Tasmanian
Audit Office

Report of the Auditor-General No. 10 of 2015-16

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

Volume 4

State entities 30 June and 31 December 2015, findings relating to 2014-15 audits and other matters

May 2016

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THE ROLE OF THE AUDITOR-GENERAL

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

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

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

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

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

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

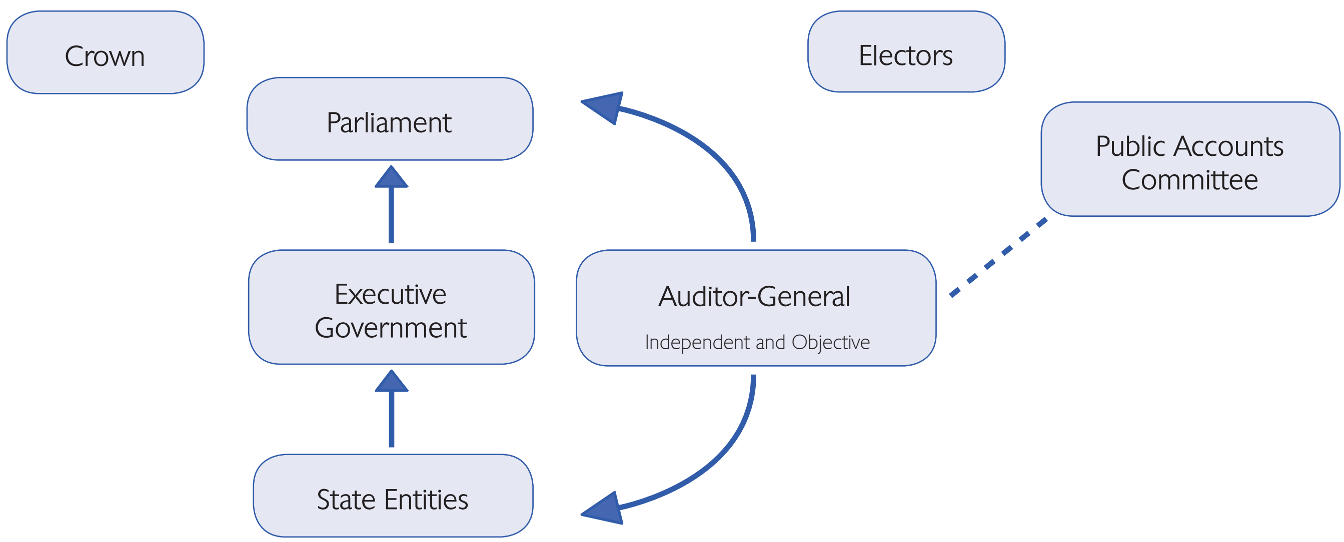
We can also carry out investigations but only relating to public money or to public property.

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

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

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

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



TASMANIA

2016
PARLIAMENT OF TASMANIA

Report of the Auditor-General
No. 10 of 2015-16

Volume 4

Volume 4, State entities 30 June and 31 December 2015, findings relating to 2014–15 audits and other matters

May 2016

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

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24 May 2016

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President

Dear Madam Speaker

Report of the Auditor-General No. 10 of 2015-16, Auditor-General's Report on the Financial Statements of State entities, Volume 4, State entities 30 June and 31 December 2015, findings relating to 2014-15 audits and other matters.

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my report on the audit of the financial statements of State entities, Volume 4, State entities 30 June and 31 December 2015, findings relating to 2014-15 audits and other matters.

Yours sincerely

Rod Whitehead
Auditor-General

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FOREWORD

This Report is the fourth and final volume in our series planned for advising Parliament on the outcome of audits for the 2014-15 financial year and the 2015 calendar year (the 2014-15 audit cycle). It deals with one State entity reporting at 30 June 2015 and State entities which reported at 31 December 2015. The most significant entity covered by this volume is the University of Tasmania which incurred a Net Underlying Deficit before Non-Operating Adjustments of $11.525m (2014, $24.663m) and Total Comprehensive Income of $17.520m (2014, $3.351m) for the year ended 31 December 2015.

As it relates to the 2014-15 audit cycle, the Report includes:

- a summary of common audit findings
- a summary outlining the timeliness and quality of financial reporting
- summary information on audits completed for grant acquittals and regulated financial statements
- an update on new accounting and auditing standards
- audits dispensed with and how we set audit fees for conducting audits of financial statements.

This Report also includes two matters about which separate comment is warranted:

- The Department of Police, Fire and Emergency Management (DPFEM) is charged with the responsibility for firearms and ammunitions disposed of under the *Firearms Act 1996* (Firearms Act). Under section 149 of the Firearms Act an independent audit of the disposal of firearms and ammunition by DPFEM is required to be reported to Parliament annually. An audit was conducted for 2014-15 and the findings noted in this Report. We concluded that DPFEM complied with the requirements of the Act in relation to firearms but were unable to similarly conclude on the disposal of ammunition.
- In Report of the Auditor-General No. 9 of 2013-14: Volume 5 *State entities 30 June and 31 December 2013, matters relating to 2012-13 audits and key performance indicators*, we reported the background to the development of reporting efficiency indicators in Australia and Tasmania and presented a research project. The project dealt with developing relatively straightforward efficiency Key Performance Indicators (KPIs) for the main agencies charged with delivery of services to the public. Since that report, we have continued to monitor progress and have found that while we acknowledge some good practices and progress is being made, overall, progress has been too slow and disappointing.

This Report acknowledges that implementing our recommendations cannot happen overnight and we recommend the Department of Premier and Cabinet (DPAC) and the Department of Treasury and Finance (Treasury) develop appropriate time frames for improvements.

Rod Whitehead
Auditor-General
24 May 2016

KEY POINTS

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University of Tasmania

The following table summarises key financial information relating to the past four financial years. Additional comments from our analysis of the University's financial performance and position are also produced below.

	2015			2014			2013			2012		
	($'000)		%	($'000)		%	($'000)		%	($'000)		%
Net underlying deficit	(11 525)	▲	53%	(24 663)	▼	203%	(8 148)	▲	79%	(39 619)	▼	103%
Surplus for the year	8 918	▲	141%	3 693	▼	91%	40 783	▼	1%	41 153	▲	74%
Total comprehensive income	17 520	▲	423%	3 351	▼	92%	41 754	▲	6%	39 422	▲	192%
Cash from operations	15 888	▼	47%	30 120	▲	111%	14 244	▲	14%	12 490	▼	50%
Payments for property, plant and equipment and intangibles	98 924	▲	58%	62 802	▼	21%	79 034	▼	17%	95 092	▲	37%
Net working capital	(52 910)	▼	46%	(36 214)	▼	289%	19 127	▲	182%	(23 198)	▼	68%
Total Assets	1 158 474	▲	3%	1 127 449	▲	3%	1 091 441	▲	15%	946 375	▲	7%
Net assets	899 829	▲	2%	882 309	▲	0%	878 958	▲	6%	830 764	▲	5%

▲ improvement from prior year ▼ decline from prior year

Percentages represent movement from prior year in absolute terms

- The University's Operating margin approximated the benchmark of one in 2015 and was trending in the right direction.
- The largest component of expenditure for 2015 was employee costs, $335.592m, which increased by $15.580m (excluding restructure costs) from 2014.
- The University's cash outflow to fund the purchase of Property, plant and equipment was $98.924m and was funded from cash inflows from operations, capital grant funding, investment earnings and investment redemption.
- Property, plant and equipment increased by $57.570m as a result of:
    - Land increased by $13.496m due to a revaluation increment of $2.578m and additions of $14.343m partially offset by disposals of $3.425m, Land was acquired in the centre of the Hobart City at a cost of $9.800m. Land was also donated to the University by the Launceston City Council for National Rental Affordability Scheme (NRAS) purposes, and was recognised at a fair value of $1.300m.

   - Buildings increased $36.272m predominately due to additions, transfers of capital works in progress, revaluation increments and asset reclassification from Leasehold Improvements of $18.481m. These were partially offset by disposals and depreciation.
   - Capital works in progress increased $29.871m, predominately as a result of the construction of the self-contained apartments under the NRAS project..
   - Property, plant and equipment increases were partly offset by an impairment of library assets, $10.268m, and a reclassification of leasehold improvements to buildings, $18.481m.
- Significant capital projects include the construction of self-contained apartments for students at the Inveresk Campus, Melville Street in Hobart, and West Park at Cradle Coast Campus. In 2015, total transfers to buildings from capital works in progress totalled $20.836m, with a further $63.414m of capital work in progress added in the current year of which 78% related to building construction.
- The University had a deficiency in working capital at the end of 2015, this was not considered to be a concern as investments (classified as Non-current assets) could be redeemed to cover any potential working capital deficiency.
- Property, plant and equipment, $745.636m, continued to represent the majority of Total assets, comprising 64.4% at 31 December 2015.
- Cash, short and long term investments, $324.141m were also significant, representing 28.0% of Total assets at 31 December 2015.
- Long-term deposits decreased by $21.000m from the prior year having reached maturity and transferred to Cash and short-term investments.
- The University receives funding from the Australian Government based on estimated student enrolments and associated courses. Actual enrolments are confirmed post year-end and funding adjusted accordingly. As at 31 December 2015, it was estimated that $15.500m was repayable. The amount payable included funding received in 2015 and prior years.

Audit Summary-Other 31 December Entities

- These entities incurred a combined Underlying Surplus of $0.032m, and a Comprehensive Surplus of $0.033m. The entities also had combined Net Assets of $13.834m. 41

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River Clyde Trust

- The financial report of the River Clyde Trust (the Trust) was submitted on 21 January 2016, well after the 14 August 2015 deadline. The report was not accepted as it was assessed as not being complete.
- The Trust again failed to meet its statutory deadline for the submission of its financial report. 44
- The audit of the financial information has commenced and we are awaiting a revised financial report.

FINDINGS FROM 30 JUNE 2015 AND 31 DECEMBER 2015 AUDITS 45

- A total of 277 audit matters were raised, with recommendations made to 63 State entities during the 2014-15 financial audit cycle
- The majority of matters raised related to Non-Current physical assets, Information systems, Employee expenses, Expenditure and accounts payable, Cash and financing and Revenue and receivables
- An external review of infrastructure accounting in councils noted the use of condition assessment in the calculation of the depreciated replacement cost (written down value). Using condition to determine value can result in a false indication of value and consumption of service potential over time. Condition is one factor among many others that is used to determine the remaining useful life of an asset.

TIMELINESS AND QUALITY OF FINANCIAL STATEMENTS 50

- Nine State entities (2014, 16) failed to submit financial statements for audit within the statutory deadline of 45 days.
- A review of our audits identified that a 53 entities out of 120 (2014, 24 out of 121) submitted revised financial statements as a result of year-end audit work. This shows that there still exists an opportunity for further refinement in the financial statement preparation process.

DISPOSAL OF FIREARMS AND AMMUNITION 52

- The *Firearms Act 1996* (the Firearms Act) requires the Auditor-General to arrange for an independent audit of all firearms or ammunition disposed of under that Firearms Act and to table in both Houses of Parliament a report on the audit
- We found the actual processes and control activities leading to the disposal of firearms to be 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.
- As reported in the prior year the practice of recording the quantity of ammunition for the period of this audit was inadequate for us to conclude on compliance with the Firearms Act in relation to the acquisition and/or disposal of ammunition. Controls over the practice of recording the quantity of ammunition have been put in place effective from 1 January 2016 which will enable compliance with the Firearms Act.
- A "Management of Firearms, Firearms Parts and Ammunition for Destruction" guideline became effective from 1 January 2016. The guidelines address recommendations made by us in 2012-13.

REPORTING KEY PERFORMANCE INDICATORS 56

- Tasmania has had an output based budgeting framework since 1997. Despite this there has been a lack of public reporting of how efficiently and effectively resources are being used.
- This Chapter provides suggestions for improving the overarching framework, guidance and monitoring for all State entities.
- Current performance reporting practices do not help identify inefficiencies for decision makers.
- Shortcomings identified in more than one agency included:

- measures identified in Budget Papers (BP) not reported in Annual Reports (AR)
  - too many measures reported, including those we regard as workload and not performance
  - cross-references to the annual Report on Government Services (ROGS) rather than in BPs or ARs
  - targets included in BPs but not always in ARs
  - explanation for how targets were established not always provided
  - explanations for variances not always provided.
- Inconsistencies in selection and reporting performance measures in BPs and ARs.
- Performance measures are not currently being reported for Administered funded services or investments in capital programs.
- Future reporting of service performance information is being developed by the Australian Accounting Standards Board as guidance to all not-for-profit entities.
- A number of examples of better practice in particular at the Departments of Primary Industries, Parks, Water and Environment (DPIPWE), Police and Emergency Management (DPEM) and Treasury and Finance (Treasury).

RECOMMENDATIONS

We recommended that:

1	… for all measures reported in BPs: • these be reported in the AR • they be reported in the AR by output groups in easily located places.
2	… all output groups include relevant and appropriate measures of performance or reasons provided where this is not the case: • performance measures agreed with a Minister be included in BPs so as to facilitate Parliamentary scrutiny at both the budget and annual reporting stages • all General Government Sector entities develop output groups and associated performance measures for inclusion in BPs and ARs.
3	… for all State Entities included in the BPs, selected performance measures include targets with clear explanations provided on how targets were determined.
4	… agencies limit public reporting to those measures regarded as ‘key’ in evaluating their performance.
5	… at least as it relates to services reported by Tasmanian agencies in ROGS, agencies report in ARs comparative effectiveness and efficiency performance and provide reasons for variations.
6	… measures selected for reporting performance link to Output objectives, demonstrating effectiveness and/or efficiency: • guidance is provided on the difference between activity and performance measures and how or when activity should be publicly reported • agencies consider separate presentation of performance measures from other operational statistics.
7	… where Administered funding is provided to secure services, be it direct or via arrangements with other entities, performance measures be developed that are relevant and appropriate for inclusion in BPs and ARs.

8	Department of State Growth (State Growth) separate its Capital Program between recurrent and capital components and that performance measures be devised for the recurrent component: • for all Capital Program output groups greater than $25m agencies be required to report in BPs proposed timeframes and budgets and progress against these in ARs.
9	Both Treasury and Department of Premier and Cabinet (DPAC) review the essential content and application of the existing framework: • Secretary of Treasury provide guidance on the application of the Framework • Secretary of DPAC monitor compliance with the Framework annually.
10	… Treasury and DPAC work together to develop a multi-year program of improvement to the performance reporting Framework.
11	… all agencies consider and adopt examples of better practice both locally and inter-state.
12	… the Framework require all agencies and statutory authorities within the budgetary process develop key performance information for inclusion in future BPs, where applicable, and then present actual performance in their ARs: • where BPs already include output based performance measures, entities account for their performance against these in their ARs.

REGULATED FINANCIAL STATEMENTS AND OTHER AUDITS 81

Tasmanian Networks Pty Ltd (TasNetworks) Regulatory Accounts and Regulatory Information Notices (RINs)

- Unqualified audit reports were issued on actual financial information. Review opinions were issued on estimated financial information and actual and estimated non-financial information. 82
- Thirteen management points were raised, aimed at improving the process in future years.

Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater) Regulatory Financial Statements

- Regulatory Financial Statements were received on 30 October 2015 and an unqualified audit report issued on the same day. 85
- There were two moderate risk findings related to internal control over the preparation of the Regulatory Financial Statements and preparation of an asset movement schedule.

Other compliance audits

- The Hydro-Electric Corporation (Hydro) failed to submit its 2015-16 draft compliance plan to the Minister by the prescribed date 31 March 2015 and hence its opinion was qualified. 86

GRANT ACQUITTAL AND OTHER AUDITS 87

- The Auditor-General was responsible for the audit of 82 grant acquittal and other audits of financial statements during 2014-15.
- In all cases unqualified audit opinions were issued.

BASIS FOR SETTING AUDIT FEES 89

- Fees for financial audits are determined by the Auditor-General pursuant to Section 27 of the *Audit Act 2008* (Audit Act).
- The basis for setting fees is to be described in a report to Parliament dealing with the results of financial audits of State entities. This Chapter fulfils that requirement.
- Fees are set for each State entity commensurate with the size, complexity and risks of the audit engagement.
- Charge rates are based on the principle of the Office being able to recover its costs of operation. Charge rates comprise two parts, direct salary cost and overhead recovery.
- Where circumstances surrounding the audit engagement have materially changed, additional audit fees may be sought from the State entity.
- For the current 2015-16 financial year audits, the increase to fees was nil for General Government Sector entities and an increase of 0.44% for the remaining entities.

AUDITS DISPENSED WITH 93

- Auditor-General has the authority to dispense with the audits of State entities.
- Auditor-General must consult with the Treasurer prior to such dispensation.
- Audits are dispensed with on the condition that entities have demonstrated appropriate financial reporting
- In 2014-15, 41 (2013-14, 42) audits were dispensed.

