grants made by way of asset transfers, the unit administered approximately $311.81m in expenditure in 2016-17.

Audit procedures completed relating to grants and subsidies paid included:

- testing the design, implementation and operating effectiveness of controls within the Electronic Grants Management System
- testing grant and subsidy payments, on a sample of basis, to grant deeds and assessing compliance with grant conditions, achievement of milestones, determining whether grant recipients met conditions to receive the grant and grant approval processes
- assessing the accuracy and adequacy of commitment disclosures.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 17 provides a snapshot of financial results for 2016-17 in comparison to prior years.

Figure 17: DHHS financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Reconciliation of Underlying result to net result								
Underlying Result	(15 770)	▼	16 395	▲	5 110	▲	(5 630)	▼
Non-Operational Commonwealth funding	60 524	▼	65 693	▲	30 377	▼	52 997	▲
Non-Operational State Capital Funding	36 174	▲	30 910	▲	12 531	▼	13 665	▼
Capital Grants Expenditure	(30 557)	▲	(72 780)	▼	(20 185)	▲	(120 561)	▼
Community housing program grants	(4 590)	▼	(349)	▲	(132 921)	▲	(389 598)	▼
Other economic flows included in net result	7 928	▲	(6 108)	▼	2 268	▲	(2 788)	▼
Net Result	53 709	▲	33 761	▲	(102 820)	▲	(451 915)	▼
Changes in revaluation reserve	90 149	▲	20 075	▲	(401)	▼	13 377	▼
Comprehensive Result	143 858	▲	53 836	▲	(103 188)	▲	(438 538)	▼
Financial position[1]								
Cash and deposits	138 201	▲	115 165	▲	91 986	●	91 686	▲
Rental dwellings	1 402 686	●	1 343 423	●	1 343 675	▼	1 500 605	▼
Property, plant and equipment	1 776 517	▲	1 648 795	●	1 630 316	▼	1 758 465	▼
Interest bearing liabilities	(173 292)	●	(180 909)	●	(188 365)	●	(195 693)	●
Net assets	1 694 097	▲	1 550 540	●	1 499 579	▼	1 602 800	▼
Key financial ratios								
Operating margin	1.01	●	1.03	●	1.02	●	1.02	●
Underlying result ratio	(1.1%)	▼	1.2%	▲	0.4%	▲	(0.4%)	▼
Net financial liabilities ratio[2]	(9.9%)	▲	(11.2%)	▲	(14.5%)	▲	(15.5%)	▲

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

1. Assets are positive, liabilities are negative.

2. A positive number indicates liquid assets in excess of total liabilities.

DEPARTMENT OF JUSTICE

INTRODUCTION

DoJ provided services in the areas of justice, protecting rights, improving laws, influencing positive behaviour and enforcing responsibilities. It also provided administrative support for the Supreme and Magistrates Courts and to a number of statutory authorities and offices.

KEY RESULTS AND DEVELOPMENTS

DoJ reported an Underlying deficit of $7.82m in 2016-17 compared to a prior year Underlying deficit of $2.11m. The higher deficit of $5.71m was due to:

- increased employee expenses of $6.89m, due principally to an increase in FTEs of 43 employees and wage increases
- increased supplies and consumables expenditure of $2.65m across a number of categories, including increased information technology expenditure of $0.59m
- an increase in depreciation expense of $1.21m due to the full year effect of a revaluation of land, buildings and prisons building assets in 2015-16
- offset partly by increased appropriation of $7.22m, received to meet increased staffing levels.

The Net result was a deficit of $6.76m in 2016-17, a deterioration of $9.13m from the surplus of $2.37m in 2015-16. Apart from items noted above, the deficit was impacted by a decrease in capital appropriation of $1.94m, following the completion of the Prison Infrastructure Redevelopment Program in 2015-16. The prior year result was also positively influenced by asset revaluation adjustments and newly identified assets through the revaluation process, which totalled $1.45m. There were no such adjustments in the current year.

DoJ administered the Asbestos Compensation Fund Provision for Compensation Payable. Future asbestos compensation payments were estimated to be $95.57m as at 30 June 2017. This was $5.62m lower than the 30 June 2016 valuation, after adjusting for payments made during the year and the unwinding of the discount rate. All expenditure incurred by the Asbestos Compensation Scheme was recoverable from licensed insurers and self-insurers through a levy.

The Poppy Advisory and Control Board was amalgamated with DPIPWE effective from 1 July 2016. The transfer was treated as a restructure of administrative arrangements with transfer of net assets of $0.08m to DPIPWE for no consideration.

CONCLUSION

In performing our audit we did not identify any significant deficiencies in internal control nor did we report any significant audit findings.

AUDIT RESULTS

Key matters considered during the audit

Various Revenue Streams

DoJ collected a substantial level of fees and fines and also generated a large amount of revenue from the sale of goods and services. The diversity of revenue streams and systems together with numerous divisions across the State increased the risk that revenue may not be correctly recorded or receipted.

To ensure various revenue streams were not materially misstated we:

- tested the operating effectiveness of controls around DoJ's revenue systems. As part of the review of controls, we engaged an expert to perform an IT review over a number of the revenue systems to obtain assurance that IT controls in these systems were operating effectively
- performed analytical procedures and other substantive testing over various revenue streams.

Asset Recognition and Valuation

There were a number of interrelated issues relating to asset recognition and valuation. Land, building and prison building assets controlled by DoJ were independently revalued in the prior year and we identified the application of valuation indices, if applied in the current year, would not have materially impacted upon the carrying values in the current year.

We ensured appropriate values were accurately recorded for any assets recognised in 2016-17 and that asset data was reconciled between the asset register and the general ledger.

Asbestos Compensation Scheme (the Scheme)

The Scheme was administered by the Asbestos Compensation Fund (the Fund) and funded through a levy on the premiums of licensed insurers and the notional premiums of self-insurers.

Future compensations payments were estimated to be $95.57m at 30 June 2017 and reflected the present value of both existing and future claims calculated by an actuary. Future claims represented 98.6% of the liability at $94.26m. The value of future claims, net of the Scheme's other assets, $78.10m, was recognised as a receivable based on the fact that all expenditure incurred by the Scheme over its entire life can be obtained from licensed insurers and self-insurers through the levy.

The value of, and movements in, the future compensations liability recognised in the financial statements were based on a valuation which contained a number of actuarial assumptions.

The size of the liability and the inherent judgement involved in determining its amount contributed to this being a key audit matter.

In 2016-17, we engaged an expert to peer review the work of the Scheme's actuary. Overall, our expert was satisfied that the data, assumptions and methodology used by the actuary to determine the value of the provision for compensation payable as at 30 June 2017 were reasonable.

The provision for compensation payable recognised by the Fund totalled $95.57m at 30 June 2017, which was $5.62m lower than the 30 June 2016 amount, once adjusted for payments made during the year and unwinding of the discount rate. Those movements were attributed to:

- favourable actual versus expected experience over the year, in particular in relation to the low number of reported claims compared to expectations
- a reduction in the Incurred But Not Reported claim numbers as well as the average claim size, which reduced the liability
- increases in inflation and discount rates.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 18 provides a snapshot of financial results for 2016-17 in comparison to prior years.

Figure 18: DoJ financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Reconciliation of Underlying result to net result								
Underlying result	(5 832)	▼	(2 112)	▼	289	▲	(999)	▲
Capital revenue	665	▼	3 082	▼	7 236	▼	10 593	▲
Other economic gains / (losses)	(260)	▼	1 404	▲	(1 189)	▼	(398)	▼
Net result	(6 757)	▼	2 374	▼	6 356	▼	9 196	▲
Changes in revaluation reserve	0	▼	21 047	▲	0	●	0	●
Comprehensive result	(6 757)	▼	23 421	▲	4 271	▼	9 196	▲
Financial Position[1]								
Cash and deposits	26 323	●	25 534	●	24 821	▲	19 536	▲
Property, plant and equipment	153 756	▼	159 024	▲	138 488	●	134 329	▲
Employee provisions	(27 150)	●	(26 144)	●	(26 980)	▼	(25 325)	●
Net assets	154 156	▼	161 174	▲	137 753	●	133 482	▲
Key Financial Ratios								
Operating margin	1.0	●	1.0	●	1.0	●	1.0	●
Underlying result ratio	(3.3%)	▼	(1.2%)	▼	0.2%	▲	(0.6%)	▲
Net financial liabilities ratio[2]	13.7%	▲	14.3%	▲	13.5%	▲	12.2%	▲

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

1. Assets are positive, liabilities are negative.

2. A positive number indicates liquid assets in excess of total liabilities.

DEPARTMENT OF POLICE, FIRE AND EMERGENCY MANAGEMENT

INTRODUCTION

DPFEM is responsible for the delivery of policing, fire and emergency management services in Tasmania. The Police and Emergency Management Services transactions were reported in the DPFEM financial statements while State Fire Commission transactions were reported separately and are included in the Other General Government Sector and State entities Chapter of this report.