DEVELOPMENTS IN FINANCIAL REPORTING AND AUDITING 96

- AASB Disclosure Initiative - "Decluttering"
- Fair Value Disclosures relief for Not-for-Profit Public Sector Entities
- New and revised standards:
    - Related Party Disclosures for Not-for-Profit Public Sector Entities
    - Statement of Cash Flows Financing Activity Disclosures
    - Revenue from Contracts with Customers
    - Financial Instruments
    - Leases.
- Standards setters are finalising new standards dealing with:
    - Income of Not-for-Profit Entities
    - Service Concession Arrangements: Grantor
    - Service Performance Reporting.
- Enhancements to Auditor Reporting.

INTRODUCTION

This Report is the fourth and final volume in our series covering audit outcomes and financial analysis resulting from audits of the financial statements of State entities for the 2014–15 financial year and 2015 calendar year. It contains:

- Key points
- Detailed analysis of the financial results for the University of Tasmania for the year ended 31 December 2015
- Analysis of financial information from completed financial statement audits of three smaller State entities with a financial year end of 31 December 2015.
- Information on the status of the audit of River Clyde Trust for the financial year ended 30 June 2015.
- Findings from 30 June 2015 and 31 December 2015 audits
- Timeliness and quality of financial statements
- Disposal of firearms and ammunition
- Reporting of key performance indicators
- Regulated financial statements and other audits
- Grant acquittal audits
- Basis for setting audit fees
- Audits dispensed with
- Developments in financial reporting and auditing.

Our Report includes information on State entity operations and significant matters raised with state entity management during the course of our audits. The rationale for inclusion rests on our perception of the public interest in each point.

All entities addressed in this Report were provided the opportunity to comment on matters raised relevant to them. Where comments were provided, these are included in relevant Chapters.

Comments provided are not subject to 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 or comment.

STATUS OF AUDITS

Audits of all State entities for the years ended 30 June 2015 and 31 December 2015 have been completed with the exception of the River Clyde Trust and the Tasmanian Qualifications Authority.

Unless specifically indicated, comments in this Report were current as at 30 April 2016. Appendix 2 provides details of the status of all audits of financial statements of State entities for reporting periods covered in this Report.

31 DECEMBER AUDITS

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UNIVERSITY OF TASMANIA (the University or UTAS)

SNAPSHOT

The following table summarises key financial information relating to the past four financial years. Additional comments from our analysis of the University's financial performance and position are also produced below.

Table 1: Key Financial Information

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- The largest component of expenditure for 2015 was employee costs, $335.592m, which increased by $15.580m (excluding restructure costs) from 2014.
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- Significant capital projects include the construction of self-contained apartments for students at the Inveresk Campus, Melville Street in Hobart, and West Park at Cradle Coast Campus. In 2015, total transfers to buildings from capital works in progress totalled $20.836m, with a further $63.414m of capital work in progress added in the current year of which 78% related to building construction.
- The University had a deficiency in working capital at the end of 2015, this was not considered to be a concern as investments (classified as Non-current assets) could be redeemed to cover any potential working capital deficiency.
- Property, plant and equipment, $745.636m, continued to represent the majority of total assets, comprising 64.4% at 31 December 2015.
- Cash, short and long term investments, $324.141m were also significant, representing 28.0% of total assets at 31 December 2015.
- Long-term deposits decreased by $21.000m from the prior year having reached maturity and transferred to Cash and short-term investments.
- The University receives funding from the Australian Government based on estimated student enrolments and associated courses. Actual enrolments are confirmed post year-end and funding adjusted accordingly. As at 31 December 2015, it was estimated that $15.500m was repayable. The amount payable included funding received in 2015 and prior years.

Key developments this year included:

- Incentive revenue under NRAS was recorded for the first time in 2015 and is expected to continue over a ten-year period for an estimated total of $85.000m. However, this total revenue stream is less than the $93.600m currently borrowed. The University will have to fund a portion of capital expenditure on NRAS related projects and service debt from its own resources.
- The University entered into a long-term lease with the Burnie City Council for the Maker's Workshop building in 2014. The University deemed it had not taken control of the asset and it was not brought to account at 31 December 2015. We questioned this treatment, our view being that the University controls this asset. The matter is expected to be resolved during 2016.

INTRODUCTION

The University is administered under the provisions of the *University of Tasmania Act 1992*. It relies predominantly on Commonwealth support for its recurring activities.

The Consolidated financial report comprises the financial statements of the University, being the parent entity, and entities under its control during the financial year. Controlled entities are:

- AMC Search Limited
- Sense-Co Tasmania Pty Ltd
- Tasmanian University Union Inc.
- University of Tasmania Foundation Inc.
- UTAS Holdings Pty Ltd (which did not operate during 2015).

Commonwealth Department of Education and Training (CDOET) prescribes financial reporting requirements with which all universities must comply. These requirements are consistent with Australian Accounting Standards and the University complies with these requirements and standards.

The University reports on a calendar year basis, hence the financial results relate to the year ended 31 December 2015. The results reported in this Chapter relate to the University's consolidated financial performance.

The Responsible Minister is the Minister for Education and Training.

OVERALL CONCLUSION

The audit of the University's financial statements, and those of its subsidiary entities that were subject to audit, were completed satisfactorily with no other issues outstanding. The audit was completed on time and an unqualified audit opinion was issued on 18 February 2016.

Based on the findings and commentary in this Chapter, it was concluded that the University's financial performance in 2015 was reasonable after considering the level of impairment losses and losses on disposal of assets recognised totalling $20.819m. Commonwealth funding (excluding Higher Education Contribution Scheme - HECS) represented was 60% of operating revenue and 55% of Total Revenue. Commonwealth funding as a proportion of operating revenue has been increasing in recent years. This may increase the financial risk exposure of the University should a change in Commonwealth Government policy regarding university funding occur in the future.

To be sustainable, the University must generate sufficient surpluses from operations to meet financial obligations, and to fund asset replacement and new asset acquisitions. A financial sustainability assessment using commonly accepted sustainability indicators has been undertaken. Our overall assessment is that the University has a low to medium financial sustainability risk.

Notwithstanding the above observations, the University was in a sound financial position at 31 December 2015.

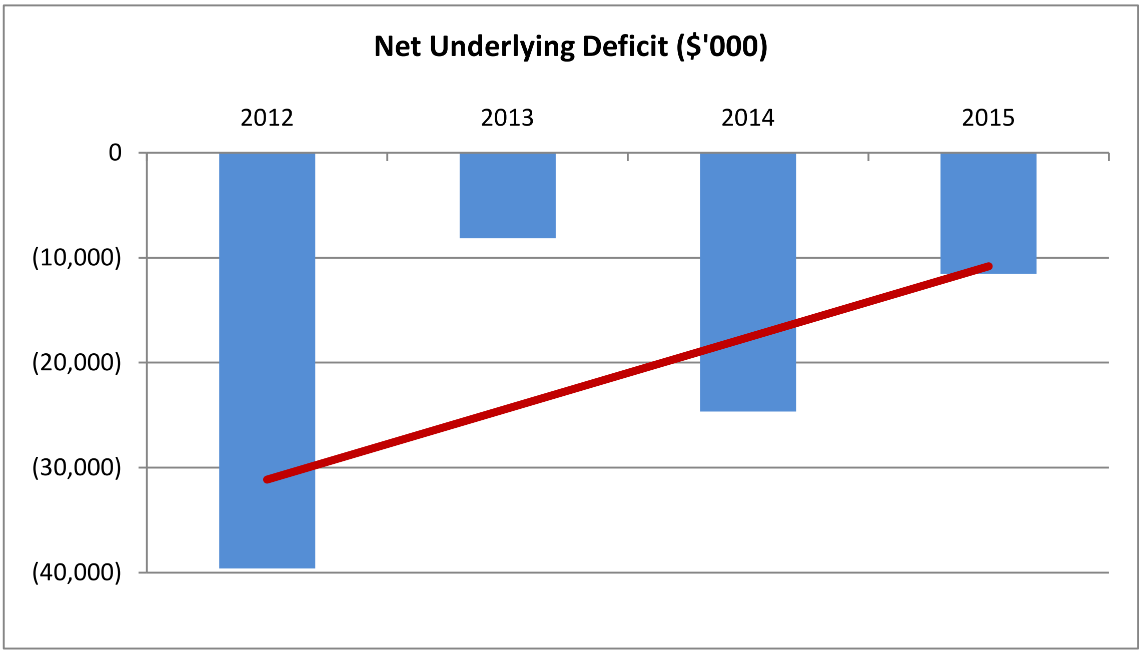
The University embarked on a significant capital expenditure program and will need to closely manage its cash flow requirements as the building program continues. A significant element of the building program is that, during the three-year period 1 January 2013 to 31 December 2015, the University secured access to the NRAS in which the Commonwealth Government offers financial incentives to provide accommodation with rentals 20% below market value. Capital expenditure associated with this project exceeded the direct financial incentives estimated to be recouped from NRAS and as a result the University may have to fund the excess from own source revenue.

FINANCIAL RESULTS

Underlying Result

The University incurred a Net Underlying Deficit before Non-Operating Adjustments of $11.525m for 2015 compared to a deficit of $24.663m for 2014. The lower underlying deficit was mainly attributable to increased Commonwealth grants under the Commonwealth Grant Scheme (CGS) funding agreement, increased fee revenue from overseas student and higher user charges, offset by a $15.580m increase in academic and non-academic employee costs. Over the four-year period under review, as illustrated in the graph below, the University has incurred deficits in each year. The graph also indicates an improvement in the deficits.

Figure 1: Net Underlying Deficit

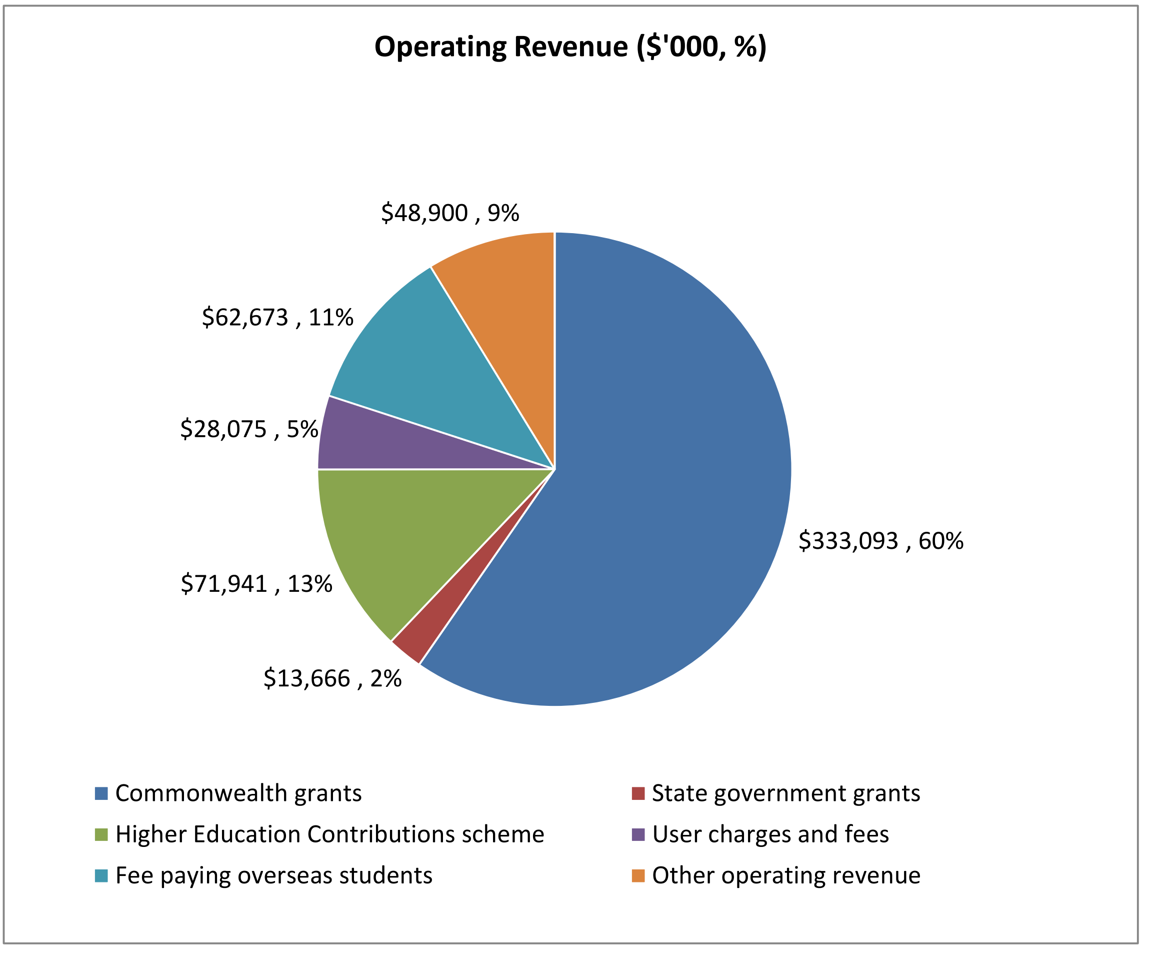


Source: Tasmanian Audit Office

Operating revenue

The revenue pie chart below depicts the sources of operating revenue for the University. The contribution of each revenue source in 2015 was consistent with 2014 except for fee paying overseas students which increased from 9% to 11% and a decrease in user charges and fees from 7% to 5%.

Figure 2: Operating Revenue



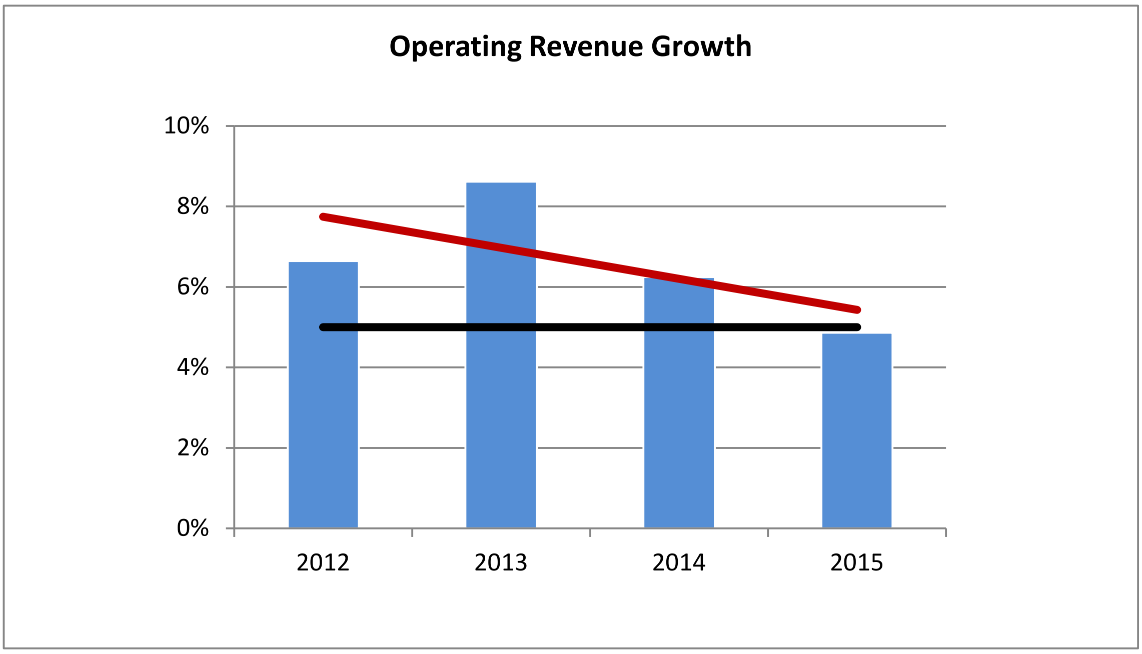
Source: Tasmanian Audit Office

Note: Operating revenue excludes investment gains, capital income, capital grants received from State and industry and net movement in unspent research funds

The following analysis and graphs summarise key ratios highlighting important aspects of the University's financial performance over the past four years. Where applicable, in each graph the benchmark[1] is represented by the black line with the red line being the actual performance trend line.

1 *Benchmarks used were either those established by Tasmanian Audit Office or Commonwealth Department of Education and Training (CDOET)*

Figure 3: Operating Revenue Growth

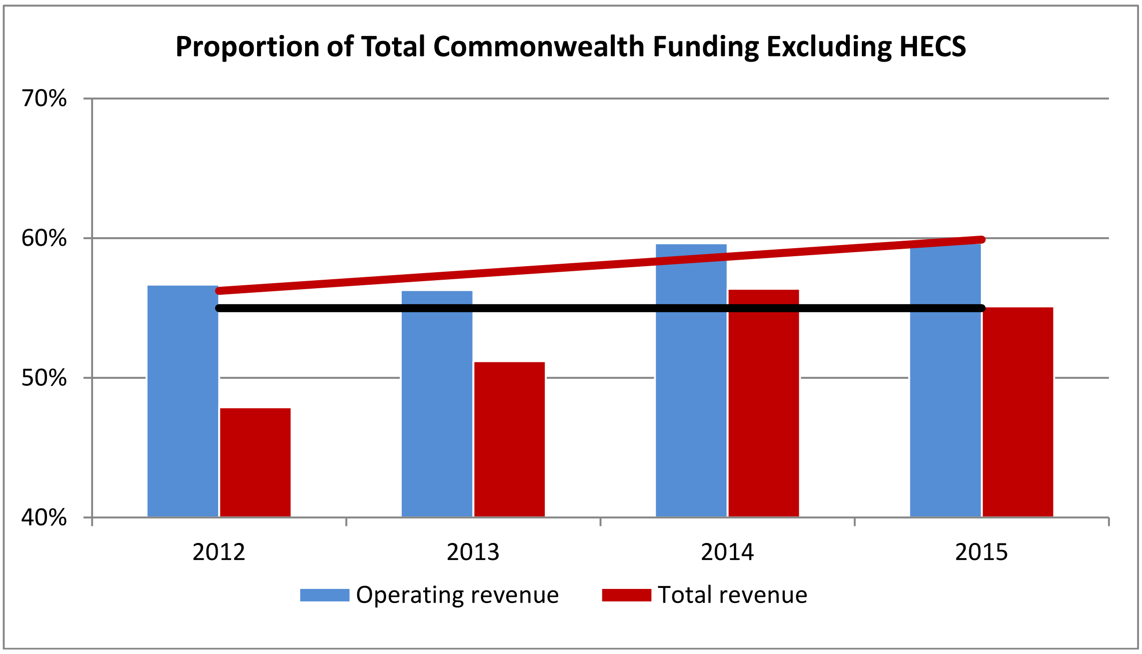


Source: Tasmanian Audit Office

Operating revenue growth, expressed in percentage terms, was slightly below the benchmark of 5% in 2015. Overall, the performance is trending downwards, but this is influenced by the high growth rate achieved in 2013.

Commonwealth grants increased to $333.093m in 2015, an increase of $15.562m, predominantly due to a $8.406m increase under the CGS in accordance with the Funding Agreement.

Figure 4: Proportion of Total Commonwealth Funding excluding HECS



Source: Tasmanian Audit Office

The CDOET has developed a number of financial benchmarks for Australian Universities'[2] including that for the diversity of revenue. It considers that there is a low risk when a university's Commonwealth funding is not more than 55% of Total Revenue. Commonwealth funding was 60% of operating revenue and 55% of Total Revenue. The trend based on operating revenue shows an increasing reliance on Commonwealth funding, which may increase the risk exposure of the University should there be a change in Australian Government policy which may potentially reduce the amount of grant funding.

2 *Reference to advice from CDOET.*

Comparisons of revenue diversity across Australian universities shows that, in general, major regional and country universities are more dependent on Commonwealth funding than metropolitan universities.

Table 2: Equivalent Full Time Student Load (EFTSL)

Student Numbers	2015	%	2014	%	2013	%	2012	%
Research Higher Degree	640	3%	619	9%	567	0%	566	(1%)
Domestic – HECS	14 919	3%	14 531	6%	13 725	9%	12 552	7%
Fee Paying Domestic	313	3%	303	(4%)	314	37%	229	22%
Fee Paying Overseas	2 902	14%	2 545	(4%)	2 645	2%	2 585	4%
Off-shore	953	(4%)	993	(11%)	1 116	(6%)	1 182	(19%)
Total student EFTSL	19 727	4%	18 991	3%	18 367	7%	17 114	4%

Percentages represent movement from prior year

Total student EFTSLs increased by 736 students in 2015, or 3.9%, which was marginally higher than 2014 (624 students or 3.4%). Total student numbers steadily increased over the past four years.

The growth in Domestic – HECS students has slowed in 2015 after increases in the previous three years which were attributable to the introduction of a number of new courses.

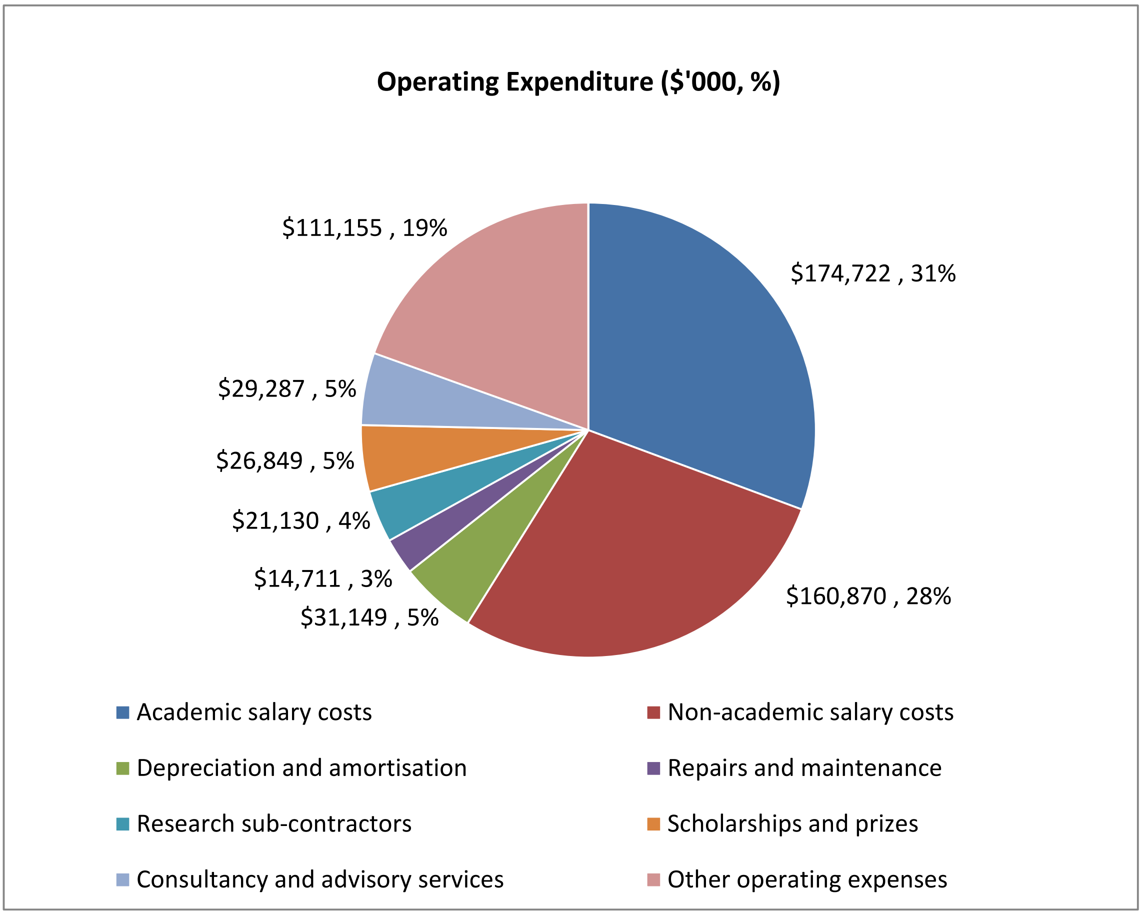
Fee Paying Overseas and Off-shore student numbers increased by 317 EFTSL. This complemented an increase in domestic EFTSL of 419. The increase in Fee Paying Overseas students in 2015 resulted from a renewal of focus such as greater marketing effort after a year of decline in 2014.

The budgeted 2015 on-shore student load was 19 622 EFTSL which included a Commonwealth supported load of 15 558 EFTSL. The University continues to target student growth; however in 2015 the total on shore load of 18 774 was 848 below budget.

Operating expenditure

The expenditure graph below depicts the main categories of operating expenditure for the University. For 2015, expense categories as a percentage of total operating expenses were relatively consistent (within 1%) with the 2014 percentages. The graph illustrates the significance of Academic salary costs $174.722m (31% of operating expenses) and Non-academic salary costs $160.870m (28% of operating expenses).

Figure 5: Operating Expenditure



Note: Operating expenditure excludes Commonwealth grant scheme and HECS adjustments, impairment expenses and losses on disposal of assets.

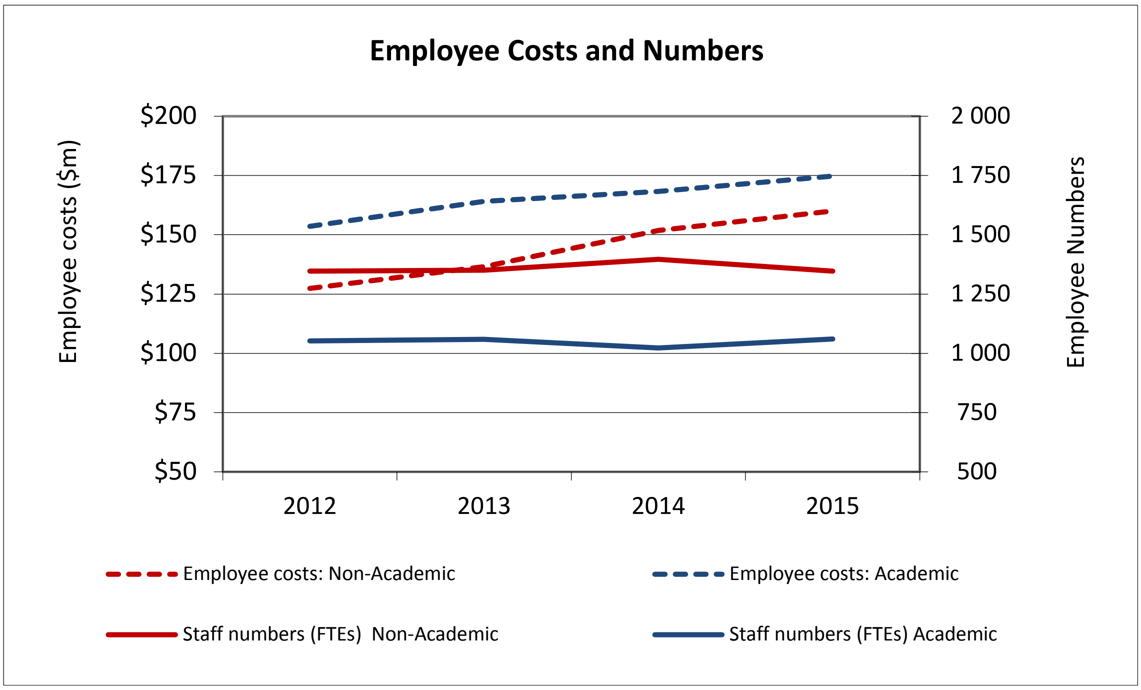
Source: Tasmanian Audit Office

Other operating expenses include non-capitalised equipment $12.372m, advertising, marketing and promotional expenses $10.100m, travel and staff development $19.402m and consumables $12.590m.

Employee costs and numbers

Full Time Equivalent (FTE) staff numbers over the past four years have remained consistent, marginally increasing from 2 402 at the end of 2011 to 2 408 at 31 December 2015. In contrast, there was a 20.0% increase in student EFTSL from 16 735 in 2011 to 19 727 in 2015.

Figure 6: Employee Costs and Numbers



Note: Graph excludes restructure costs for employees/FTEs from University's annual report at 31 December

Source: Tasmanian Audit Office

Academic staff numbers increased by 38 to 1 061 FTE's at 31 December 2015. The higher staff numbers included an additional 17 fixed term appointments. Non-academic numbers decreased by 49 FTE's. The non-academic FTE number at 31 December 2014 was higher than other years primarily due to externally funded research positions.

The number of non-academic FTEs for every academic FTE has fluctuated between 1.27 and 1.36 over the past four years with the ratio for 2015 at the lower end of the range at 1.27.

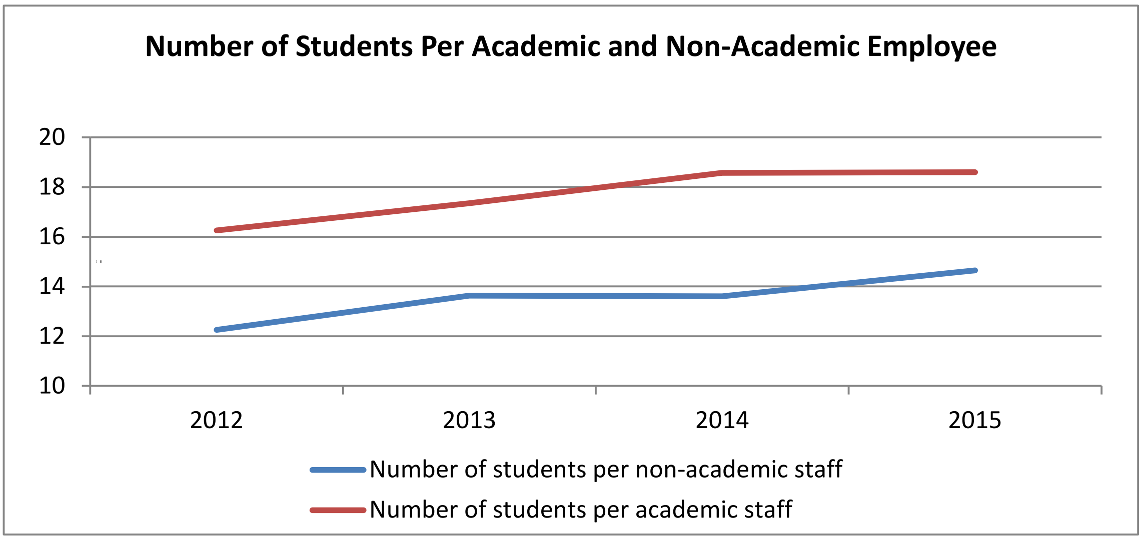
Academic employee costs have increased over the four year period with employee costs increasing by 3.0% in 2015 in line with the Enterprise Bargaining Agreement (EBA) increment.

Non-academic employee costs increased by 6% despite the decrease in FTE numbers. The increase was primarily attributable to an EBA increment of 3% and salary increases on re-classification as a result of the continuing restructuring. The University considers it will realise savings in future years.

Students per employee

The following table represents the number of students per academic and non-academic staff numbers.

Figure 7: Students Per Employee



Source: Tasmanian Audit Office

The number of students per non-academic staff increased from 13.6 in 2014 to 14.6 in 2015, primarily due to a 3.9% increase in student numbers and a 6% decrease in non-academic staff. The number of students per academic staff was 18.5 in 2014 and 18.6 in 2015.

The following table presents ratios of total expenditure to EFTSL.

Table 3: Total expenditure to EFTSL

Total expenditure to EFTSL	2015	2014	2013	2012
EFTSL (number of students)	19 727	18 991	18 367	17 114
	($'000)	**($'000)**	**($'000)**	**($'000)**
Total expenditure*	377 200	364 109	339 603	317 020
Expenditure per EFTSL	19	19	18	19

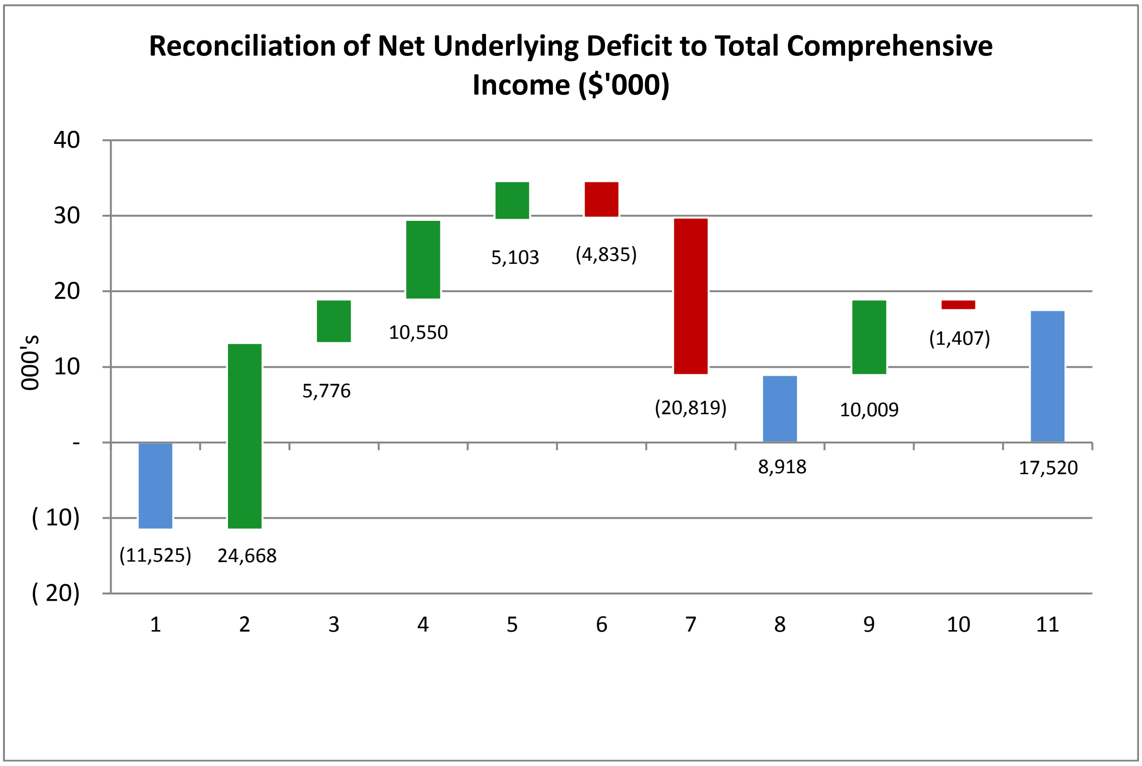
* *Total expenditure excludes research sub-contracting and impairment expenses and prior periods have not been indexed. The information was provided by the University and was not subject to audit.*

The table indicates that the University's average expenditure per EFTSL has been constant over the four-year period. The University's expenditure per EFTSL compares favourably in comparison to other universities that disclose this measure.