KEY RESULTS AND DEVELOPMENTS

In 2016-17, DPFEM recorded an Underlying deficit of \$19.22m, an increase \$11.94m from the prior year. The higher deficit was primarily due to increased supplies and consumables related to unbudgeted Emergency Computer Aided Dispatch and Trunk Mobile Radio Network (TMRN) consultancy fees of \$3.60m and TMRN fees of \$7.80m. The increased deficit result is reflected in the lower Operating margin and lower Underlying result ratios for 2016-17.
The Comprehensive result decreased by \$12.62m to a deficit of \$11.08m for the 2016-17 financial year. This movement was consistent with the increased Underlying deficit. Higher works and services and other capital revenue of \$3.68m was offset by a net decrement of \$4.89m on the revaluation of land and buildings.
Recurrent appropriation increased by \$10.35m to \$206.96m in 2016-17. The higher revenue included \$6.00m related to the fuel reduction program transferred from DPIPWE on 1 July 2016, as the Fuel Reduction Unit resides within the Tasmanian Fire Service. Directly associated with increased revenue was a corresponding increase in Other expenses.
Cash and deposits increased by \$2.27m from prior year to \$6.66m at 30 June 2017. The increase was attributable to a *Public Account Act 1986* section 8A(2) carry-forward of \$2.33m to 2017-18 for the police vessel project and Fuel Reduction Unit funding.
The \$8.83m decrease in Property, plant and equipment was attributable the depreciation expense \$8.99m and revaluation decrement of \$4.89m, exceeding additions of \$6.06m.
Employee benefit liabilities increased \$5.57m from prior year primarily due to the transfer of all corporate, human resources and policy services of the State Fire Commission to DPFEM in 2016-17.

CONCLUSION

In performing our audit we did not identify any significant deficiencies in internal control, nor did we report any significant audit findings.

AUDIT RESULTS

Key matters considered during the audit

Property, plant and equipment

An external valuation of DPFEM's land and buildings was conducted as at 30 June 2017. The valuers were engaged to assess DPFEM's property portfolio to determine if there had been a material movement in values since the last revaluation.

Through the 2016-17 revaluation process, an error in the previous valuation was identified relating to a building within the Hobart CBD. The revaluation undertaken in 2011-12 used an incorrect input, the building floor space. The error, assessed as material, resulted in restatement of prior period comparative information in the financial statements.

The 2016-17 land and building revaluation resulted in a decrease in the value of the buildings of $4.9m, which was reflective of market conditions and also rural and regional properties which have, in general, decreased in value due to property conditions.

Our audit procedures included:

- obtaining the valuer's report to validate the valuation methodology in accordance with the accounting standards
- obtaining management's revaluation work papers and detailing the adjustments to each asset within the land and building asset class
- considering management's assessment of the valuation of the land and buildings
- considering impairment indicators for plant and equipment
- vouching material additions and disposals to supporting documentation
- reconciling the change in the value of land and buildings through to the asset revaluation reserve.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 19 provides a snapshot of financial results for 2016-17 in comparison to prior years.

Figure 19: DPFEM Financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Reconciliation of Underlying result to net result								
Underlying result (deficit)	(19 219)	▼	(7 280)	●	(7 550)	▲	(11 139)	▼
Appropriation revenue - works and services	10 892	▲	9 046	▲	0	●	0	▼
Other capital revenue from Government	2 334	▲	500	▼	1 500	▼	5 165	▲
Net gain (loss) on sale of non-financial assets	(197)	▲	(724)	▼	274	▲	(1 145)	▼
Net gain (loss) on financial instruments	(2)	▼	0	●	0	●	0	▲
Other revenue - TMRN digital upgrade	0	●	0	●	0	▼	2 440	▼
Net result	(6 192)	▼	1 542	▲	(5 776)	▼	(4 679)	▼
Changes in revaluation reserve	(4 887)	▼	0	●	0	●	0	●
Comprehensive result	(11 079)	▼	1 542	▲	(5 776)	▼	(4 679)	▼
Financial position[1]								
Cash and deposits	6 665	▲	4 397	▲	3 104	▼	3 516	▼
Property, plant and equipment	167 107	▼	175 933	●	183 708	●	188 209	●
Employee provisions	(59 130)	▼	(53 554)	●	(54 305)	●	(51 813)	▼
Net assets	116 893	▼	128 788	●	130 083	▼	137 023	●
Key financial ratios								
Operating margin	0.9	▼	1.0	●	1.0	●	1.0	●
Underlying result ratio	(8.1%)	▼	(3.3%)	▲	(3.6%)	▲	(4.8%)	▼
Net financial liabilities ratio[2]	(24.3%)	●	(24.0%)	▲	(26.5%)	●	(26.6%)	●

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

1. Assets are positive, liabilities are negative.

2. A positive number indicates liquid assets in excess of total liabilities.

DEPARTMENT OF PREMIER AND CABINET

INTRODUCTION

DPAC provided a broad range of services to Cabinet, other members of Parliament, Government agencies and the community.

In addition, it was responsible for the operations of:

- Service Tasmania, which provided one-stop access to government transactions, services and information through its service centres, over the phone and online
- TMD, which provided telecommunication and computing services to agencies and managed the government's Networking Tasmania contract
- Training Consortium, which operated within the State Service Management Office and coordinated the delivery of training and consultancy services in a wide range of areas.

DPAC also provided administrative support to the Tasmanian Community Fund, Tasmanian Early Years Foundation and the Anzac Day Trust.

KEY RESULTS AND DEVELOPMENTS

DPAC achieved an Underlying surplus of $0.04m in 2016-17 compared to $0.96m in the prior year. The result included an increase in the value of transfer payments, from $8.35m in 2015-16 to $10.27m, which included $1.13m transferred for the Beaconsfield Mine Shaft Project.
The Net result, a $1.75m deficit, was significantly influenced by the transfer of land and building assets of $1.79m, representing the transfer of Camp Banksia to Latrobe Council. In return for the transfer, Latrobe Council returned land and buildings to the Crown, with the assets disclosed by the DoE.
The value of land and buildings decreased by $1.40m to $29.88m at 30 June 2017, due principally to the transfer of Camp Banksia.
DPAC borrowed $1.11m in 2015-16 from Treasury to fund the cost of termination payments. The loan was repayable over three years.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control and nor did we report any significant findings.

AUDIT RESULTS

Key matters considered during the audit

There were no key matters considered during the audit, however a number of significant risks were identified. These included consideration of the operations of TMD, operations of Service Tasmania and consolidation of separate ledger systems.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 20 provides a snapshot of financial results for 2016–17 in comparison to prior years.

Figure 20: DPAC financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Reconciliation of Underlying result to net result								
Underlying result	4	▼	955	▲	(5 311)	▼	(2 801)	▼
Other economic gain/ (losses)	(1 791)	▼	(77)	▼	(2)	●	0	●
Revenue from Government - capital	656	▼	825	▲	446	▲	250	●
Capital funds expended	(616)	▼	(358)	▼	0	●	0	●
Net result	(1 747)	▼	1 345	▲	(4 867)	▼	(2 551)	▼
Changes in revaluation reserve	0	▼	3 676	▲	5	●	0	●
Comprehensive Result	(1 747)	▼	5 021	▲	(4 862)	▼	(2 551)	▼
Financial Position[1]								
Cash and deposits	10 170	▲	9 295	▲	7 832	▼	10 012	▼
Land and Buildings	29 880	▼	32 260	▲	29 334	▲	0	●
Employee benefits	(14 312)	▼	(13 514)	●	(13 131)	▼	(10 625)	▲
Net assets	29 288	▼	31 035	▲	27 656	▲	4 082	▼
Key Financial Ratios								
Operating margin	1.0	●	1.0	●	1.0	●	1.0	●
Underlying result ratio	0.0%	▼	0.7%	▲	(4.0%)	▼	(2.7%)	▼
Net financial liabilities ratio[2]	(4.6%)	▲	(5.0%)	●	(4.8%)	▼	(1.7%)	▼

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

1. Assets are positive, liabilities are negative.

2. A positive number indicates liquid assets in excess of total liabilities.

DEPARTMENT OF PRIMARY INDUSTRIES, PARKS, WATER AND ENVIRONMENT

INTRODUCTION

DPIPWE was responsible for the sustainable management, sensible development, promotion, use and protection of the State's natural resources and cultural heritage, for the benefit of the Tasmanian community.

KEY RESULTS AND DEVELOPMENTS

In 2016-17, DPIPWE recorded an Underlying deficit of $13.44m, which was an improvement from the previous year's Underlying deficit of $14.79m.
The lower Underlying deficit reflected the impact of increases in visitor numbers to many of the national parks and walking tracks including Three Capes Tracks and other sales of goods and services.
During the year, the remainder of the road network transferred from Forestry Tasmania in 2013-14, as a result of the *Forest Management Act 2013* and the *Tasmanian Forests Agreement Act 2013*, was captured and valued. As at 30 June 2017, the Forestry road network was valued at $95.58m.
National parks and reserves infrastructure assets across northern and north-western Tasmania suffered significant damage due to the severe weather and flooding experienced in June 2016. This resulted in assets totaling $4.74m being written off in 2016-17. The subsequent rebuilding of these assets resulted in new assets of $6.56m being recognised in 2016-17.
The Net result of $96.31m for the year, which was $90.39m higher than the prior year result of $5.93m, reflected the recognition of the Forestry road network.
DPIPWE revalued the infrastructure class of assets during the year. Valuations also occurred on a number of assets within the land, buildings, and intangibles class. The revaluation resulted in a $94.16m increase in the value of these assets.
A number of prior period errors were identified, relating to issues identified with previous asset valuations and reconciliations between various asset systems. This led to the recognition and derecognition of a number of assets. The net effect of the prior period errors, in addition to the adjusted asset values, was a $4.74m decrease in the asset revaluation reserve as at 1 July 2015.
The Poppy Advisory and Control Board, which was part of DoJ, was amalgamated with DPIPWE effective from 1 July 2016. The transfer was treated as a restructure of administrative arrangements with net assets of $0.08m transferred to DPIPWE for no consideration.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control, nor did we have any high risk audit findings.