Net Underlying Deficit before Non-Operating Adjustments for the year and Total Comprehensive Income

The University generated a Net Underlying Deficit before Non-operating adjustments of $11.525m for 2015 (2014, 24.663m), a Surplus of $8.918m ($3.693m) and Total comprehensive income of $17.520m ($3.351m).

Figure 8: Reconciliation of Net Underlying Deficit to Total Comprehensive Income



1 **Net Underlying Deficit**
2 Investment gains (including dividends and interest received)
3 Capital income
4 Capital grants received
5 Net movement in unspent research funds
6 Commonwealth grant scheme and HECS adjustments
7 Impairment expense and loss on disposal
8 **Surplus for the year**
9 Increment on revaluation of property, plant and equipment
10 Actuarial loss from superannuation plans
11 **Total comprehensive income**

Source: Tasmanian Audit Office

Significant items in the reconciliation of Net Underlying Deficit to Total Comprehensive Income were:

Investment gains (including dividends and interest received)

Net investment returns were predominantly from the University's long-term investment portfolio. This was $4.948m greater than in 2014, with the return on the long-term investment portfolio being higher in 2015 at 8.8% (2014, 7.1%). Details of these movements are shown in the following table which details the make-up of investment revenue over the last four years.

Table 4: Investment Revenue and Income

Investment Revenue and Income	2015	2014	2013	2012
	($'000)	($'000)	($'000)	($'000)
Interest	1 673	2 897	6 875	5 247
Dividends	15 306	15 400	10 097	10 411
Realised gains (losses)	584	176	1 657	5 808
Unrealised gains (losses)	7 105	1 247	16 615	10 278
Total	**24 668**	**19 720**	**35 244**	**31 744**

Capital grants received

The State Government provided grant funding of $9.250m to the University to enable the purchase of Jane Franklin Hall land and buildings from the State Government.

Land was also donated to the University by the Launceston City Council for NRAS purposes, and was recognised at a fair value of $1.300m.

Impairment expense and loss on disposal of asset

As the University had entered into a long-term peppercorn rent lease arrangement with the operators of Jane Franklin Hall, the asset was immediately de-recognised to nil.

Impairment expense arose from a review of the carrying amount of the library collection which concluded that this asset was impaired. It was determined that collection assets aged over 20 years were to be fully written down, which resulted in an impairment of $10.268m. In 2016, the University will undertake a review of the useful life of the library stock to determine whether the current depreciation rates are appropriate.

Gain on revaluation of property, plant and equipment

An external valuer was engaged to perform a valuation over land, buildings and leasehold improvements as at 31 December 2015. The valuation included all assets at the Hobart, Sandy Bay, Newnham, Inveresk and Burnie campuses as well as other remote sites.

Revaluation increments of $2.578m for land and $8.227m for buildings were recognised which were partially offset by a revaluation decrement of $0.797m for leasehold improvements.

FINANCIAL SUSTAINABILITY

The University must manage its finances so it can meet current and future spending commitments to provide high quality education, invest in future growth, adapt quickly to emerging opportunities and threats and remain financially sustainable. To achieve these goals, the University must generate sufficient operating surpluses so it can respond to changes in economic conditions, government policy, and competition from other universities.

The table below summarises the performance of the University against some commonly accepted sustainability indicators:

Table 5: Financial Sustainability Result

Risk	Operating margin	Own source revenue	Liquidity ratio	Self-financing	Debt to equity	Building sustainability
2015 result	0.98	40.0%	1.13	2.8%	13.2%	106%
Assessed risk*	Medium	Medium	Low	High	Low	Low

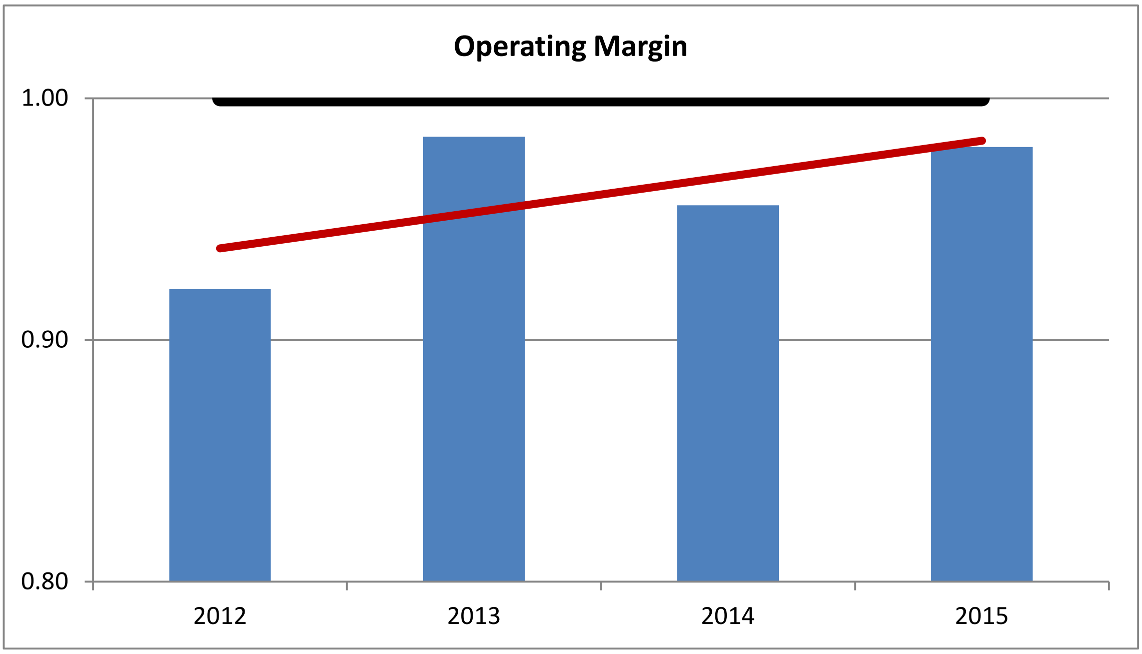
**Refer Table 6 Financial Sustainability Risk Indicators*

From the analysis above, the overall financial sustainability risk is low to medium for the University as at 31 December 2015.

Operating margin

The University's Operating margin 0.98 approached the benchmark of 1.0 in 2015 and the trend line indicates an improvement in the ratio over the period. That is, it appears that the University is decreasing the gap between operating expenses and revenues.

Figure 9: Operating Margin



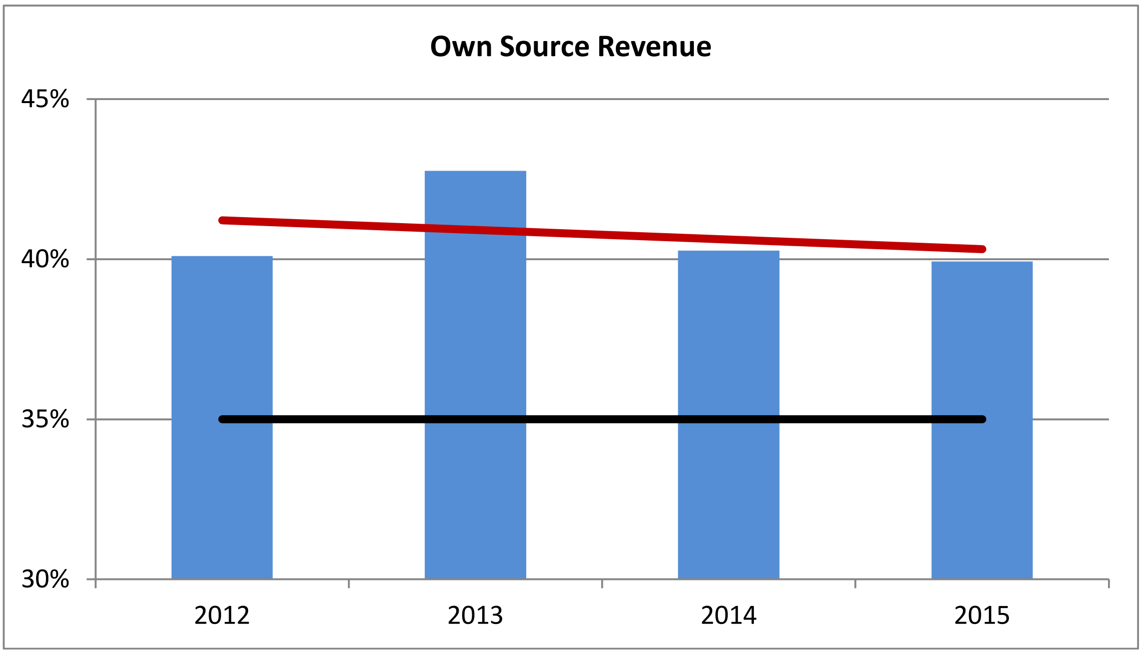
Note: The operating margin is calculated by dividing operating revenue by operating expenses

Source: Tasmanian Audit Office

Own source revenue

Own source revenue ratio represent Total Revenue less total grant revenue, contributed assets and asset revaluation adjustments as a percentage of Total Revenue . Our benchmark is for own source revenue to exceed 35% of Total Revenue. The ratio exceeds this benchmark and has remained relatively consistent over the past four years.

Figure 10: Own Source Revenue

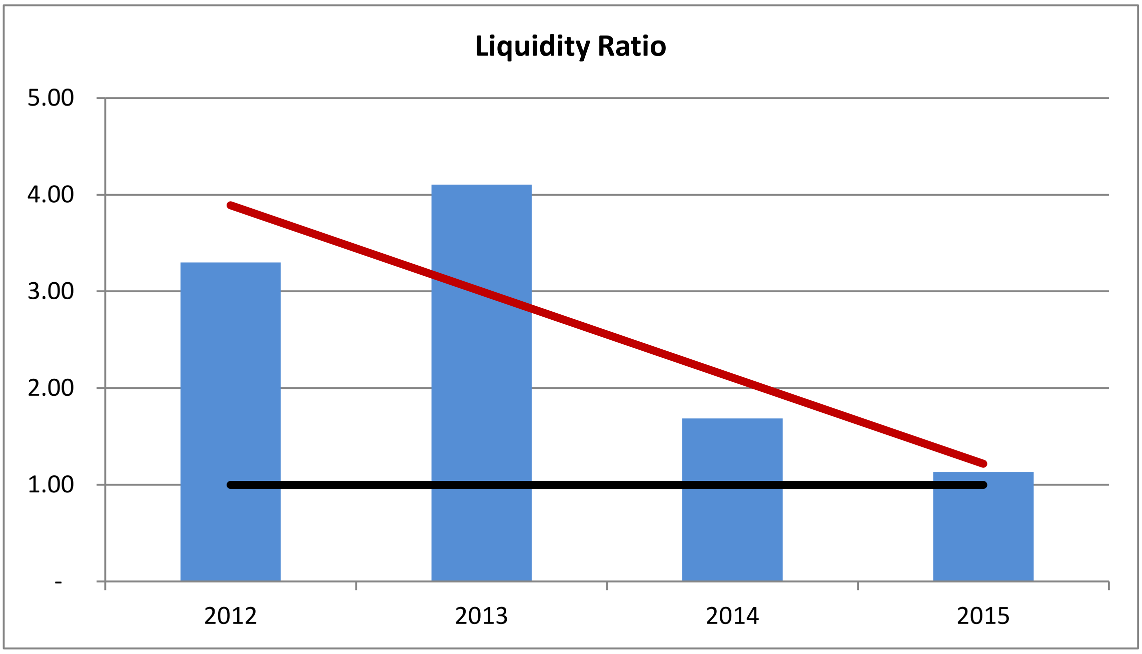


Source: Tasmanian Audit Office

Liquidity ratio

This ratio measures the ability of the University to pay existing liabilities in the next 12 months. A ratio of one or more indicates there is sufficient cash and liquid assets to meet short-term liabilities (excluding provisions and revenue in advance).

Figure 11: Liquidity Ratio



Source: Tasmanian Audit Office

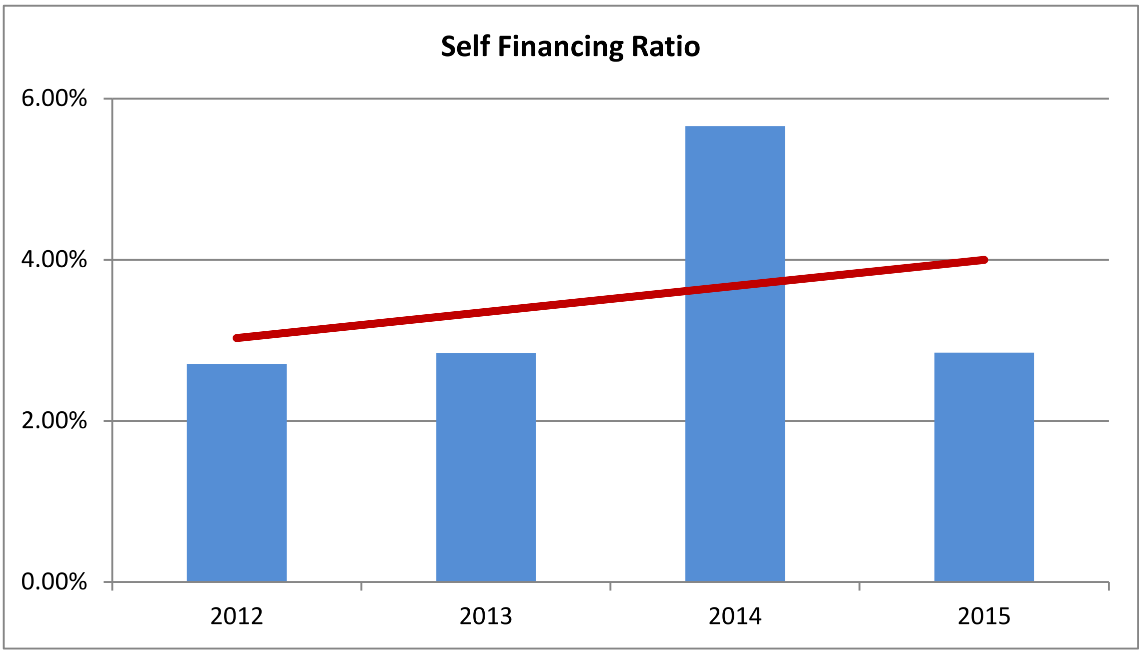
The Liquidity ratio was above the benchmark in all four years and indicated the University was able to meet short-term commitments. The ratio was also above the CDOET benchmark of 'greater than one', resulting in the University being in a low risk category for this measure.

However, the trend line indicates liquidity is in decline. The reduction in 2014 and 2015 was due to capital expenditure, such as NRAS, and restructure costs. The increase in 2013 was primarily due to NRAS borrowings of $63.426m being held in cash and short-term deposits. When reviewing this ratio, regard must be had to the University's commitments for research and capital expenditure.

Self-financing ratio

This ratio measures the ability to of the University to replace assets using cash generated by the University's operations. The higher the percentage the more effectively this can be done. The self-financing ratio is derived from net operating cash flows divided by operating revenues.

Figure 12: Self Financing Ratio



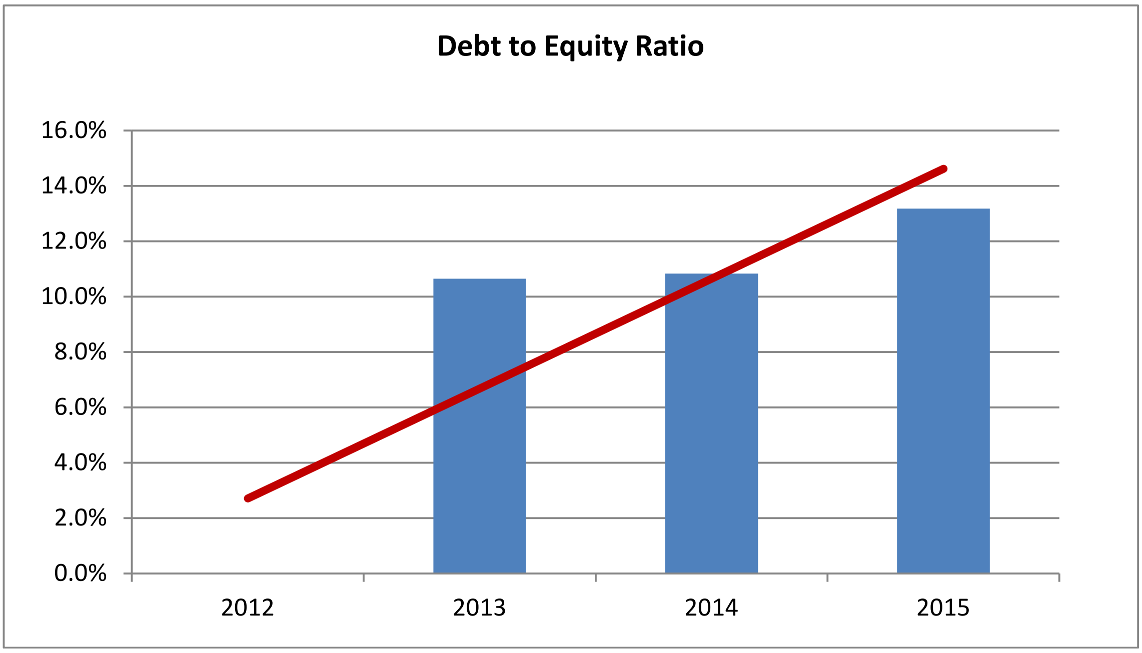
Source: Tasmanian Audit Office

The increase in 2014 related to higher Commonwealth grant funding, before decreasing in 2015 due to higher payments to suppliers and employees. The low ratios in 2012 and 2013 were mainly due to lower levels of cash generated from operating activities in these years. The University was assessed as high risk for the self-financing financial indicator as the ratio was less than 10%, which indicated the University was not generating sufficient cash from operations to fund new assets and asset renewal.

Debt to equity ratio

This is a longer-term measure that compares all current and non-current interest bearing liabilities to equity. A low ratio indicates less reliance on debt to finance the capital structure of the University. It complements the liquidity ratio which is a short-term measure.

Figure 13: Debt to Equity Ratio



Source: Tasmanian Audit Office

The University debt is due to its NRAS program. In 2013 the Tasmanian Public Finance Corporation (TASCORP) approved a ten year unsecured loan of $130.000m to the University. The purpose of this loan was to construct student accommodation under NRAS. The University planned to construct 770 self-contained apartments at a cost of approximately $126.800m, comprising:

- Newnham Campus – actual cost $17.138m, 180 units (completed in 2014)
- West Park – actual cost $4.271m, 40 units (completed in 2015)
- Hobart CBD – budget $88.113m, 430 NRAS units, $18.390m incurred to date
- Launceston CBD (Inveresk) – budget $15.650m, 120 units, $15.369m incurred to date.

At 31 December 2015, the University had spent a total of $55.168m (2014, $31.417m) on these projects.

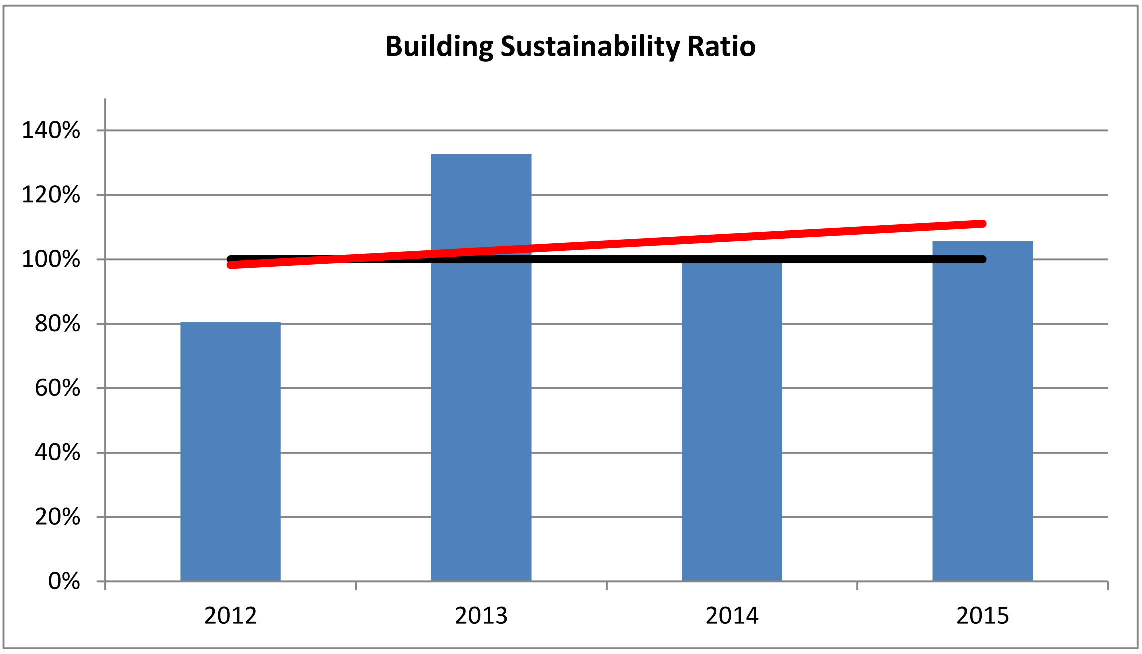
To date the University has borrowed $93.600m of the approved $130.000m facility. The University estimates that approximately $85.000m will be repaid with NRAS funding. Based on a construction cost of $126.800m, the balance of $41.800m will be funded by the University.

At 31 December 2015, the University had current borrowings of $25.000m resulting from the partial utilisation of a $50.000m overdraft facility with TASCORP for operational requirements. This was fully repaid on 8 January 2016.

Building sustainability ratio

This ratio compares the rate of spending on infrastructure with its depreciation. A ratio higher than 100% indicates that spending is greater than the depreciating expense. This is a long-term indicator, as capital expenditure can be deferred in the short term if there are insufficient funds available from operations, and borrowing is not an option.

Figure 14: Building Sustainability Ratio



Source: Tasmanian Audit Office

The building sustainability ratio, which measures the University's investment in existing buildings compared to depreciation on those buildings, was 106% in 2015, above our benchmark of 100%. On average over the past four years the ratio was 105%. Conclusions about building sustainability and consumption need to be considered together and in light of the University's capital, and on-going maintenance programs.

Financial sustainability assessment

The financial sustainability of the University has been assessed using the risk criteria outlined in Table 6.

Table 6: Financial Sustainability Risk Indicators

Risk	Operating margin	Own source revenue	Liquidity ratio	Self-financing	Debt to equity	Building sustainability
High	<0.9 Insufficient revenue is generated to fund operations and asset renewal.	<35% Highly reliant on Commonwealth grant income to fund operations and asset renewal.	<0.7 Immediate sustainability issues with insufficient current assets to cover liabilities	<10% Insufficient cash from operations to fund new assets and asset renewal	>60% Potential long-term concern over ability to repay debt levels from own source revenue.	<90% Spending on capital works has not kept pace with consumption of existing assets.
Medium	Between <0.9 & >1.0 A risk of long-term run down to cash reserves and inability to fund asset renewals.	Between 35% & 50% There is a risk that operations could disrupt with changes in Commonwealth funding.	0.7-1.0 Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	10–20% May not be generating sufficient cash from operations to fund new assets.	40–60% Some concern with the ability to repay the debt from own source revenue.	90–100% May indicate spending on existing asset renewal is insufficient.
Low	>1.0 Generating surpluses consistently.	>50% Sufficient revenue generated by entity through its own operations.	>1.0 No immediate issues with repaying short-term liabilities as they fall due.	>20% Generating enough cash from operations to fund new assets.	<20% No concern over the ability to repay debt from own source revenue.	>100% Low risk of insufficient spending on existing asset renewal.

KEY DEVELOPMENTS

National Rent Affordability Scheme (NRAS)

For the first time, the University received and accrued revenue in relation to funding from the Australian Government under NRAS. The revenue eligibility is determined by the occupancy rates and on the condition that the units are leased at least 20% below market value. As a requirement of these incentives, the University has provided accommodation at below market value. NRAS funding extends for a period of ten years commencing when the dwelling was first made available for rent.

NRAS Burnie

The cost of student accommodation in Burnie was recognised in Capital Work in Progress and not yet depreciated despite the asset being commissioned before 31 December 2015. This was due to the University not yet controlling the land on which the accommodation units are sited which is yet to be transferred from Burnie City Council (Council). Currently, there is a boundary issue with this land which is being resolved.

The University entered into a lease of the Maker's Workshop from Council in 2014 for a term of 25 years with another 25 year option and, on completion; it can purchase the asset for one dollar. Council, as at 30 June 2015, deemed it no longer controlled the asset and derecognised it. This resulted in Council impairing this asset by $6.250m. The University, as at 31 December 2015, deemed that it had not taken control of this asset nor did it have a valuation for the site. Consequently, this building was not brought to account in its 31 December 2015 financial statements. The University is reviewing the treatment and expects to resolve the matter in 2016.

NRAS Launceston

Launceston City Council contributed land to the NRAS Inveresk project for nil consideration. Fair value of $1.300m was recognised as capital income in relation to the transfer.

Land Acquisition Hobart

Land was acquired in the Hobart CBD at a cost of $9.800m and at 31 December 2015 is being used as short-term parking.

KEY AUDIT MATTERS

Description of Area	Audit Approach
Restricted funds Restricted funds include trusts, research grants and other contracts, which are utilised for specified expenditure purposes.	We reviewed and tested expenditure from restricted funds to ensure payments complied with approved purposes.
Long-term investment portfolio The University, University of Tasmania Foundation Inc. and AMC Search have a long term investment portfolio. A professional advisory firm provided advice and administration to assist the entities in making investing decisions.	We confirmed investments with fund managers and where applicable reconciled the number of units and unit prices at 31 December 2015.

<table>
<tr><th>Description of Area</th><th>Audit Approach</th></tr>
<tr><td>Fund manager valuations
The investment portfolio included unit fund investments. In relation to unlisted funds, the following risks were considered:
valuation of unlisted investment funds are complex and may have underlying assets that are non – transparent
valuation is based on unaudited information
valuation may not be current.</td><td>Unit fund managers
We:
obtained confirmation of units held and unit prices at 31 December 2015 from fund managers for all investments
obtained and reviewed the most current GS 007 report regarding controls over asset management, investment administration and unit registry services
reviewed the most current audited financial report and audit opinion – either 30 June or 31 December
re-calculated the fund’s unit price via the most current audited financial statement.
Internal controls
We reviewed the University’s investment policies, guidelines and controls to confirm there is a strong controls environment and process around:
investment strategies and allocation decisions
the assessment of risks and approach to address those risks
the appointment of investment advisors, custodian and fund managers
review of performance of the investment advisors, custodian and fund managers
transfer of funds
receipt of reports and confirmations.</td></tr>
</table>

Description of Area	Audit Approach
	Term deposits • We obtained third party confirmations. **Direct equities** We: • obtained the portfolio valuations at 31 December 2015 • obtained statements for a selection of equities to verify the number of units held • verified unit prices to the Australian Stock Exchange (ASX) at 31 December 2015 • verified the receipt of proceeds from sale as well as dividends. In addition, and in view of the strong decline in market values of listed investments post 31 December 2015, we tested valuations at the time of signing our audit report and consequent disclosure in the financial report.
Capital expenditure The University had a significant capital works program.	We tested transactions and allocation of expenditure between capital and operating expenditure. In addition we: • verified material capital expenditure • verified capital work-in-progress at year end • reviewed the disclosure of future commitments • ensured the asset register correctly reflected capital expenditure.
Intangible assets The University implemented a new student management system, in late 2014 and were developing further software components.	We reviewed the intangibles asset register and ensured it reconciled to the general ledger. We also reviewed intangibles work in progress and the transfer of software.
Land, buildings and leasehold improvements valuation The University performed a revaluation on land and buildings as at 31 December 2015.	We tested the valuation report for: • the best valuation basis used • assumptions used in valuations • qualifications and experience of valuers • held discussions with the valuer • compliance with the scoping document • reasonableness of valuation increments • changes in asset lives • appropriateness of accounting entries.

Description of Area	Audit Approach
Employee benefits and provisions Employee expenses were a significant expenditure item with the University employing 2 419 FTEs (as at 1 January 2015). In addition, the University held material leave entitlement balances (annual and long service leave), which were calculated using accounting estimates and assumptions.	We reviewed and performed walkthroughs of key payroll controls. This year we rotated controls testing of payroll. Substantive testing included: • commencement of employees • termination and redundancy payments • analytical reviews. We tested the calculation of leave entitlement balances to supporting evidence and reviewed the accounting estimates and assumptions applied by the University.
General expenditure The University processed a high volume of payment transactions with a large number of suppliers. In addition, the value of transactions processed was material.	We reviewed and tested • purchase order and other authorisation controls • material payments through substantiation testing • classification of repairs and maintenance • creditor "cut-off" testing procedures were also applied.

FINANCIAL CONTROLS

Appropriate financial controls help ensure the efficient and effective use of university resources and the implementation and administration of university policies. They are essential for quality and timely decision making to achieve desired outcomes.

The University's internal controls are appropriately designed and operating effectively to produce reliable and timely financial reports.

The audit was completed satisfactorily with no prior or current matters outstanding and the following moderate audit risk issues noted:

- In a test of portfolio investments it was noted that two managed funds did not have GS 007 Controls Reports. The Reports provide additional assurance that the investment fund's internal controls are performing to an appropriate standard.
- Excessive employee annual and long service leave.
- There was no central register of portable and attractive items such as smart phones and tablet devices.
- It was recommended that the University establish a clear policy on how development costs should be treated at the commencement of projects such as those funded by NRAS.
- The commissioned NRAS Burnie student accommodation was recognised in capital work in progress rather than buildings awaiting land transfer issues to be resolved. The University entered into a long term lease of the Makers' Workshop from the Burnie City Council but had not recognised the asset.
- A recommendation that the University review its useful lives of assets policy.

AMC SEARCH LTD (AMC SEARCH)

AMC Search is a specialist organisation, providing maritime related training and consultancy for a wide range of international and Australian organisations and individuals.

Total Revenue in 2015 was $9.475m, up from $8.253m in 2014, and Total Expenditure was $7.873m, up from $6.911m in 2014. The Net Surplus in 2015 was $1.602m (2014, $1.342m).

At 31 December 2015 Net Assets were $5.534m, up from $5.006m in 2014.

AMC Search's contribution to the University in 2015 was $1.074m (2014, $0.524m), which is based on 80% of AMC Search's 2015 surplus.

On 5 June 2013, AMC Search entered into a service agreement with the Department of Defence for the provision of Pacific patrol boat training course for four years with three one year options. A condition of the agreement was the holding of a $1.000m guarantee by a third party financial institution. These funds, while recognised on AMC Search's balance sheet, are restricted for the period of the agreement. As the first four year period of the contract ends in 2016, AMC Search expects the extensions to be taken up in 2017 as the Commonwealth is required to provide continuity of training to the Pacific nations participating in the program.

Increased Revenue from Services, $1.222m, was primarily due to more activity in short courses and general projects. Consequently, this increase resulted in higher Employee benefit expenses, $0.799m, to accommodate the demand for the courses and other activities.

Financial statements, signed by the Board, were received on 15 February 2016 and an unqualified audit report was issued on 18 February 2016.

The audit of the AMC Search financial statements was completed successfully with no outstanding matters.

UNIVERSITY OF TASMANIA FOUNDATION INC (FOUNDATION)

The Foundation's purpose is to generate donations and bequest income for the purpose of making scholarship and bursary payments to approved recipients.

The Foundation generated operating surpluses in all four years under review.

Total Revenue in 2015 was $7.048m (2014, $8.795m), which mainly comprised Donations and bequests income, $3.538m ($4.828m), and Investment income, $2.341m ($2.807m). In 2014 the Foundation received $1.137m in donations for the Medical Sciences Building campaign and transferred all the funds to the University. This campaign did not continue into 2015.

The Foundation's main expenses were Scholarships, bursary and other payments of $2.504m ($2.047m) which fluctuate from year to year depending upon fund availability or decisions when to offer scholarships and grants, and Other expenses, $2.198m ($2.130m) which remained consistent.

Post 31 December 2015 the market value of the Foundation's Investment portfolio declined, and at the time of finalising this report on 31 March 2016 the value of the portfolio had declined by $1.069m.

Financial statements, signed by the Board, were received on 15 February 2016 and an unqualified audit report was issued on 18 February 2016.