There was one moderate rated audit matter identified, which related to timesheet authorisation within one specific division within DPIPWE, with appropriate action taken to resolve this issue. Two matters arising from prior year audits were satisfactorily resolved during the course of this year's audit, with the two remaining items currently being addressed.

AUDIT RESULTS

Key matters considered during the audit

Diverse revenue streams

DPIPWE collected a substantial level of fees, fines and revenue from sales of goods and services. The diversity of revenue streams and systems together with numerous divisions operating across the state increased the risk that revenue may not be correctly recorded or receipted.

We tested controls around DPIPWE's revenue systems. As part of the review of controls, we undertook an IT controls review over a number of the revenue systems.

We also performed substantive testing over various revenue streams using computer assisted analytical testing.

Asset recognition and valuation

Infrastructure assets, including all walking tracks, 4X4 access roads, roads and fire trail infrastructure assets, as well as other infrastructure assets above the valuation threshold were independently revalued by the Office of the Valuer-General (OVG) in 2016-17. Infrastructure assets were valued using the Depreciated Replacement Cost (DRC) methodology. In arriving at the value of infrastructure, the OVG estimated the cost of replacement based on modern equivalent assets at current costs and their economic lives.

In accordance with DPIPWE's asset valuation policy, infrastructure assets below the valuation threshold of $0.05m were revalued using indexation, as were the land and building assets.

As a result of the valuation, the value of land and buildings increased by $68.30m and $2.90m respectively. The value of infrastructure assets increased by $21.76m, reflecting higher replacement costs based upon current construction indices.

In determining infrastructure asset values for 2016-17, the OVG had to exercise significant professional judgement in identifying asset components and determining asset useful lives. As a result, the final valuation was highly dependent upon such assumptions and estimates. For these reasons, the valuation was an area requiring particular audit attention.

To ensure that the value of land, buildings and infrastructure assets were not materially misstated we:

- assessed the competence of the OVG
- evaluated the appropriateness and completeness of information provided by DPIPWE to the OVG
- analysed the reasonableness of the methodology and calculations applied in the valuation
- assessed the revaluation and ensured indices were appropriate, values were accurately recorded and that asset data was reconciled between the asset register and the general ledger
- assessed the valuation approach for compliance with AASB 13 *Fair Value Measurement*
- examined the appropriateness of the financial statement disclosures.

Adjustment of prior period errors

During the audit year, comparative figures were restated in the Statement of Financial Position and Statement of Changes in Equity as a result of prior period errors. Prior period error adjustments included:

- discovery of existing Parks and Wildlife Services assets not recorded on DPIPWE's asset register worth $11.99m
- removal of 10 assets recorded on DPIPWE's asset register transferred to other organisations, amounting to $2.49m and two Crown land building assets transferred out, worth $1.21m
- correction of valuation duplications between building and infrastructure assets, leading to a decrease of $4.59m in Property, plant and equipment as at 1 July 2015, in addition to minor adjustments across asset categories and within depreciation expense.

Overall, there was a net decrease of $4.74m in the asset revaluation reserve at 1 July 2015, arising from the above adjustments.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 21 provides a snapshot of financial results for 2016-17 in comparison to prior years.

Figure 21: DPIPWE financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Reconciliation of Underlying result to net result								
Underlying result	(13 441)	▲	(14 785)	▲	(17 586)	▼	(15 364)	▲
Other economic flows included in net result	(5 893)	▼	(1 576)	▼	908	▲	(390)	▲
Revenue from Government - capital	15 063	▼	16 234	▲	8 017	▲	4 890	●
Contribution provided	(1 267)	▼	(1 414)	▲	(171)	▼	(1 512)	▼
Contribution received	101 849	▲	7 466	▼	52 506	▲	27 682	▲
Water infrastructure fund[2]	0	●	0	▼	8 627	▼	35 668	▲
Net result	96 311	▲	5 925	▼	52 301	●	50 974	▲
Changes in revaluation reserve	94 156	▲	3 280	▼	5 838	▲	(26 991)	▼
Comprehensive result	190 467	▲	9 205	▼	58 139	▲	23 983	▲
Financial position[1]								
Cash and deposits	121 550	●	118 896	▲	108 686	▲	88 717	●
Property, plant and equipment	1 117 075	▲	1 053 903	●	1 057 509	▲	921 860	▲
Infrastructure	333 036	▲	212 134	●	204 428	▲	182 183	▲
Employee provisions	(28 490)	▼	(27 504)	▲	(31 830)	●	(32 123)	▼
Net assets	1 551 336	▲	1 360 794	●	1 346 475	▲	1 165 862	▲
Key financial ratios								
Operating margin	0.9	●	0.9	●	0.9	●	0.9	●
Underlying result ratio	(6.8%)	●	(7.1%)	▲	(9.4%)	▼	(7.8%)	▲
Net financial liabilities ratio[3]	37.7%	▲	34.3%	▲	32.4%	▲	20.0%	▼

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

1. Assets are positive, liabilities are negative.

2 Administration of the Water Infrastructure Fund was transferred to Treasury.

3 A positive number indicates liquid assets in excess of total liabilities.

DEPARTMENT OF STATE GROWTH

INTRODUCTION

The objective of the State Growth is to support economic growth and facilitate the creation of jobs and opportunities for Tasmanians.

State Growth consolidates the results of the following entities:

- State Growth
- The Tasmanian Museum and Art Gallery (TMAG)
- Tasmania Development and Resources (TDR)
- Abt Railway Ministerial Corporation (Abt Railway)
- Forest Practices Authority (consolidated within the administered financial statements).

KEY RESULTS AND DEVELOPMENTS

The Net underlying deficit for the year was \$67.09m compared to \$73.62m for 2015-16.
In 2016-17, State Growth recorded a Net result of \$41.18m, an improvement on the prior year of \$27.15m.
The Comprehensive result of \$302.40m for 2016-17 was an improvement of \$333.64m from the previous year and reflected the impact of the asset net revaluation increment of \$261.22m recognised during the year.
Loan advances increased by \$4.03m, and included new lending under programs such as Agrigrowth, \$4.09m, Pacific Oyster Mortality Syndrome, \$1.25m, and the Drought Dairy Concessional, \$2.99m. Loan repayments of \$5.92m were also received during the year.
Payments for acquisitions of non-financial assets during 2016-17 were \$137.30m, an increase of \$41.56m from the previous year. The increase was mainly due to the capital expenditure on the Midland Highway, \$69.52m (2015-16, \$28.82m), and Brooker Highway, \$18.23m (\$9.24m).
The revaluation of Bridges at 30 June 2017, undertaken on a depreciated replacement cost basis, resulted in a net revaluation increment of \$244.92m.
The revaluation of rail corridor by the OVG as at 30 June 2017 resulted in a revaluation increment of \$9.79m.
The revaluation of Abt Railway's infrastructure, rolling stock, land and buildings resulted in a net revaluation increment of \$4.68m. The valuation at 30 June 2017 was based on both depreciated replacement cost and market approaches.
The revaluation of marine vessels and traffic signals resulted in a net revaluation increment of \$2.06m. The valuation at 30 June 2017 was based on the depreciated replacement cost approach.
Other assets increased by \$10.87m primarily due to an advance payment of \$11.00m for the purchase of a floor in the Devonport City Council multi-purpose civic building, which was under construction. The payment was made under the Northern Cities Major Development Initiative.
Interest bearing liabilities increased by \$6.48m, primarily due to funding received from the Australian Government for the Commonwealth Farm Business Concessional Loan Scheme, \$25.00m, offset by repayment of borrowings, \$18.00m.

CONCLUSION

Our audit identified three internal control improvements relating to:

- the review of changes to pay rates in the payroll system
- approval and authorisation processes for the creation of, or changes to, grant recipients or creditors in State Growth's finance system
- the finance system being configured to allow the creation and approval of purchase orders and receipt the goods and services by the same person within State Growth.

There were 14 prior year findings of which nine remained unresolved. These will be followed up during the 2017-18 audit.

AUDIT RESULTS

Key matter considered during the audit

Infrastructure assets

State Growth's infrastructure assets, which comprised roads, land under roads and within road reserves, bridges and Abt Railway infrastructure, were valued at $4.31bn. The fair value was determined by employees of State Growth or valuation experts using a number of different valuation approaches, the most common being depreciated replacement cost.