The audit of the Foundation financial statements was completed successfully with no outstanding matters.

Statement of Comprehensive Income

	2015	2014	2013	2012
	$'000s	$'000s	$'000s	$'000s
State government grants	13 666	12 165	11 568	16 110
Commonwealth grants	333 093	317 531	282 070	261 563
Higher Education Contributions scheme	71 941	71 184	69 574	58 367
User charges and fees	90 748	85 290	73 052	73 926
Other operating revenue	48 900	46 300	64 908	51 471
Total Revenue	**558 348**	**532 470**	**501 172**	**461 437**
Academic salary costs	174 722	168 250	164 002	153 527
Non-academic salary costs	160 870	151 762	136 597	127 435
Depreciation and amortisation	31 149	28 641	25 598	22 316
Repairs and maintenance	14 711	13 784	17 170	16 406
Research sub-contractors	21 130	25 950	23 983	31 810
Scholarships and prizes	26 849	25 785	22 578	21 458
Consultancy and advisory services	29 287	32 234	22 435	18 327
Other operating expenses	109 170	105 147	95 042	88 352
Restructure costs	1 135	4 900	1 915	21 425
Borrowing Costs	850	680	0	0
Total Expenses	**569 873**	**557 133**	**509 320**	**501 056**
Net Underlying Deficit before Non-Operating Adjustments	**(11 525)**	**(24 663)**	**(8 148)**	**(39 619)**
Investment gains - including dividends and interest received	24 668	19 720	35 244	31 744
Capital income	5 776	6 672	21 750	34 381
Capital grants received from the State and Industry	10 550	0	0	15 000
Net movement in unspent research funds	5 103	4 272	(7 212)	3 434
Commonwealth grant scheme & HECS adjustments	(4 835)	(1 862)	(631)	(2 870)
Impairment expenses	(11 569)	(446)	(220)	(917)
Loss on disposal of asset	(9 250)	0	0	0
Surplus for the year	**8 918**	**3 693**	**40 783**	**41 153**
Gain (loss) on revaluation of land, buildings and leasehold improvements	0	(64)	(163)	0
Gain (loss) on revaluation of property, plant and equipment	10 009	(77)	0	0
Net actuarial gain (loss) from superannuation plans *	(1 407)	(201)	1 134	(1 731)
Total comprehensive income	**17 520**	**3 351**	**41 754**	**39 422**

** Changes to accounting for defined benefit plans, effective 1 January 2013, require actuarial gains and losses to be recognised in other comprehensive income.*

The format of the Statement of Comprehensive Income was changed in 2015 resulting in changes to comparative amounts. The changes are to align the Net underlying deficit before non-operating adjustments to the University's result from core activities. The adjustments exclude restructuring, borrowing costs and specific impairment costs, as these were not considered core activities.

Statement of Financial Position

	2015	2014	2013	2012
	$'000s	$'000s	$'000s	$'000s
Cash and short term investments	44 277	48 241	77 645	31 369
Receivables	23 070	29 498	24 833	22 087
Inventories	773	836	906	920
Other	8 853	9 071	6 895	5 062
Total Current Assets	**76 973**	**87 646**	**110 279**	**59 438**
Payables	34 479	44 097	24 970	16 209
Provisions	51 255	52 415	50 734	52 261
Other	19 149	25 347	15 448	14 166
Borrowings	25 000	2 001	0	0
Total Current Liabilities	**129 883**	**123 860**	**91 152**	**82 636**
Net Working Capital	**(52 910)**	**(36 214)**	**19 127**	**(23 198)**
Investments	279 864	276 471	255 408	227 683
Property, plant and equipment	745 636	688 066	665 937	619 839
Receivables	8 239	7 452	8 894	10 527
Long term deposits	0	21 000	16 000	0
Intangibles	47 762	46 814	34 923	28 888
Total Non-Current Assets	**1 081 501**	**1 039 803**	**981 162**	**886 937**
Payables	7 109	0	0	0
Provisions	28 053	27 680	27 731	32 975
Borrowings	93 600	93 600	93 600	0
Total Non-Current Liabilities	**128 762**	**121 280**	**121 331**	**32 975**
Net Assets	**899 829**	**882 309**	**878 958**	**830 764**
Restricted Funds	149 199	145 095	96 569	138 208
Reserves	279 100	269 091	269 232	269 395
Retained surpluses	471 530	468 123	513 157	423 161
Total Equity	**899 829**	**882 309**	**878 958**	**830 764**

Statement of Cash Flows

	2015	2014	2013*	2012
	$'000s	$'000s	$'000s	$'000s
State government grants	16 073	13 382	12 725	34 221
Commonwealth grants and funding	409 425	395 111	351 710	317 835
Receipts from customers	165 727	158 047	154 122	143 927
Payments to suppliers and employees	(575 337)	(536 420)	(504 313)	(483 493)
Cash from operations	**15 888**	**30 120**	**14 244**	**12 490**
Investment earnings**	15 960	18 297	14 624	12 601
Commonwealth Capital grant funding	5 776	6 672	13 073	15 381
State Capital grant funding**	9 250	0	0	15 000
Other Capital Funding	0	0	8 677	4 000
Net proceeds on disposal from (payments for) investments	25 296	(24 640)	(25 453)	(12 729)
Payments for property, plant and equipment and intangibles	(98 924)	(62 802)	(79 034)	(95 092)
Proceeds from sale of property, plant and equipment	607	86	1 034	1 414
Other investing cash flows	(816)	862	(1 651)	(521)
Cash (used in) investing activities	**(42 851)**	**(61 525)**	**(68 730)**	**(59 946)**
Repayment of borrowings	(2 001)	0	0	0
Proceeds from borrowings	25 000	2 001	93 600	0
Cash from investing activities	**22 999**	**2 001**	**93 600**	**0**
Net increase (decrease) in cash	**(3 964)**	**(29 404)**	**39 114**	**(47 456)**
Cash at the beginning of the year	48 241	77 645	38 531	78 825
Cash at end of the year	**44 277**	**48 241**	**77 645**	**31 369**

** The TUU was consolidated for the first time in 2014 with 2013 comparative figures amended to reflect the change. No alterations were made for financial years earlier than 2013.*

*** The University included State Capital grant funding and Investment earnings in the operating activities segment of their cash flow.*

The format of the cash flow statement was changed in 2015 resulting in changes to comparative amounts. The changes are to align with the amended presentation of the Statement of Comprehensive Income.

Financial Analysis

	Bench Mark	2015	2014	2013	2012
Financial Performance					
Total Revenue Growth*	>5%	4.9%	6.2%	8.6%	6.6%
Proportion of Total Commonwealth Govt Funding*	<55%	56.6%	57.1%	53.3%	52.7%
Result from operations before tax & non-operating adjustments ($'000s)		(11 525)	(24 663)	(8 148)	(39 619)
Operating margin *	>1.0	0.98	0.96	0.98	0.92
State grants as a % of operating income		2.4%	2.3%	2.3%	3.5%
HECS as a % of operating income		13%	13%	14%	13%
Underlying results ratio		(2.1%)	(4.6%)	(1.6%)	(8.6%)
Self financing ratio *		2.8%	5.7%	2.8%	2.7%
Own source revenue (%) *	>35%	39.9%	40.3%	42.8%	40.1%
Financial Management					
Liquidity ratio *	>1.0	1.13	1.69	4.10	3.30
Debt collection	30 days	27	49	43	40
Creditor turnover	30 days	60	79	50	33
Capital Management Buildings					
Building assets sustainability ratio *	100%	106%	100%	133%	80%
Building assets investment ratio	>100%	856%	720%	507%	864%
Building assets Consumption ratio *	>60%	52%	53%	54%	52%
Other Information					
Salaries and related expenditure as a % of operating income	50 - 70%	60%	60%	60%	61%
Academic staff numbers (FTE's)		1 061	1 023	1 059	1 053
Non-academic staff numbers (FTE's)		1 347	1 396	1 351	1 347
Total staff numbers (FTEs) (excluding casual staff)		2 408	2 419	2 410	2 400
Average staff costs ($'000s)		139	132	125	117
Average leave balance per FTE ($'000s)		25	24	23	20
Student Numbers**					
Research Higher Degree		640	619	567	566
Domestic - HECS		14 919	14 531	13 725	12 552
Fee Paying Domestic		313	303	314	229
Fee Paying Overseas		2 902	2 545	2 645	2 585
Off-shore		953	993	1 116	1 182
Total		**19 727**	**18 991**	**18 367**	**17 114**

* *For commentary on these indicators refer to the Financial Results section of this Chapter.*

** *Equivalent full-time student load (EFTSL). Student figures are up to date at time or reporting.*

Several comparative amounts have changed. The changes are to align with the amended presentation of the Statement of Comprehensive Income.

AMC SEARCH LTD FINANCIAL STATEMENTS

	2015	2014	2013	2012
	$'000s	$'000s	$'000s	$'000s
Total Revenue	9 475	8 253	6 779	7 816
Total Expenses	7 873	6 911	6 124	6 908
Net Surplus	**1 602**	**1 342**	**655**	**908**
Total Assets	7 715	6 710	5 717	5 781
Total Liabilities	2 181	1 704	1 529	1 508
Net Assets	**5 534**	**5 006**	**4 188**	**4 273**
Opening Total Equity	**5 006**	**4 188**	**4 273**	**4 357**
Net Surplus	1 602	1 342	655	908
Asset Revaluation Reserve	0	0	(14)	0
Contributions to UTAS	(1 074)	(524)	(726)	(992)
Closing Total Equity	**5 534**	**5 006**	**4 188**	**4 273**
Contributions to UTAS	**1 074**	**524**	**726**	**992**

UNIVERSITY OF TASMANIA FOUNDATION INC. FINANCIAL STATEMENTS

	2015	2014	2013	2012
	$'000s	$'000s	$'000s	$'000s
Revenue				
Donations and bequests income	3 538	3 691	3 721	3 033
Donation – Medical Sciences Building campaign	0	1 137	5 436	5 153
Other income	1 169	1 160	1 821	1 472
Investment income	2 341	2 807	4 820	4 000
Total Revenue	**7 048**	**8 795**	**15 798**	**13 658**
Expenditure				
Scholarships, bursary and other payments	2 504	2 047	1 821	1 332
Faculty scholarships and research	103	1 131	718	678
Transfer – Medical Sciences Building campaign	0	1 137	7 863	4 000
Other expenses	2 198	2 130	2 220	1 807
Total expenditure	**4 805**	**6 445**	**12 622**	**7 817**
Net Surplus	**2 243**	**2 350**	**3 176**	**5 841**
Cash and Investments	**47 406**	**45 163**	**42 813**	**39 637**
Equity	**47 406**	**45 163**	**42 813**	**39 637**

AUDIT SUMMARY - OTHER 31 DECEMBER ENTITIES

SNAPSHOT

These entities incurred a combined Underlying Surplus of $0.032m, and a Comprehensive Surplus of $0.033m. The entities also had combined Net Assets of $13.834m.

INTRODUCTION

This part of the Report provides information on the following entities which reported at 31 December 2015:

- Anzac Day Trust
- Theatre Royal Management Board (the Board)
- The Solicitors' Trust (the Trust)

The financial results discussed were derived from the audited financial statements of each entity. The reporting framework for these entities is generally prescribed by their enabling legislation. In our analysis we have, if necessary, re-allocated certain revenue or expenditure items to better assist readers to interpret financial performance.

The Office of Tasmanian Assessment, Standards and Certification (the Office) replaced the Tasmanian Qualifications Authority (TQA) as part of a Government initiated reorganisation and commenced operation in July 2015 under section 73A of the *Office of Tasmanian Assessment, Standards and Certification Act 2003*. The TQA previously reported at 31 December, however the first set of financial statements for the Office will be prepared for the year ending 30 June 2016.

AUDIT NOT COMPLETED AT THE TIME OF FINALISING THIS REPORT

Under section 24(1) the *Office of Tasmanian Assessment, Standards and Certification Act 2003*, the Office is required to provide a report on its functions and powers to the Secretary of the Department of Education (Education). The Office complied with this requirement but it did not prepare separate financial statements for the period ending 30 June 2015, due to the limited period of operations. The Office will be preparing financial statements for the period ending 30 June 2016.

The TQA also failed to submit financial statements for the period 1 January 2015 to 29 May 2015, the date it ceased operation.

We are currently in discussions with Education in relation to obtaining these statements and completing the audit.

AUDITS OF THE 31 DECEMBER 2015 FINANCIAL STATEMENTS

Apart from entities discussed in previous sections, all other State entities submitted their financial statements within the statutory deadline. Unqualified audit reports were issued in all cases.

KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

Financial audits were completed satisfactorily, with no key findings reported to management.

Theatre Royal Management Board

Note 15 to the financial statements on Economic Dependency, included the following comment:

'The Theatre Royal Management Board's entrepreneurial program has been assisted through funding received from Arts Tasmania by the Minister for the Arts. The nature of this and future entrepreneurial program is dependent on the receipt of this funding. At the date of this report the Board has no reason to believe that the State Government will not continue to support the Theatre Royal Management Board.'

As a result, the financial statements were prepared on the basis that the Board was a going concern.

The Solicitors' Trust

This year, the use of grant deeds, which are prepared by the Minister in consultation with the Trust, was implemented to provide assurance that appropriate procedures are followed in relation to grant payments being made by the Trust, at the director of the Minister.

During the year, the Trust received $3.304m under a settlement to recoup the cost of compensation paid to investors of a failed mortgage fund. This was previously recorded as a contingent asset.

FINANCIAL ANALYSIS

The table below summarises the financial results and position of Other State entities for 31 December 2015:

	Underlying Surplus (Deficit)	Net Surplus (Deficit)	Comprehensive Surplus (Deficit)	Net Assets
	$'000s	**$'000s**	**$'000s**	**$'000s**
Anzac Day Trust*	1	1	1	4
Theatre Royal Management Board	(77)	(18)	(18)	1 490
The Solicitors' Trust	3 284	3 284	3 284	12 340

**Actual surplus for the year, recorded on the statement of receipts and payments, equalled $552.*

A review of the financial results of these entities for 2015 identified the following:

Anzac Day Trust

Anzac Day Trust recorded a Net surplus of $0.001m (2014, $0.016m deficit). The Trust only completed a statement of receipts and payments and therefore did not produce a balance sheet.

Theatre Royal Management Board

The Board recorded an Underlying deficit of $0.077m (2014, $0.155m surplus), predominantly due to less grant payments from Arts Tasmania, and less performances held in 2015.

As at 31 December 2015, the Board's net assets totalled $1.490m with its most significant asset being investments of $1.762m. The Board's most significant liability was advanced ticket sales of $0.644m.

The Solicitors' Trust

In 2015, the Trust reported a Net surplus of $3.284m (2014, $0.197m). The Trust's Income was primarily derived from interest on Statutory Deposits, trust accounts operated by legal practitioners and trust investment funds. Guarantee fund income increased by $3.319m as a result of an insurance claim settlement of $3.304m, referred to previously in this Chapter.

At balance date the Trust had net assets of $12.340m, made up predominately of bank deposits of $11.103m. The Trust also administered $37.035m ($32.701m) of Statutory Deposits. This balance is dependent upon the level funds held in trust by legal practitioners. The Trust controls the investment of these funds, but these funds do not belong to the Trust. These funds are not recognised as balances in the financial statements, but are disclosed by way of note.

30 JUNE AUDITS

RIVER CLYDE TRUST

SNAPSHOT

- The financial report of the River Clyde Trust (the Trust) was submitted on 21 January 2016, well after the 14 August 2015 deadline. The report was not accepted as it was assessed as not being complete.
- The Trust again failed to meet its statutory deadline for the submission of its financial report.
- The audit of the financial information has commenced and we are awaiting a revised financial report.

INTRODUCTION

The Trust was established in 1898 and operates under the *Water Management Act 1999.* It owns assets which include control gates at Lake Sorell and Lake Crescent and a pump station at Lake Meadowbank. These assets allow farmers along the Clyde River to access water for irrigation.

AUDIT NOT COMPLETED AT THE TIME OF FINALISING THIS REPORT

The Trust submitted its financial report for 30 June 2015 on 21 January 2016, well after the 14 August 2015 deadline. The report was not accepted because it was not complete in all material respects. Correspondence with the Trust's Chairman noted:

- the format of the statement of profit and loss did not separate comprehensive income items
- a statement of cash flows was not prepared
- the basis of preparation indicated the Trust was not a reporting entity
- a number of omissions in the explanatory notes.

The Trust again failed to meet its statutory reporting deadline. As a result, the Trust breached section 17 of the Audit Act, which requires accountable authorities to submit financial statements to the Auditor-General within 45 days after the end of the financial year.

The audit of the financial information has commenced and we are awaiting a revised financial report. At the time of this Report, no analysis of the Trust's financial performance was undertaken.