The valuations were dependent on a range of assumptions, including estimation of the remaining useful lives of assets. The application of valuation assumptions and estimates had a significant impact on State Growth's financial results.

State Growth also had substantial capital work-in-progress, totalling $93.67m, for the construction of roads at 30 June 2017.

Audit procedures undertaken to address audits risks identified in relation to infrastructure assets included:

- assessing the objectivity and competence of management's valuation experts
- evaluating the valuation methodology used and work performed by management's valuation experts, including testing of underlying data
- reconciling movements and closing balances of asset classes in the financial statements to asset registers
- examining the movement in the asset revaluation reserves
- assessing the reasonableness of depreciation expense for each class of asset using analytical procedures
- testing the classification of capital and maintenance costs on a sample basis
- assessing the adequacy of disclosures in the financial statements relating to infrastructure assets.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 22 provides a snapshot of financial results for 2016–17 in comparison to prior years.

Figure 22: State Growth financial snapshot

	2016-17 $'000s	Ind	2015-16 $'000s	Ind	2014-15 $'000s
Financial performance					
Reconciliation of Underlying result to net result					
Underlying result	(67 086)	▲	(73 624)	▲	(76 229)
Non operational capital funding	122 800	▲	101 544	●	92 014
Net gain (loss) on non-financial assets	(14 356)	▲	(46 877)	▼	(12 468)
Contributions received	702	▼	27 691	▲	250
Fair value of land and buildings assets recongnised	0	▼	4 832	▲	0
Net gain (loss) on financial instruments and statutory receivables/payables	876	▲	(469)	▲	1 610
Net result	41 184	▲	14 035	▲	1 957
Revaluation increment (decrement)	261 217	▲	(45 277)	▼	21 224
Comprehensive result	302 401	▲	(31 242)	▼	23 181
Financial position[1]					
Cash and deposits	99 754	●	98 766	▲	66 472
Loan advances	37 315	▲	33 282	▼	39 948
Infrastructure	4 313 715	▲	4 030 792	●	4 081 960
Heritage assets	408 464	●	407 879	●	400 618
Land and buildings	150 357	●	144 387	●	140 700
Other assets	12 299	▲	1 433	▼	1 731
Interest bearing liabilities	(61 222)	▼	(54 742)	▼	(40 513)
Other liabilities	(17 955)	▲	(19 774)	▼	(18 599)
Employee provisions	(19 215)	▼	(17 387)	▲	(21 654)
Net assets	4 947 478	▲	4 645 077	●	4 675 731
Key financial ratios					
Opearting margin	0.9	●	0.8	●	0.8
Underlying result ratio	(15.8%)	▲	(19.1%)	●	(19.8%)
Net financial liabilities ratio[2]	(0.8%)	▼	(0.5%)	▲	(6.0%)

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

1. Assets are positive, liabilities are negative.

2. A positive number indicates liquid assets in excess of total liabilities.

DEPARTMENT OF TREASURY AND FINANCE

INTRODUCTION

Treasury was responsible for managing the Tasmanian Government's financial resources and for implementing strategies to achieve the Government's economic and fiscal objectives. It was predominately funded through Parliamentary appropriations, under two separate Divisions, Treasury and Finance and Finance-General.

The activities of the Treasury and Finance Division were reported as controlled activities, including all funds through which Treasury controls resources to carry out its functions. Administered statements encompassed all activities of the Finance-General Division that were administered on behalf of Government.

KEY RESULTS AND DEVELOPMENTS

The *Public Sector Superannuation Reform Act 2016* created the Superannuation Commission with effect from 1 April 2017 and transferred trustee responsibility from the former RBF to the Commission, from that date. The RBF Accumulation Scheme was transferred to Tasplan at the same time. The functions and powers of the Commission are specified in the *Public Sector Superannuation Reform Act 2016* and the *Public Sector Superannuation Reform Regulations 2017.* The Superannuation Commission is supported by the OSC, which commenced as a branch of Treasury as of 1 April 2017.
In 2016-17, Treasury recorded an Underlying surplus of $2.76m compared to $5.11m in 2015-16. This decrease was primarily due to the timing of grant payments associated with the agreement with Hydro Tasmania for the Bass Strait Islands Community Service Obligation, which resulted in an inflated surplus in 2015-16. The increase in employee benefits and supplies and consumables expenditure in 2016-17 was principally due to the inclusion of expenditure for OSC and additional consultant fees relating to the Social and Economic Impact study on gambling. This study occurs once every three years.
Cash and deposits increased by $1.92m from the prior year. The increase was primarily due to approved carry forwards for the Budget Information Management System (BIMS) project, $0.50m, and for other activities of Treasury, $0.89m.
Intangibles increased in 2016-17 due to the continuing refinement of the BMIS and finalisation of the State Revenue Replacement Project. The BIMS is a critical whole of government system that will be used by all Government agencies to support the future management of the State Budget.
Payables and employee provisions increased in 2016-17 which reflected additional payables and employees arising from the inclusions of the OSC.

AUDIT FINDINGS

In performing our audit we did not identify any significant deficiencies in internal control nor did we report any significant audit findings.

AUDIT RESULTS

Key matters considered during the audit

Defined benefit superannuation (Administered)

Treasury administers the Government's unfunded defined benefit superannuation liability. The liability is determined by the State Actuary and its calculation is subject to numerous assumptions. Changes in market conditions, discount rate and key assumptions impact on the value of the unfunded superannuation.

Last year, we engaged a specialist to undertake a peer review of Mercer Australia Pty Ltd (Mercer), which provided actuarial services for the RBF Contributory Scheme. The peer review provided assurance that the assumptions and methodology used by Mercer complied with AASB 119 *Employee Benefits* and the relevant valuation framework, were reasonable and appropriate. We continued to place reliance on the result of last year's peer review in the current year.

We performed the following audit procedures to ensure the superannuation liability was not materially misstated:

- reviewed actuarial calculations including the reasonableness of the assumptions used
- examined the accounting for superannuation costs and movements in the valuation of the superannuation liability as well as disclosures made in the financial statements to ensure compliance with AASB 119.

Investments – Office of the Superannuation Commissioner

The OSC was responsible for overseeing the management of significant investments held to meet benefit payment obligations under the Government defined benefit schemes. The complexity of verifying market valuations for the different types of investments and potential for volatility in the financial markets, created a significant risk of misstatement in the financial statements.

To address the risk we performed the following audit procedures:

- confirmed existence and valuation of investments
- obtained sign-offs to verify the operation of controls within the Custodian, as required by the Auditing and Assurance Standards Board Guidance Statement GS007 *Audit Implications of the Use of Service Organisations for Investment Management Services*,
- reviewed internal control framework with regards to monitoring by the Custodian
- tested the governance structure implemented for monitoring investments with regards to valuation and measurement
- utilised independent valuation reports to support carrying values of property investments
- evaluated valuation and measurement methodologies used.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Figure 23 provides a snapshot of financial results for 2016-17 in comparison to prior years.

Figure 23: Treasury financial snapshot

	2016-17		2015-16		2014-15		2013-14	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Financial performance								
Underlying net operating result	2 755	▼	5 105	▲	(1 436)	▼	412	▼
Comprehensive result	2 755	▼	5 105	▲	(1 436)	▼	407	▼
Financial position[1]								
Cash and deposits	7 167	▲	5 252	▲	4 295	●	4 161	●
Intangibles	6 178	▲	3 423	▲	2 358	▲	1 565	▲
Payables	(1 663)	▼	(199)	▲	(289)	▼	(109)	▲
Employee provisions	(7 075)	▼	(6 513)	▲	(7 202)	●	(7 170)	●
Other liabilities	(1 424)	▼	(1 190)	▲	(3 406)	▼	(1 397)	▲
Net assets/(liabilities)	5 603	▲	2 849	▲	(2 258)	▼	(822)	▲
Key financial ratios								
Operating margin	1.1	●	1.1	▲	1.0	●	1.0	●
Underlying result ratio	4.9%	▼	9.7%	▲	-2.9%	▼	0.9%	▼
Net financial liabilities ratio[2]	4.8%	●	4.6%	▲	13.2%	▼	9.3%	●

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

1. Assets are positive, liabilities are negative.

2. A positive number indicates liquid assets in excess of total liabilities.

TASMANIAN HEALTH SERVICE

INTRODUCTION

THS had responsibility and accountability for governing and delivering integrated healthcare services through the public hospital system and primary and community health services, including mental health and oral health services.

THS commenced operations on 1 July 2015. Prior to this, health services in Tasmania were provided by three regionally based THOs: THO-North, THO-North West and THO-South.

KEY RESULTS AND DEVELOPMENTS

THS's Underlying result was a loss of $75.87m, a deterioration from last year's Underlying deficit of $37.78m. The deterioration was predominantly due to increased operating expenditure, linked to greater elective surgery undertaken to reduce waiting lists.
Overall THS reported a Net loss of $74.82m in 2016-17 (2015-16, Net surplus $34.77m). This included capital grants, assets transferred from DHHS on completion of construction, $30.56m ($72.78m), offset by loss on disposal of non-financial assets $29.50m (gain, $0.21m).
The main capital addition was Royal Hobart Hospital's J-Block, $22.58m. This capital gain was offset by the asset derecogntion expense of $28.73m relating to the demolition of B-Block, as part of the hospital redevelopment.
Hepatitis C medication was made available on the Pharmaceutical Benefits Scheme (PBS) for the first time during 2015-16. This medication contributed approximately $40.50m to revenue in 2016-17 and was the main driver of increased PBS Revenue from Medicare, $75.02m, up from $46.26m in the prior year.
Comparative figures in the financial statements were restated for 2015-16, due to identification of prior period errors. The errors were due to incorrect recognition of assets and liabilities, relating to inter-entity transactions and the transfer of land and buildings upon establishment of the THOs in 2012. The errors transferred to the THS opening balances upon establishment.
The Mersey National Partnership Agreement and Transfer Deed was signed during June 2017, with ownership of the Mersey Community Hospital (MCH) officially transferred to the Tasmanian Government on 1 July 2017.
On 1 January 2017, Child Health and Parenting Service transferred from DHHS to the THS. Net assets transferred were $0.30m.

CONCLUSION

In performing our audit we identified four moderate risk internal control deficiencies relating to use of a service organisation, revenue documentation, processes and reporting, and inter-entity transactions. Eight low to moderate rated issues were also raised.

Prior period errors

THS comparative figures relating to 2015-16 were restated in the Statement of Financial Position and Statement of Changes in Equity. These changes were a result of prior period errors and were recorded in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Two misstatements related to the administrative restructure transfer that occurred from DHHS to the THOs on 1 July 2012.

The first misstatement related to opening inter-entity transactions. The identified misallocations to the inter-entity balance primarily related to:

- a number of THO inventory stores purchases recorded in the DHHS accrual ledger prior to 1 July 2012 were not included in the administrative restructure inter-entity balance. Cash payments for these items, made after 1 July 2012, were processed as inter-entity transactions, creating a discrepancy.
- DHHS settled Business Activity Statement (BAS) requirements on behalf of the THS and allocated the resultant GST payments through inter-entity transactions via an automated system. This system was implemented in 2013-14. The 2012-13 BAS was settled in 2013-14, which created a discrepancy between years as inter-entity transactions were used in 2013-14 but not 2012-13.

The second misstatement related to the transfer of land and buildings that were identified on DHHS' asset register that should have been included in the transfer of assets to the THO's. These properties had a carrying value at 1 July 2012 of $4.50m.

As these errors were made in a reporting period prior to the previous year, the Statement of Financial Position as at 30 June 2016 was restated as follows:

- inter-entity receivable decreased by $3.66m to reflect reduced revenue owed to THS by DHHS
- inter-entity payable increased by $3.04m to reflect added revenue THS owed DHHS
- land and buildings increased by $4.31m to reflect the transfer of assets to THS
- land and buildings revaluation reserve decreased by $0.07m
- contributed capital decreased by $2.20m to recognise the overstatement of net assets received upon transfer
- depreciation expense for 2015-16 increased by $0.12m to reflect depreciation on contributed assets.

Mersey Community Hospital Transfer

Ownership of MCH was transferred from the Australian Government back to the Tasmanian Government on 1 July 2017 following the signing of the Mersey National Partnership Agreement and Transfer Deed in June 2017.

The Australian Government provided a financial contribution to the Tasmanian Government to fund the operation of MCH for a period of ten years. On 29 June 2017, $730.40m was transferred to the Tasmanian Government to fund the ongoing operations of the MCH. The funds were invested in Tascorp to establish the MCH Fund. Money from this fund will be used to make non-discretionary annual distributions to MCH in accordance with the *Tasmanian Public Finance Corporation Amendment (Mersey Community Hospital) Act 2017.*

From 2027-28, the THS will receive funding from the Australian Government for MCH in line with other public hospitals. MCH had an estimated value of $31.84m and was transferred to THS on 1 July 2017 for one dollar.

AUDIT RESULTS

Key matter considered during the audit

Revenue recognition

THS recognised significant revenue from grants and sales of goods and services. Grants payable by both Australian and Tasmanian Governments were recognised when THS gained control of the underlying assets. Where grants were reciprocal, revenue was recognised as performance occurred. Non-reciprocal grants were recognised as revenue when the grant was received or was receivable. Capital grants were recognised as revenue when completed construction projects were commissioned and transferred from DHHS.

Sales of goods and services were recognised when consideration was received or receivable in respect of a wide range of services rendered, captured through discrete systems. The majority of services were for fee paying privately insured or otherwise compensable patients, reimbursements of services provided to other organisations and Medicare or pharmaceutical benefits scheme government payments.

The diversity of revenue streams and systems at varying sites across the State increased the risk revenue may not be correctly recorded or receipted.

Audit procedures performed to ensure revenue was not materially misstated included:

- confirming a selection of grant receipts to external documentation and ensuring classification was correct
- confirming grant receipts transferred though the National Health Funding Pool Account – Tasmanian State Pool Account
- evaluating the design and implementation of relevant application controls in selected systems
- testing operating effectiveness of internal controls to support completeness, accuracy and integrity of patient billing in selected systems
- examining reconciliations of information from subsidiary systems to the general ledger
- performing testing of a sample of transactions relating to sale of goods and services
- conducting analytical reviews of revenue generated
- assessing the adequacy of relevant disclosures in the financial statements.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

Table 24 provides a snapshot of financial results for 2016-17 in comparison to the prior year.

Table 24: THS financial results

	2016-17 $'000s	Ind	2015-16 $'000s
Financial performance			
Reconciliation of Underlying result to net result			
Underlying result	(75 873)	▼	(37 775)
Other economic flows included in net result	(29 508)	▼	(238)
Assets transferred on completion	30 557	▼	72 780
Net Result	(74 824)	▼	34 767
Changes in revaluation reserve	17 025	▲	13 681
Comprehensive Result	(57 799)	▼	48 448
Financial position[1]			
Cash	55 658	▼	89 535
Property, plant and equipment	973 379	●	986 527
Employee entitlements	(244 161)	▼	(224 895)
Net assets	764 863	▼	822 548
Key financial ratios			
Operating margin	1.0	●	1.0
Underlying result ratio	(5.2%)	▼	(2.7%)
Net financial liabilities ratio[2]	(16.9%)	▼	(14.0%)

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

1. Assets are positive, liabilities are negative.

2. A positive number indicates liquid assets in excess of total liabilities.

AUDIT SUMMARY - OTHER GENERAL GOVERNMENT SECTOR AND STATE ENTITIES

INTRODUCTION

This Chapter includes all State entities other than:

- ministerial departments
- local government entities
- Government Business Enterprises (GBEs) and State Owned Companies (SOCs)
- University of Tasmania
- State entities whose audits were dispensed with.

Entities included in this part of the Report were grouped into:

- Executive and Legislature
- Other GGS State entities
- Other State entities.

Executive and Legislature

The Parliament of Tasmania consisted of the Crown, represented by the Governor, the Legislative Council and the House of Assembly that collectively formed the Legislature. Legislature-General provided, amongst other things, support for general parliamentary functions, including reporting services and parliamentary catering.

Designated officers administered these functions and financial transactions were recorded in the financial statements of the:

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

Appropriation of funds to the Ministerial and Parliamentary Support Division of DPAC provided for certain expenses and administrative support of Ministers and other Members of Parliament, but only those in the House of Assembly. The financial transactions of this Division were reported in the financial statements of DPAC. These details are not included within this Chapter.

Consolidated GGS entities

A number of entities in the GGS were consolidated into Departments, but were still required to complete financial statements in their own right. Where significant, they are discussed in departmental Chapters in this Report.

Other GGS entities

A number of entities were stand-alone authorities and some formed part of administered activities of departments. These included the State Fire Commission and TasTAFE and, due to their size and the nature of their activities, key matters considered during the audit are detailed within the body of this Chapter.

Other State entities

Other State entities were statutory authorities and other non-profit entities not consolidated into GGS.

Financial results of all of the entities are included within Table 25 at the end of this Chapter.

KEY RESULTS AND DEVELOPMENTS

In 2016-17, Executive and Legislature recorded an Underlying surplus of $0.25m, which was predominately made up of a $0.24m surplus from House of Assembly.

Consolidated GGS entities recorded an Underlying surplus of $0.48m. The balance was made up of surpluses of $5.96m from Ambulance and $0.87m from ABT Railway, offset by a $5.22m underlying deficit from Housing.

The Comprehensive surplus of $102.06m was predominantly due to revaluation increments on Housing's rental dwellings.

Other GGS entities recorded an Underlying deficit of $0.65m. This result included:

- Asbestos Compensation Fund, surplus $5.24m
- State Fire Commission, surplus $2.96m
- TasTAFE, deficit $8.14m.

The combined Comprehensive surplus of $29.82m was predominantly due to revaluation increments on State Fire Commission's land and buildings of $26.75m.

Asbestos Compensation Fund

An underlying surplus of $5.24m was recorded in 2016-17, an increase of $2.65m from the prior year. The increase was due to a rise in levies received of $1.45m and a 42% reduction in compensation claims awarded, which reduced from $2.65m to $1.55m.