FINDINGS FROM 30 JUNE 2015 AND 31 DECEMBER 2015 AUDITS

SNAPSHOT

- A total of 277 audit matters were raised, with recommendations made to 63 State entities during the 2014-15 financial audit cycle
- The majority of matters raised related to non-current physical assets, information systems, employee expenses, expenditure and accounts payable, cash and financing and revenue and receivables
- An external review of infrastructure accounting in councils noted the use of condition assessment in the calculation of the depreciated replacement cost (written down value). Using condition to determine value can result in a false indication of value and consumption of service potential over time. Condition is one factor among many others that is used to determine the remaining useful life of an asset.

INTRODUCTION

The comments in this Chapter apply to our audits of all State entities, not just the entities covered by this Report, for the financial years ended 30 June 2015 and 31 December 2015. In this Chapter we refer to these periods as the 2014-15 financial audit cycle.

AUDIT MATTERS

We identified a total of 277 audit matters (2014, 350) and made recommendations to 63 (66) State entities during the 2014-15 financial audit cycle. We communicated all weaknesses identified during audits to management at an appropriate level of responsibility. Significant matters were detailed in written reports, which included our recommendations for improvements and management responses. The reports were then communicated to those charged with governance, for example the Secretary, Chairperson of the Board or Mayor, with a copy sent to the Responsible Minister.

We also reported significant matters to Parliament in Auditor-General's Reports on the Financial Statements of State entities.

We categorise each matter as high, moderate or low risk, depending on its potential impact, as shown in the Table 1 below:

Table 1: Risk categories for audit findings

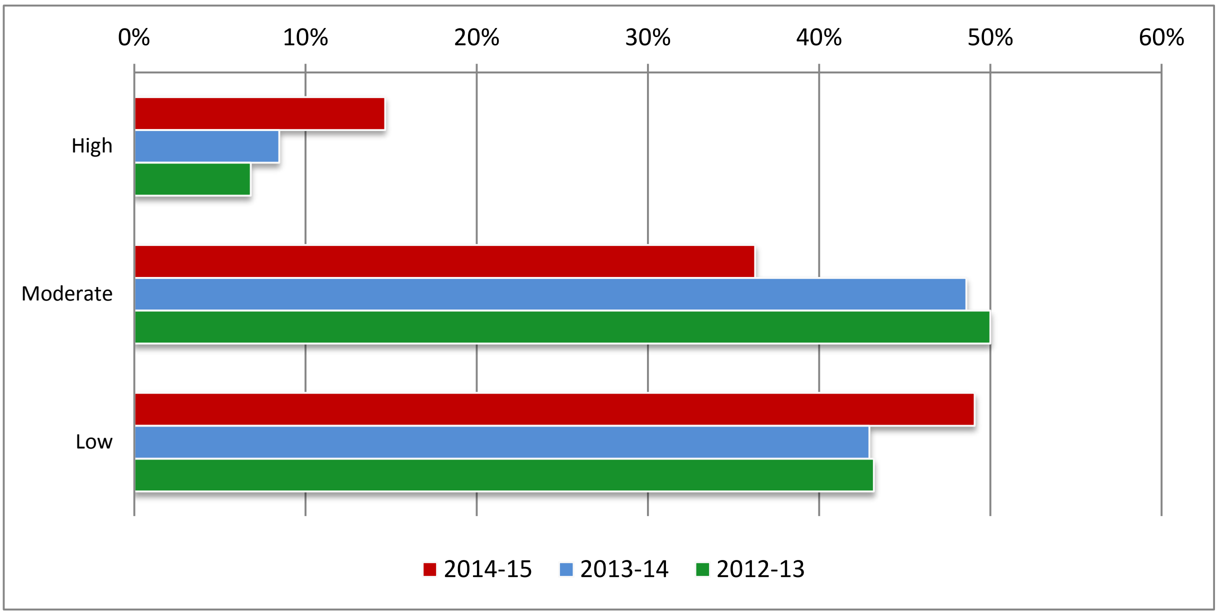
Risk Category	Client Impact
High	• Matters which pose a significant business or financial risk to the entity • Matters that have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency by the entity.
Moderate	• Matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed as high priority within the current financial year • Matters that may escalate to high risk if not addressed promptly • Low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.
Low	• Matters that are isolated, non-systemic or procedural in nature • Matters that reflect relatively minor administrative shortcomings and could be addressed in the context of the entity's overall control environment.

Source: Tasmanian Audit Office

Matters raised by category of risk

Figure 1 below provides a breakdown of matters raised during the financial audit cycles 2012-13 to 2014-15, by the risk categories outlined in Table 1.

Figure 1: Matters Raised by Risk Category



Source: Tasmanian Audit Office

Figure 1 indicates in 2014-15, 15% of matters were assessed as high risk. High risk matters pose a significant business or financial risk to the entity and need to be addressed as a matter of urgency. Such issues included:

- condition based valuation for infrastructure assets
- inappropriate maintenance of asset registers/information
- dated asset valuations
- inappropriate use of indexation
- information systems security and management
- weaknesses in the bank reconciliation process
- inadequate segregation of duties/weakness in internal control environment.

In 2014-15, moderate risk matters accounted for 36% of matters. Moderate risk matters pose a moderate business or financial risk to the entity if not addressed within the current financial year. Such issues included:

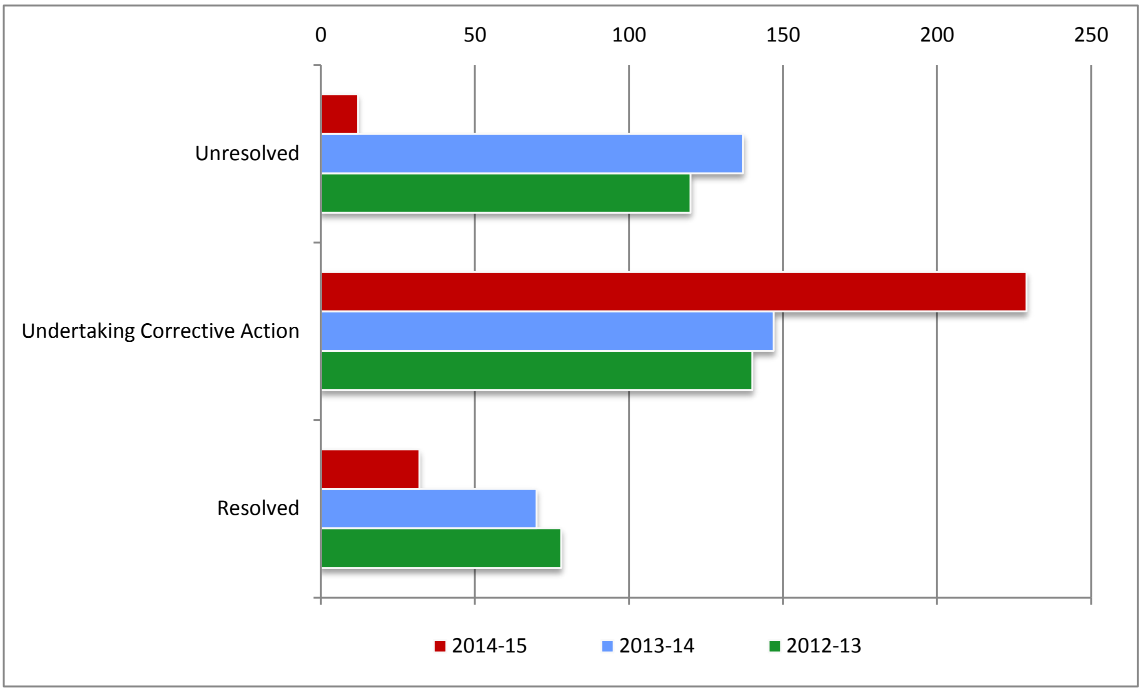
- recognition and valuation of land under roads
- lack of security, disaster recovery and continuity plans for information systems.

The remaining matters, 49%, were categorised as low risk, being isolated, non-systemic or procedural in nature, which reflected minor administrative shortcomings and could be addressed in the context of the entity's overall control environment.

Management action

Figure 2 below provides a breakdown of matters raised during the financial audit cycles 2012-13 to 2014-15, by the management action.

Figure 2: Management action



Source: Tasmanian Audit Office

Of the majority of matters reported to management or those charged with governance in the 2014-15 audit cycle, 94% were generally resolved or management agreed to undertake corrective actions.

'Undertaking corrective action' means that the issue had not been satisfactorily resolved at the time the audit was finalised, but management was implementing, or had agreed to implement, our recommendation or alternative resolution.

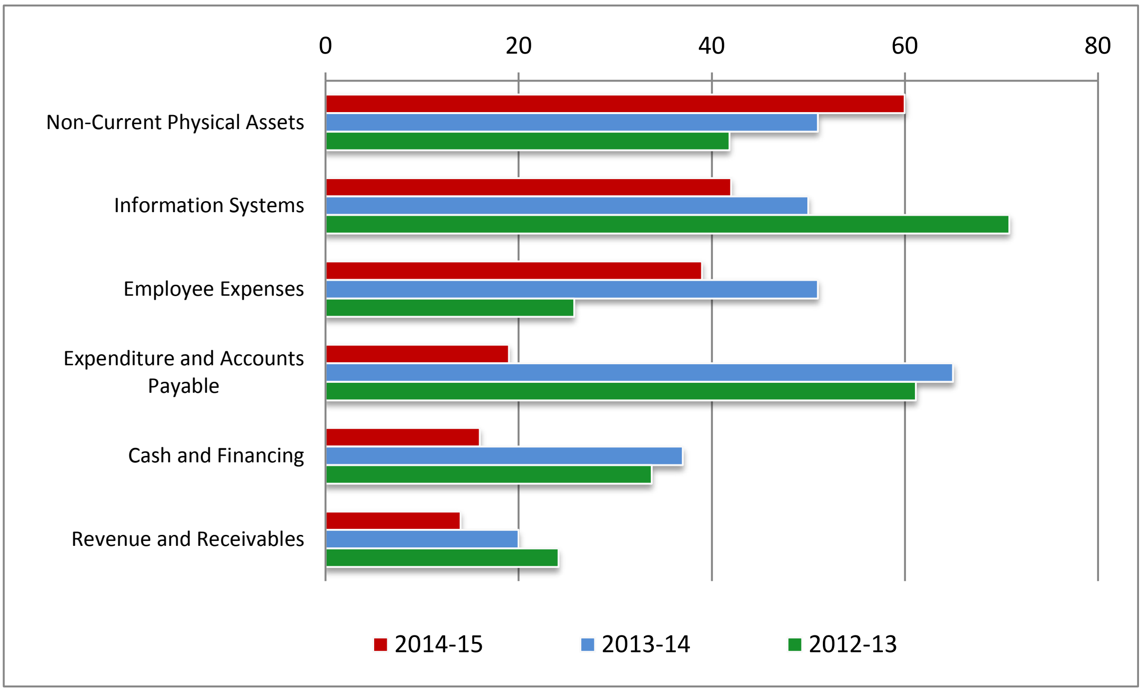
For the 2014-15 audit cycle, unresolved issues represented 6% of the matters raised, a significant improvement on results from prior years. Those related to management disagreement with a finding or, in our view, the corrective action proposed by management did not adequately address the matter. In these cases, we reported the matter and management's response to those charged with governance in the year when it came to our attention. Where necessary, we modified our audit procedures to address the risk of financial statements being misstated due to the identified weakness.

We considered all matters reported to management in the prior year when planning an audit as part of our risk assessment procedures. Where issues had been corrected, this was noted, although we have performed audit testing to confirm this.

Matters raised by financial cycle

To assist us in the identification of trends and management of audit risks, we categorise issues raised according to the financial cycle they relate to. Figure 3 depicts issues most commonly raised during the financial audit cycles 2012-13 to 2014-15, irrespective of the risk rating.

Figure 3: Matters by Type



Source: Tasmanian Audit Office

Non-current physical assets

The increase in matters during 2014-15 was primarily due to our engagement of an external expert to follow-up on our Report No. 5 of 2013-14 Infrastructure Financial Accounting in Local Government (the Report). The follow-up focused on a number of areas, mainly the basis for calculating asset values, determining useful lives and the role of condition assessment in valuation and depreciation calculations.

The review found several councils used condition assessments in the valuation of assets, with the condition score used to directly calculate the depreciated replacement cost (written down value). While condition is a good measure of physical wear and tear of an infrastructure asset, there are issues in using condition to measure value:

- the coarseness of the condition scores (1-5, 1-6, and so on)
- repeatability of subjective condition assessments
- non-consideration of expected usage of the asset
- non-consideration of technical or commercial obsolescence
- non-consideration of legal or similar limits on use of the asset
- non-consideration of changes in community preferences for services.

Using condition to determine value can result in a false indication of value and consumption of service potential over time. As noted in the Report, condition is one factor among many others that is used to determine the remaining useful life of an asset. Other factors could include:

- expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output
- expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle

- technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset
- legal or similar limits on the use of the asset, such as the expiry dates of related leases.

Information systems

The number of matters raised in information systems during 2012-13 was high, primarily due to a greater focus in the audit of information systems, with the majority of matters being identified in medium to small entities. The matters have been or are being addressed, resulting in fewer findings in this area in both 2013-14 and 2014-15.

Employee expenses

The number of matters raised relating to employee expenses during 2013-14 was high, primarily due to control weaknesses in payroll processing raised for a number of state entities. The majority of matters were addressed by managements in 2014-15, resulting in a reduction of findings.

Expenditure and accounts payable

The significant decrease in matters during 2014-15 was primarily due to improvements in expenditure controls and processing and implementation of prior year recommendations. This is reflected in a number of entities that had a number of issues raised in the prior year, including Tasmanian Health Organisation North (9 issues), Education (6 issues) Tasmanian Health Organisation North-West (4 issues), Justice (3 issues) and Burnie City Council (4 issues). For each of the entities noted above, there were no expenditure issues noted in the 2014-15 audit cycle.

Cash and financing

The significant decrease in matters in 2014-15 was mainly due to improvements in the management of on-line banking systems used for electronic funds transfer, in particular, access and authorisation privileges.

Revenue and receivables

There was a slight decrease in matters raised. However, issues were still being identified relating the reconciliation of subsidiary and general ledgers, lack of supporting documents, assessment of impairment provisions and controls over revenue completeness.

TIMELINESS AND QUALITY OF FINANCIAL STATEMENTS

SNAPSHOT

- Nine State entities (2014, 16) failed to submit financial statements for audit within the statutory deadline of 45 days.
- A review of our audits identified that 53 entities out of 120 (2014, 24 out of 121) submitted revised financial statements as a result of year-end audit work. This shows that there still exists an opportunity for further refinement in the financial statement preparation process

STATUTORY FINANCIAL REPORTING AND AUDITING TIMING REQUIREMENTS

Under section 17 of the Audit Act, specific dates are set by when accountable authorities of State entities are to provide financial statements that are complete in all material respects to the Auditor-General. The requirement is that financial statements are submitted for audit within 45 days after the end of the financial year. In most cases, entities have a 30 June financial year-end making 14 August the statutory date. Our responsibility under section 19 of the Audit Act is to complete our audit within 45 days of receiving financial statements from State entities. In most cases, audits are required to be completed by 28 September. For entities with a 31 December financial year-end, the statutory deadline for submitting financial statements to the Auditor-General is 14 February, with a completion date for the audit of 30 March. The dates may change if the deadline falls outside normal business days.

Listed below are 9 entities (2014, 16) whose financial statements were not received by the statutory deadline. The list includes all State entities, not just those entities included in this Report, for the financial years ended 30 June 2015 and 31 December 2015. Dates shown in brackets represent the date signed financial statements were received and days late.

For the financial year ended 30 June 2015:

- Break O'Day Council (18 August 2015 – 4 days)
- Tasmanian Dairy Industry Authority (20 August 2015 – 6 days)
- Macquarie Point Development Authority (21 August 2015 – 7 days)
- Royal Tasmanian Botanical Gardens (21 August 2015 – 7 days)
- Latrobe Council (28 August 2015 – 14 days)
- Northern Tasmanian Regional Development Board Inc. (1 September 2015 – 18 days)
- Tasmanian Affordable Housing Limited (30 September 2015 – 46 days)
- River Clyde Trust - the financial report was submitted after the 14 August 2015 deadline on 21 January 2016 and was not accepted because:
    - the format of the statement of profit and loss did not separate comprehensive income items
    - the statement of cash flows was not prepared
    - the basis of preparation indicated the Trust was not a reporting entity
    - of the number of omissions in the explanatory notes.

For the financial year end 31 December 2015, TQA was replaced by the Office of Tasmanian Assessment, Standards and Certification as part of a Government initiated reorganisation in May 2015. The Office is required to report on a financial year basis and will produce initial financial statements for the period 30 May 2015 to 30 June 2016. The Department of Education provided financial statements for TQA in early May 2016.

All entities identified above were reminded of their obligation to report within the prescribed deadline in future.