Liabilities decreased from $101.23m to $95.61m as at 30 June 2017, due to decreased provision for compensation payable of $5.50m, as advised by the fund actuary.

State Fire Commission

For 2016-17, the State Fire Commission reported an Underlying surplus of $2.96m, a significant improvement on the $3.87m deficit in the prior year. This was largely due to lower employee and operational expenses. In 2015-16, Tasmania experienced a severe fire season. This had a significant effect on the Commission's financial performance with income totalling $139.36m and expenses $143.24m compared to $89.58m and $87.41m, respectively, in 2016-17.

The Commission's Net assets totalled $115.53m at 30 June 2017, increasing by $35.10m. Movements from the prior year total of $80.43m were principally due to:

- revaluations of land and buildings of $24.15m
- payables and income in advance, $14.63m lower due to bushfire expenses paid after 30 June 2016.

TasTAFE

TasTAFE reported an Underlying deficit of $8.14m in 2016-17 (2015-16, $3.16m deficit). The increase in the deficit of $4.98m was mainly attributable to:

- contributions towards TasTAFE's Student Information Management System and the refurbishment of Drysdale in 2016-17, for which grants were received and recognised as revenue in 2015-16
- a reduction of $1.97m in receipt of course fees due to the way courses were invoiced from January 2017.

TasTAFE introduced a new fee structure where students were invoiced full course fee for courses undertaken in 12 months or less. For courses studied over multiple years, students were invoiced the first year's fees on enrolment and then annually in subsequent years. This was different to the previous practice where students were invoiced tuition fees each semester on a per subject basis. Furthermore, the introduction of the new fee structure coincided with the implementation of a new student management system, which improved the availability of information to better calculate the portion of student fees earned during the reporting period and recognise the unearned portion as a liability.

TasTAFE's Net assets totalled $162.07m at 30 June 2017, a decrease from $168.05m in the prior year. This reduction was principally due to increased Other liabilities of $2.64m, as a result of the fees in advance liability noted above, plus increased payables of $1.43m.

The Integrity Commission released a report to Parliament, Report No. 2 of 2017: *An investigation into a complaint of an alleged conflict of interest against senior executive officers of TasTAFE* in May 2017. Following the release of the report, changes occurred to management positions and the Board of TasTAFE. At the same time, an internal audit of travel entitlements and credit cards was commenced.

Other State entities recorded Underlying surpluses of $0.97m, which were predominately made up of:

- Aboriginal Land Council, surplus $1.54m
- Legal Aid Commission, surplus $1.28m
- Property Agents Trust, deficit $1.24m
- Tasmanian Early Years Foundation, deficit $0.58m.

Tasmanian Early Years Foundation

Parliament passed the *Tasmanian Early Years Foundation (Winding Up) Act 2016* which provided for the Tasmanian Early Years Foundation to be wound-up and its assets and liabilities transferred to the Crown. Net assets were $0.58m, comprised entirely of cash. The Foundation ceased to exist on 8 December 2016, the day the Act was commenced.

AUDIT FINDINGS

Entities included in this Chapter submitted financial statements within the statutory deadline, with one exception, the Aboriginal Land Council, which did not submit financial statements for the year ended 30 June 2017 until 15 August 2017, one day after the statutory deadline.

Unqualified audit reports were issued in all cases except for the National Trust of Australia (Tasmania). Our audit opinion contained the following "except for" audit qualification:

> *"The Trust possesses certain heritage collections referred to in Note 1(l) of the financial report, but not all of these assets have been recognised in the financial report. Due to the nature of the assets, it is not possible to quantify the financial effects of the Trust's failure to comply with Australian Accounting Standard AASB 116 Property, Plant and Equipment."*

Audits of the entities were completed satisfactorily, however a number of matters were raised during the course of the audits. Depending on the significance of the matters, they were either discussed and cleared with management, generally low risk issues, or formally communicated to those charged with governance. Where required, responses to these matters were sought from management and these will be followed up during the course of the next audit.

Matters of significance noted during the audits were:

ABT Railway

Management recorded infrastructure assets, rolling stock and land and buildings on a net basis in the 2016-17 financial statements. When a net revaluation approach is used, the financial statements do not disclose the consumption of the assets and the remaining useful life.

We recommended revaluations of assets be recognised on a gross basis. If assets continue to be recognised on a net basis, management will need to reassess the asset useful lives in 2017-18 to ensure the assets are depreciated over their remaining useful lives.

Aboriginal Land Council

During the review of a prior year error relating to the overpayment of superannuation, we noted superannuation was not paid by the 28th day following each quarter, which was contrary to the requirements stipulated by the Australian Taxation Office. This exposed the Aboriginal Land Council to additional fees and fines under the *Superannuation Guarantee Act 1992*. We recommended the Council review the process for superannuation payments to ensure remittances of superannuation payments were made in compliance with legislated requirements.

Our audit procedures examining payments made after 30 June 2017, revealed some expenditure not included in the 2016-17 financial statements. All payments involved related to work-in-progress. We recommended the process for year-end expenditure cut-off be enhanced to ensure operational and capital expenditure is recorded in the correct financial period.

Marine and Safety Tasmania

During our expenditure related testing we identified some expenses not authorised in accordance with the procurement policy. This occurred during periods where key personnel were on leave or absent from the office. It was recommended management strengthen controls to address the issue.

In performing testing on general journals, we noted inconsistencies in the approval and processing of journals. We recommended a consistent approach be documented in a policy or procedure and it be adhered to.

Legal Aid Commission of Tasmania

As a not-for-profit entity, Legal Aid Commission of Tasmania was required to recognise non-reciprocal contributions, such as grants, as income at the time it received the funding. This was irrespective of whether restrictions or conditions were imposed on the use of the contributions. Legal Aid Commission of Tasmania deferred the recognition of some grants as revenue until the grant conditions were met, which in our view was incorrect because the majority of grants it received were non-reciprocal. A non-reciprocal grant is one where an entity receives funding without directly giving approximately equal value to the other party or parties to the transfer.

Financial contributions from both the Australian and Tasmanian Governments, being the major source of income, were recognised correctly as non-reciprocal contributions at the time they were received.

Royal Tasmanian Botanical Gardens

The Royal Tasmanian Botanical Gardens engaged a service provider to process revenue and expenditure transactions and general journal entries. This arrangement improved controls over segregation of duties and the need for a detailed service level agreement is currently being discussed between the Board and the provider.

State Fire Commission

The following internal control weaknesses were reported to management of State Fire Commission:

- lack of controls in place to assess the completeness of statutory insurance declarations and reconcile amounts received to bank account transactions
- lack of controls in place to authorise employees being added or removed from the payroll system
- payroll and personnel records were not kept for a number of employees selected for testing.

We recommended processes be implemented to:

- confirm the completeness of declarations and to reconcile them to amounts remitted to the bank account
- ensure appropriate authorisation for key changes to payroll master file data, including addition or deletion of employees
- review employee records to ensure all employees have a current contractual information on file.

TDR

The following internal control weaknesses were reported to management of TDR:

- no approval for creation or amendments to grant recipients and creditors
- the same staff member can raise and approve a purchase order and record the receipt of goods and services.

We recommended:

- a process be implemented where all amendments to grant recipients and creditors are reviewed
- management review users assigned access and segregation of duties conflict in the Finance One system procurement cycle and determine whether access should be removed or mitigating controls established.

Tasmanian Museum and Art Gallery

The following internal control weaknesses were reported to management of the Tasmanian Museum and Art Gallery:

- changes to pay rates in payroll system were not reviewed
- there was no approval for the creation of, or amendment to, grant recipients and creditors
- the same staff member could raise, approve a purchase order and record receipt of goods or services received.

We recommended:

- amendments to the payroll system be reviewed by an independent delegate
- a process be implemented where all amendments to grant recipients and creditors are reviewed
- management review user assigned access and segregation of duties conflict in the Finance One system procurement cycle and determine whether access should be removed or mitigating controls established.

AUDIT RESULTS

Key matters considered during the audit

State Fire Commission

Property, plant and equipment

A revaluation of land and buildings was completed in June 2017.

In performing our procedures on Property, plant and equipment, we:

- evaluated management's assessment of the valuation of the State Fire Commission's land and buildings
- reviewed revaluation journals processed to recognise changes in the fair value of land and buildings at 30 June 2017
- vouched a sample of additions transactions to supporting documentation
- reviewed capital costs and assessed whether they were appropriately recorded.

Revenue and grant funding

State Fire received a significant portion of its revenue through contributions, levies and charges processed by third parties. There was a risk amounts were incorrectly processed and recorded. It also received significant funds from the Australian and Tasmanian Governments as well as other agencies.

To ensure revenue was not misstated, we:

- substantiated revenue received through external confirmations from third parties
- performed analytical review procedures over levies and charges for the period building changes from the prior period into our expectations
- performed substantive testing over transactions to supporting documentation.

TasTAFE

Land and buildings

TasTAFE's land and buildings were revalued in 2016-17 by the OVG with an increase of $4.22m recognised. To ensure assets were not materially misstated we:

- assessed the reasonableness of the revaluation
- tested additions and disposals throughout the year
- ensured the correctness of the accounting for assets transferred to DoE and assets designated as held for sale
- verified reconciliations between the asset register, general ledger and financial statements
- reviewed financial statement disclosures.

Impairment of library stock

TasTAFE libraries maintained collections measured at cost. In reviewing library collections for impairment, TasTAFE applied an impairment test where, if an item was not borrowed in the last 30 months, its value was impaired to nil. The value of library stock after impairment and annual depreciation was $0.70m at 30 June 2017.

We performed the following audit procedures to ensure library stock was not materially misstated:

- reviewed the impairment approach for compliance with AASB 136 *Impairment of Assets*
- assessed underlying assumptions for reasonableness
- tested impairment calculations
- reviewed disclosures in the financial statements.

Significant employee costs and provision

TasTAFE employed 710 full time equivalent employees at 30 June 2017 and employee expenses represented 63.9% of its total expenditure. Employee entitlements represented 69.7% of Total liabilities. Payroll support was provided by DoE.

To ensure employee expenses were not materially misstated, we performed a combination of controls and substantive testing, which included analytical procedures of payroll transactions. We also tested calculations of employee provisions for accuracy and compliance in accordance with AASB 119 *Employee Benefits*.

FINANCIAL ANALYSIS

Financial snapshot 2016-17

The following table summarises the financial results for 2016-17, with indicators showing the movement from the prior year.

Figure 25: Financial Snapshot

	Underlying surplus (deficit)		Net surplus (deficit)		Comprehensive surplus (deficit)		Net Assets	
	$'000s	Ind	$'000s	Ind	$'000s	Ind	$'000s	Ind
Executive and Legislature								
House of Assembly	244	▲	244	▲	244	▲	1 820	▲
Legislative Council	86	▼	86	▼	86	▲	1 128	▲
Legislature-General	63	▼	63	▼	63	●	34 594	●
Office of the Governor	(147)	▲	(147)	▲	(147)	▲	35 019	●
Total	**246**		**246**		**246**		**72 561**	
Consolidated GGS entities								
ABT Railway Ministerial Corporation	865	▼	863	▼	5 540	▲	44 020	▲
Ambulance Tasmania	5 955	▲	1 631	▲	2 239	▲	20 135	▲
Housing Tasmania	(5 220)	▼	6 391	▲	94 816	▲	1 370 472	▲
Office of Tasmanian Assessment, Standards and Certification	(58)	▼	(58)	▼	(58)	▼	(138)	▼
Tasmania Development and Resources	(450)	▼	(448)	▼	(448)	▲	32 056	●
Tasmanian Affordable Housing Limited	(115)	▼	(115)	▼	(115)	▲	1 249	▼
Tasmanian Museum and Art Gallery	(501)	▼	83	▼	83	▼	438 647	▼
Teachers Registration Board	(106)	▼	(106)	▼	(106)	▼	844	▼
Total	**476**		**8 347**		**102 057**		**1 906 441**	
Other GGS entities								
Asbestos Compensation Fund	5 235	▲	0	●	0	●	0	●
Inland Fisheries Service	(168)	▼	24	▼	24	▼	8 525	●
Integrity Commission	(24)	▼	(124)	▼	(124)	▼	86	▼
Marine and Safety Tasmania	(320)	▼	269	▼	269	▼	33 568	●
Office of the Director of Public Prosecutions	280	▼	280	▼	280	▼	296	▲
Office of the Ombudsman and Health Complaints Commissioner	(275)	▼	(275)	▼	(275)	▼	239	▼
Royal Tasmanian Botanical Gardens	(111)	▼	(111)	▼	(392)	▼	13 669	●

	Underlying surplus (deficit)		Net surplus (deficit)		Comprehensive surplus (deficit)		Net Assets	
State Fire Commission	2 962	▼	2 172	▲	35 096	▲	115 527	▲
Tasmanian Audit Office	(145)	▼	(145)	▼	(145)	▼	2 307	▼
Tasmanian Economic Regulator	41	▲	41	▲	41	▲	139	▲
TasTAFE	(8 141)	▼	(991)	▲	(4 968)	●	162 074	●
Tourism Tasmania	15	▼	15	▼	15	▼	156	▲
Workcover Tasmania Board	0	●	0	●	0	●	0	●
Total	**(651)**		**1 155**		**29 821**		**336 586**	
Other State entities								
Aboriginal Land Council	1 538	▲	1 538	▲	3 743	▲	28 930	▲
Council of Law Reporting	2	▲	2	▲	2	▲	10	●
Forest Practices Authority	65	▼	65	▼	65	▼	1 836	●
Legal Aid Commission of Tasmania	1 279	▲	1 279	▲	1 312	▲	3 875	▲
Legal Profession Board	(145)	▼	(145)	▼	(145)	▼	181	▼
National Trust of Australia (Tasmania)	(14)	▼	14	▼	14	▼	10 699	●
Property Agents Board	(164)	▼	(164)	▼	(164)	▼	362	▼
Property Agents Trust	(1 242)	▼	(1 242)	▼	(1 242)	▼	10 500	▼
Tasmanian Beef Industry (Research and Development) Trust	16	▼	16	▼	16	▼	639	●
Tasmanian Building and Construction Industry Training Board	(219)	▼	(219)	▼	(219)	▼	3 234	▼
Tasmanian Community Fund	170	▼	170	▼	170	▼	11 281	●
Tasmanian Dairy Industry Authority	96	▲	96	▲	96	▲	614	▲
Tasmanian Early Years Foundation	(582)	▼	(582)	▼	(582)	▼	0	▼
Tasmanian Heritage Council	(2)	▲	(2)	▲	(2)	▲	122	●
The Nominal Insurer	198	▲	198	▲	198	▲	622	▲
Wellington Park Management Trust	(20)	▼	(20)	▼	(20)	▼	284	▼
Total	**976**		**1 004**		**3 242**		**73 189**	

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

DISPOSAL OF FIREARMS AND AMMUNITION

INTRODUCTION

DPFEM is charged with the responsibility for firearms and ammunition disposed of under the *Firearms Act 1996* (Firearms Act).

Under section 149 of the Firearms Act, the Auditor-General is to, once every year, arrange for an independent audit of all firearms and ammunition disposed of and to report on the audit to Parliament. This commentary discharges that responsibility for 2016-17.

Firearms destruction encompasses not only firearms and ammunition, but also knives and other weapons. There are several ways by which weapons are surrendered or seized, with approximately 45% of weapons being surrendered by their owners. Section 109 of the Firearms Act refers to the surrender of firearms by unauthorised persons and Section 129 provides for a permanent amnesty when firearms are voluntarily surrendered.

Authority to dispose

Firearms and ammunition surrendered or seized under the Firearms Act can be disposed of under an order from a magistrate. A magistrate may also order that a firearm or ammunition be forfeited to the Crown. Following an amendment to the Firearms Act in 2007, the Minister was given discretion to determine the form of disposal where the magistrate's order to forfeit the firearm or ammunition to the Crown was made as a result of a breach of safekeeping provisions in the Firearms Act. DPFEM obtained a continuing delegation from the Minister that all firearms and ammunition forfeited to the Crown for firearms offences or by court order be destroyed, unless:

- the firearm or ammunition is required by the Ballistics Library for evidentiary purposes
- an application is received from the owner for return of a firearm or ammunition.

What does 'disposed' of mean?

The Firearms Act does not define what 'disposal' means. The Macquarie Dictionary defines disposal as 'the act of disposing of ', which means 'to get rid of '. The Firearms Act does not prevent the sale of firearms or ammunition if a magistrate, or in certain circumstances the Minister or the Commissioner, determines it is an appropriate method of disposal. However, it is our view the sale of surrendered or seized firearms and ammunition is not in keeping with the spirit of the Firearms Act and the prevention of violence and self-harm in general. We have therefore accepted the view that 'disposed of ', unless otherwise authorised, means physical destruction.

AUDIT OF COMPLIANCE WITH THE FIREARMS ACT

Audit objective

The objective of the audit was to provide independent assurance that the process of disposing of firearms and ammunition was managed in compliance with the Firearms Act.

Assessment of control framework

We found the actual processes and control activities that led to the disposal of firearms were appropriate and based on our audit work we concluded the requirements of the Firearms Act in relation to the disposal of firearms were complied with.

Controls over the practice of recording the quantity of ammunition held in custody for destruction were effective. We were not able to assess the control activities around the disposal of ammunition as no disposals had occurred. DPFEM had yet to identify a suitable site and process to perform the destruction of ammunition.

Conclusion as to compliance with the Firearms Act

Based on the audit procedures performed, we concluded DPFEM complied with the requirements of the Firearms Act in relation to the disposal of firearms. In relation to ammunition we verified the number of ammunition lots held in custody, however we were unable to conclude on DPFEM's statutory compliance for the disposal of ammunition, as no disposals had occurred.

Firearms destroyed in 2016-17 in comparison to prior years and ammunition lots held in custody are detailed below:

Figure 26: Firearms destroyed

	2016-17	2015-16	2014-15	2013-14
Number of firearms destroyed	1 426	2 497	1 761	2 319
Number of ammunition lots held in custody*	1 678	1 219	-	-

**Data not available for ammunition before 2015-16*

APPENDIX A - ACRONYMS AND ABBREVIATIONS

ABS	Australian Bureau of Statistics
Abt Railway	Abt Railway Ministerial Corporation
Ambulance	Ambulance Tasmania
BAS	Business Activity Statement
BIMS	Budget Information Management System
CSHA	Commonwealth-State Housing Agreement
DHHS	Department of Health and Human Services
DoE	Department of Education
DoJ	Department of Justice
DPAC	Department of Premier and Cabinet
DPFEM	Department of Police, Fire and Emergency Management
DPIPWE	Department of Primary Industries, Parks, Water and Environment
DRC	Depreciated Replacement Cost
Firearms Act	*Firearms Act 1996*
FMA	*Financial Management Act 2016*
FMAA	*Financial Management and Audit Act 1990*
FTEs	full time equivalents
GBEs	Government Business Enterprises
GETI	Government Education and Training International
GGS	General Government Sector
GST	Goods and Services Tax
Housing	Housing Tasmania
IT	Information technology
MAIB	Motor Accidents Insurance Board
MCH	Mersey Community Hospital
Mercer	Mercer Australia Pty Ltd
OSC	Office of the Superannuation Commission
OVG	Office of the Valuer-General
PA	Public Account
PBS	Pharmaceutical Benefits Scheme
PFC	Public Financial Corporations
PNFC	Public Non-Financial Corporations
PRBF	Parliamentary Retiring Benefits Fund
PSF	Parliamentary Superannuation Fund
RBF	Retirement Benefits Fund
SDTF	Special Deposits and Trust Fund

SOCs	State Owned Companies
State Growth	Department of State Growth
TAFR	Treasurer's Annual Financial Report
TAHO	Tasmanian Archive and Heritage Office
Tascorp	Tasmanian Public Finance Corporation
TASSS	Tasmanian Ambulance Service Superannuation Scheme
TDR	Tasmania Development and Resources
TFIA	Tasmanian Forests Intergovernmental Agreement
the Audit Act	*Audit Act 2008*
the Fund	Asbestos Compensation Fund
the Fund	Mersey Community Hospital Fund
the Scheme	Asbestos Compensation Scheme
THOs	Tasmanian Health Organisations
THS	Tasmanian Health Service
TMAG	Tasmanian Museum and Art Gallery
TMRN	Trunk Mobile Radio Network
Treasury	Department of Treasury and Finance
TSS	Total State Sector
UPF	Uniform Presentation Framework

APPENDIX B - TIMELINESS OF REPORTING

Entity	Financial Report Received & Accepted	Accepted report certified by	Final certified report received	Audit opinion signed
General Government Sector State Entities				
Executive & Legislature				
House of Assembly	11 August 2017	AA	N/a	25 September 2017
Legislative Council	14 August 2017	AA	N/a	25 September 2017
Legislature-General	14 August 2017	AA	N/a	26 September 2017
Office of the Governor	14 August 2017	AA	N/a	12 September 2017
Ministerial Departments				
Department of Education	14 August 2017	M	21 September 2017	27 September 2017
Department of Health and Human Services	14 August 2017	M	27 September 2017	28 September 2017
Department of State Growth	14 August 2017	M	28 September 2017	28 September 2017
Department of Justice	11 August 2017	AA	N/a	14 August 2017
Department of Police Fire and Emergency Management	14 August 2017	M	28 September 2017	28 September 2017
Department of Premier and Cabinet	14 August 2017	M	28 September 2017	28 September 2017
Department of Primary Industries, Parks, Water and Environment	14 August 2017	M	8 September 2017	13 September 2017
Department of Treasury and Finance	14 August 2017	AA	N/a	**10 October 2017**
Tasmanian Health Service	11 August 2017	M	13 September 2017	18 September 2017
Other Consolidated Entities				
ABT Railway Ministerial Corporation	14 August 2017	AA	27 September 2017	27 September 2017
Ambulance Tasmania	14 August 2017	M	27 September 2017	28 September 2017
Housing Tasmania	14 August 2017	M	27 September 2017	28 September 2017
Office of Tasmanian Assessment, Standards and Certification	14 August 2017	AA	N/a	28 September 2017
Tasmanian Development and Resources	14 August 2017	AA	N/a	28 September 2017
Tasmanian Affordable Housing Limited	14 August 2017	AA	N/a	25 September 2017
Tasmanian Museum and Art Gallery	14 August 2017	M	28 September 2017	28 September 2017
Teacher Registration Board of Tasmania	14 August 2017	AA	N/a	28 September 2017
Other GGS Entities				
Asbestos Compensation Fund	11 August 2017	AA	N/a	14 August 2017
Inland Fisheries Service	8 August 2017	M	24 August 2017	25 August 2017
Integrity Commission	10 August 2017	AA	N/a	23 August 2017
Marine and Safety Authority	11 August 2017	AA	N/a	11 August 2017

Entity	Financial Report Received & Accepted	Accepted report certified by	Final certified report received	Audit opinion signed
Office of the Director of Public Prosecutions	10 August 2017	AA	N/a	21 September 2017
Office of the Ombudsman and Health Complaints Commissioner	9 August 2017	AA	N/a	18 September 2017
Royal Tasmanian Botanical Gardens	14 August 2017	M	15 September 2017	15 September 2017
State Fire Commission	14 August 2017	M	28 September 2017	28 September 2017
Office of the Tasmanian Economic Regulator	11 August 2017	AA	N/a	25 September 2017
Tas Tafe	10 August 2017	AA	N/a	10 August 2017
Tourism Tasmania	14 August 2017	M	19 September 2017	20 September 2017
Workcover Tasmania Board	14 August 2017	AA	N/a	14 August 2017
Other State Entities				
Aboriginal Land Council	**15 August 2017**	AA	1 September 2017	11 September 2017
Council of Law Reporting	3 August 2017	AA	N/a	18 August 2017
Forest Practices Authority	14 August 2017	M	15 September 2017	20 September 2017
Legal Aid Commission of Tasmania	14 August 2017	M	28 September 2017	28 September 2017
Legal Profession Board	10 August 2017	AA	N/a	14 August 2017
National Trust of Australia (Tasmania)	14 August 2017	M	28 September 2017	28 September 2017
Property Agents Board	14 August 2017	M	27 September 2017	26 September 2017
Property Agents Trust	14 August 2017	M	27 September 2017	28 September 2017
River Clyde Trust	**22 November 2017**	**-**[1]	**-**[1]	**-**[1]
Tasmanian Beef Industry (Research and Development) Trust	19 July 2017	M	30 August 2017	31 August 2017
Tasmanian Building and Construction Industry Training Board	14 August 2017	M	28 September 2017	28 September 2017
Tasmanian Community Fund	14 August 2017	AA	14 September 2017	18 September 2017
Tasmanian Dairy Industry Authority	14 August 2017	AA	21 September 2017	25 September 2017
Tasmanian Early Years Foundation[2]	16 February 2017	AA	N/a	17 March 2017
Tasmanian Heritage Council	7 August 2017	AA	N/a	28 August 2017
The Nominal Insurer	11 August 2017	AA	22 September 2017	25 September 2017
Wellington Park Management Trust	14 August 2017	AA	N/a	28 September 2017

M - Management

AA - Accountable Authority

N/a - Not applicable, Final certified report not required.

Bold red text – *indicates non-compliance with legislated timeframes*

1. Financial Statements yet to be received

2. Financial Statements for period ended 8 December 2016

APPENDIX C - SUBMISSIONS AND COMMENTS RECEIVED

Submissions and comments that we receive are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of these comments rests solely with those who provided the response. However, views expressed by the Treasurer, and other interested stakeholders were considered in reaching audit conclusions.

Submissions received are included below.

COMMENT PROVIDED BY THE SECRETARY OF STATE GROWTH:

Percentage spend of budgeted capital expenditure

State Growth notes that the variance is primarily related to the timing of tender, award and construction commencement. Tasmania has a construction window, typically September-October through to March that is very defined by climatic conditions. Construction activity outside of this window is constrained and this reflects in project cash flows. Factors that contribute to delays in planned expenditures include statutory planning approvals and amendments to applications, responses to community consultations that may result in redesign and amendments and market conditions and value for money considerations, including the availability of project resources. Close monitoring and capital program reporting will enhance the forward program over the Forward Estimates and assist in identifying potential cashflow variations to support the planned achievement of roads program expenditure.

Amanda Russell

Deputy Secretary

COMMENT PROVIDED BY THE SECRETARY OF DHHS:

Percentage spend of budgeted capital expenditure

I note on page 13 of AGR Volume 1 - Sector Analysis, your concern in regard to the Department's capacity to undertake additional capital projects.

Whilst your concern is based on DHHS spending below the capital expenditure targets over the previous four years, there are many variables which subsequnetly impact the delivery of significant capital works and therefore the timing of expenditure.

The Department continues to ensure that its capital contracts are closely managed and to adjust its staffing level to ensure that we have the capacity to undertake further capital investment projects as required.

Michael Pervan

Secretary

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

Cover photo: Sean Scott

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