STEPS TAKEN BY AUDIT TO FACILITATE EARLIER FINANCIAL REPORTING

We continue to assist State entities to achieve financial reporting deadlines. This is done in a number of ways including:

- early planning of audits. As part of planning an audit, discussion is held with management, and where relevant those charged with governance, to reach agreement on financial reporting and auditing timeframes. The agreement is aimed at completion within statutory reporting deadlines
- preparation of detailed completion plans for components of the financial statements
- provision of model financial statements (for Government Departments and Councils) to help simplify the statement preparation process
- where financial systems allow, conducting audit testing of selected balances prior to balance date thus minimising audit work performed post balance date.

COMPLIANCE WITH FINANCIAL REPORTING STANDARDS

The Audit Act requires all State entities to prepare financial statements in accordance with Australian Accounting Standards. In some cases, in particular for smaller accountable authorities/ State entities, those charged with governance have elected to prepare special purpose financial reports (SPFR). In such cases, we examined and accepted the reasons for preparing the financial statements on that basis. There were no instances where Australian Accounting Standards were not complied with or where SPFR failed to satisfy our requirements.

QUALITY OF FINANCIAL REPORTING

Section 17 of the Audit Act also provides for the Auditor-General to determine whether submitted financial statements are complete in all material respects. Upon receipt of signed financial statements we immediately reviewed and evaluated them utilising a checklist, to ensure they were complete and the presentation complied with applicable financial reporting frameworks, namely Australian Accounting Standards. We also confirmed the accuracy of comparative information, cross references, and ensured the statements were arithmetically correct.

On the whole, the quality of financial reports initially submitted was of an acceptable standard.

Another way of measuring the quality of financial statements is the volume and dollar amount of adjustments required to the initially submitted financial statements. Through the audit process, we identify errors and where such errors are material, entities are required to adjust their financial statements.

There are generally two types of audit adjustments:

- changes to amounts being reported
- changes to commentary or financial note disclosure.

There were 53 entities out of a total of 120 (2014, 24 out of 121) that submitted revised financial statements as a result of our audits in 2014-15. The reasons for the revisions were varied, however they generally reflected the types noted above. This shows that there remains scope for further refinement in the financial statement preparation process.

Where we are required to verify more than three versions of the financial statements during the audit, we may seek to be reimbursed for the additional costs involved. This is being communicated to State entities in 2015-16 Audit Strategy documents.

DISPOSAL OF FIREARMS AND AMMUNITION

SNAPSHOT

- Firearms Act requires the Auditor-General to arrange for an independent audit of all firearms or ammunition disposed of under that Firearms Act and to table in both Houses of Parliament a report on the audit
- We found the actual processes and control activities leading to the disposal of firearms to be 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.
- As reported in the prior year the practice of recording the quantity of ammunition for the period of this audit was inadequate for us to conclude on compliance with the Firearms Act in relation to the acquisition and/or disposal of ammunition. Controls over the practice of recording the quantity of ammunition have been put in place effective from 1 January 2016 which will enable compliance with the Firearms Act.
- A "Management of Firearms, Firearms Parts and Ammunition for Destruction" guideline became effective from 1 January 2016. The guidelines address recommendations made by us in 2012-13.

INTRODUCTION

Section 149 of the Act requires the Auditor-General to arrange for an independent audit, to be carried out once every year, of all firearms or ammunition disposed of under the Firearms Act and to table in both Houses of Parliament a report on the audit.

DPFEM is charged with the responsibility for disposal of firearms and ammunition under the Firearms Act. 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 50% 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 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 the return of a firearm or ammunition.

What does 'disposed' of mean?

The 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 the Minister determines that it is an appropriate method of disposal. However, it is our view that 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 objective

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

AUDIT OF COMPLIANCE WITH THE ACT

Assessment of control framework

The destruction of firearms and ammunition is managed by Firearms Services (FS), a unit within the Operations Support Division of DPFEM. In June 2013, DPFEM upgraded its database from a spreadsheet to a Firearms and Weapons Data System (FAWDS). FAWDS is principally designed to monitor firearms licences within the State. FAWDS maintains data on surrendered, seized and destroyed firearms and ammunition.

We reviewed procedures and made enquiries of relevant personnel in FS to obtain an understanding of activities which lead to the physical destruction of firearms and ammunition. We also confirmed our findings from the prior year around the appropriateness of processes and control activities leading to the disposal of firearms. We tested a sample of firearms received and destroyed to ensure appropriate documentation existed to support their disposal. No exceptions were noted in the work undertaken.

Ammunition is handled in the same way as firearms. As noted in our 2013-14 audit, there was no prescribed unit of measure (for example number of cartridges or their weight) used to record and track the quantities of ammunition handed in or seized and then disposed. The practice of recording the quantity of ammunition during this audit period remained the same process as in previous years, which identified the risk that ammunition could inadvertently be misplaced or lost through theft or fraud without this being detected. Accordingly, our procedures with respect to the disposal of ammunition were restricted and as a result we are unable to report whether all ammunition surrendered or seized under the Act (or other legislation) was disposed of in accordance with the Firearms Act (or other legislation). We noted that destroyed ammunition was not reported in the 2015 DPFEM Annual Report.

DPFEM issued *Management of Firearms, Firearms Parts and Ammunition for Destruction* Guidelines (the Guidelines) effective from 1 January 2016. We reviewed the Guidelines as it pertained to the recording of surrendered or seized ammunition. The Guideline require ammunition to be placed in tamper evident bags until destroyed. We sighted tamper evident bags of ammunition. The number of bags will be tracked through FAWDS. We were satisfied the Guidelines are effective in ensuring all ammunition is disposed. We understand that the recently introduced Guidelines, particularly in regard to ammunition are becoming more embedded in general station practice. The current volume of ammunition dealt with under the new Guidelines was insufficient for destruction at the time of our review. The reporting from FAWDS specifically for ammunition is currently in test phase and will become operational in April 2016.

Accuracy of information on firearms and ammunition disposed

FS maintain records of all weapons (including firearms, crossbows and parts of firearms) and ammunition surrendered or seized and processed. Annual statistics on firearms received for disposal, disposed of and held for disposal are published in DPFEM's Annual Report.

We are required to audit firearms and ammunition disposed of under the Firearms Act. Firearms and ammunition come into Police possession through a variety of means and the way they are dealt with depends on the requirement of the specific legislation. In some cases, the receipt of a weapon and its subsequent disposal can be dealt under different acts. We were unable to accurately separate firearms disposed under the Firearms Act from firearms disposed under other legislation. Accordingly, we are unable to report the number of firearms and ammunition disposed specifically under the Firearms Act. Instead, we report the total number of firearms and ammunition disposed under the Firearms Act and other legislation. Details are provided in Table 1.

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. We were unable to conclude on DPFEM's compliance with the Firearms Act in relation to the disposal of ammunition.

MANAGEMENT RESPONSES

A copy of this Chapter was provided to the DPFEM for comment and response. DPFEM's full response is provided. The comments and submissions provided were 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 DPFEM.

The DPFEM acknowledges the report's conclusions in regard to its compliance to the Act. DPFEM is pleased to note that it's firearms disposal protocols are compliant with the Act.

DPFEM also notes the Tasmanian Audit Office is satisfied that the Management of Firearms, Firearm parts and Ammunition guidelines are effective in ensuring all ammunition is appropriately disposed. DPFEM also reports that a recent upgrade to the Firearms and Weapons Data System (FAWDS) now allows the specific generation of ammunition disposal report.

Measures have been established to ensure the timely extraction of data to allow for the accurate reporting of audit-year statistics.

Table 1 Firearms and ammunition disposed of in financial years ended 30 June 2011 to 30 June 2015

	2014-15	
	F	A**
Held at the Beginning of the Year	0	0
Received*	4 713	0
Total Held	**4 713**	**0**
Destroyed	1 761	0
Returned to owner*	2 854	0
Transferred to Ballistics Reference Library*	18	0
Donated to museums etc for display	0	0
Total Disposed	**4 633**	**0**
Held as at End of Year	**80**	**0**
F - Firearms		
A - Ammunition		
** Not subject to audit*		
*** Information not available on ammunition.*		

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REPORTING KEY PERFORMANCE INDICATORS

OVERALL CONCLUSION

Over a number of years now we have monitored and reported upon the usefulness of publically reported performance information in agencies' ARs and BPs. While we acknowledge some good practices and progress is being made, overall, progress has been too slow and disappointing.

While the targeting of appropriate measures in the not-for-profit sector to capture outcomes from the delivery of goods and/or services for community or social benefit can be extremely challenging, it is essential for decision making. We noted a number of shortcomings in measures used, and in their reporting, in BPs and ARs. Of significance was a lack of useful effectiveness and efficiency measures, which are key to making informed decisions about the allocation of resources and budgetary control; both at the entity and whole of government levels.

The separate reporting of agency activity or statistical measures where considered useful, would allow for greater focus and scrutiny of performance outcomes. Indeed, the identification of relevant key performance measures form a cornerstone of effective public sector reporting and is fundamental to public accountability.

Our recommendations in this Chapter can help all those in a governance role, be they management, a Secretary/CEO or Parliament, to foster improved reporting of outcomes and ensure resource allocation decisions are sound. While our review focused on agencies within the budget process, the inclusion of useful effectiveness and efficiency measures and other targeted performance measures can, and should, be applied by those charged with governance in all State entities.

One of our recommendations is that there be clarity as to which agency, or agencies, DPAC or Treasury, take ownership of the output based budgeting and financial reporting framework.

This report acknowledges that implementing our recommendations cannot happen overnight and we recommend DPAC and Treasury develop appropriate time frames for improvements.

SNAPSHOT

- Tasmania has had an output based budgeting framework since 1997. Despite this there has been a lack of public reporting of how efficiently and effectively resources are being used.
- This Chapter provides suggestions for improving the overarching framework, guidance and monitoring for all State entities.
- Current performance reporting practices do not help identify inefficiencies for decision makers.
- Shortcomings identified in more than one agency included:
    - measures identified in BPs not reported in ARs
    - too many measures reported, including those we regard as workload and not performance
    - cross-references to the annual Report on Government Services (ROGS) rather than in BPs or ARs
    - targets included in BPs but not always in ARs
    - explanation for how targets were established not always provided
    - explanations for variances not always provided.
- Inconsistencies in selection and reporting performance measures in BPs and ARs.
- Performance measures are not currently being reported for Administered funded services or investments in capital programs.
- Future reporting of service performance information is being developed by the Australian Accounting Standards Board as guidance to all not-for-profit entities.
- A number of examples of better practice in particular at DPIPWE, DPFEM and Treasury.

RECOMMENDATIONS

This Chapter contains the following Recommendations:

Rec	We recommend that …
1	… for all measures reported in BPs: • these be reported in the AR • they be reported in the AR by output groups in easily located places.
2	… all output groups include relevant and appropriate measures of performance or reasons provided where this is not the case: • performance measures agreed with a Minister be included in BPs so as to facilitate Parliamentary scrutiny at both the budget and annual reporting stages • all General Government Sector entities develop output groups and associated performance measures for inclusion in BPs and ARs.
3	… for all State Entities included in the BPs, selected performance measures include targets with clear explanations provided on how targets were determined.
4	… agencies limit public reporting to those measures regarded as 'key' in evaluating their performance.
5	… at least as it relates to services reported by Tasmanian agencies in ROGS, agencies report in ARs comparative effectiveness and efficiency performance and provide reasons for variations.
6	… measures selected for reporting performance link to Output objectives, demonstrating effectiveness and/or efficiency: • guidance is provided on the difference between activity and performance measures and how or when activity should be publicly reported • agencies consider separate presentation of performance measures from other operational statistics.
7	… where Administered funding is provided to secure services, be it direct or via arrangements with other entities, performance measures be developed that are relevant and appropriate for inclusion in BPs and ARs.
8	State Growth separate its Capital Program between recurrent and capital components and that performance measures be devised for the recurrent component: • for all Capital Program output groups greater than $25m agencies be required to report in BPs proposed timeframes and budgets and progress against these in ARs.
9	Both Treasury and DPAC review the essential content and application of the existing framework: • Secretary of Treasury provide guidance on the application of the Framework • Secretary of DPAC monitor compliance with the Framework annually.
10	… Treasury and DPAC work together to develop a multi-year program of improvement to the performance reporting Framework.
11	… all agencies consider and adopt examples of better practice both locally and inter-state.
12	… the Framework require all agencies and statutory authorities within the Budgetary process to develop key performance information for inclusion in future BPs, where applicable, and then present actual performance in their ARs: • where BPs already include output based performance measures, entities account for their performance against these in their ARs.

INTRODUCTION

This Chapter discusses reporting non-financial performance (referred to as performance measures or key performance indicators) by the State's eight government departments, TasTAFE and the three former Tasmanian Health Organisations (THOs) (now the Tasmanian Health Service (THS)) for the financial year ended 30 June 2015. Unless otherwise stated, we refer to these 10 State entities in this Chapter as agencies.

Because objectives of not-for-profit entities[1] extend beyond information traditionally provided in general purpose financial statements, and common financial metrics used to evaluate financial performance are not relevant, there is a need to develop other measures that report how well agencies provide services. Without this, it is difficult to evaluate how they achieved their objectives and how efficiently and effectively resources were used in doing so.

Where performance is planned in BPs, tracked, measured and reported in ARs and other documents, the public is able to see how well the entity has progressed in reaching its goals and how well public services are being delivered.

BACKGROUND

The State introduced output based budgeting in 1997, since then agencies have included a range of performance measures in BPs and ARs. The Tasmanian Government "Guide to the Budget", A guide to the Budget Framework and Budget Papers, May 2015 under the heading "Output Information" (our emphasis by underlining) requires:

> "The Output Methodology is an approach to the management of the total public resources of the State which focuses attention on the Outputs the Government is providing to the community and whether these Outputs are having the intended effect[2] on the Government's policy objectives.
>
> Outputs are goods and services produced by, or on behalf of, a department and provided to customers outside that department. This section of the chapter identifies the Outputs provided by the department and the cost of these Outputs[3] over the Budget and Forward Estimates period.
>
> The Outputs are listed by Output Group in the Revenue from Appropriation by Output."

The Budget Framework is part of the State's Output Based Budgeting and Financial Reporting Framework (the Framework) and is not new. However, it is consistent with practices in other Australian jurisdictions, in particular the Commonwealth, Victoria and Western Australia. A key focus is on outputs rather than inputs with decision making, and Parliamentary scrutiny, aimed at assessing performance based on the delivery of outputs rather than, or in addition to, inputs such as levels of FTE, remuneration costs or costs of goods and services.

Underlying the Framework is the need to develop performance measures that clearly demonstrate:

- whether outputs are having the intended effect
- the cost of these outputs.

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

In a 2013-14 report by the Australian National Audit Office (ANAO)[4], it noted the following:

1. The Organisation for Economic Co-operation and Development (OECD) has observed that:

> While measuring government performance has long been recognised as playing an important role in increasing the effectiveness and efficiency of the public administration, following the economic crisis and fiscal tightening in many member countries, good

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1 *All 10 agencies discussed in this Chapter are not-for-profit entities.*

2 *Indicators of effectiveness or outcomes needed*

3 *Indicators of efficiency needed*

4 *ANAO Report No.21 2013-14, to Pilot Projects to Audit Key Performance Indicators, page 13, available from http://www.anao.gov.au/Publications*

indicators are needed more than ever to help governments make informed decisions regarding tough choices and help restore confidence in government institutions.[5]

4. In essence, performance measurement can:
   - help clarify government objectives and responsibilities;
   - promote analysis of the relationships between agencies;
   - make performance more transparent, and enhance accountability;
   - provide governments with indicators of their policy and program performance over time;
   - inform the wider community about government performance; and
   - encourage ongoing performance improvements in service delivery and effectiveness, by highlighting improvements and innovation.[6]

This extract was provided in Report of the Auditor-General No. 9 of 2013-14 Volume 5: *Auditor-General's Report on the Financial Statements of State Entities*, *30 June and 31 December 2013, matters relating to 2012-13 audits and key performance indicators*. It is repeated due to its relevance to the topic dealt with in this Chapter, its relevance to enhancing accountability and scrutiny and as evidence that there is support for reporting non-financial performance beyond Tasmania and Australia.

OUR UNDERSTANDING OF WHAT AGENCIES ARE REQUIRED TO DO

Under the Framework, agencies are required to:

1. Develop output groups and, for each, budget expenditures on a line item basis
2. For each output group, include in audited annual financial statements, expenditure against budget and the prior year, again, on a line item basis
3. Separately for each output group, develop measures of performance, including targets, with measures to include both:
   a) effectiveness in delivering outputs
   b) efficiency in providing outputs.

Currently agencies comply with items 1 and 2, with the focus of this Chapter on how well they are complying with 3(a) and 3(b).

WHY NOT SIMPLY RELY ON FINANCIAL REPORTS TO ASSESS PERFORMANCE?

Measures commonly used to evaluate the performance of for-profit entities include:

- net profit before tax
- return on assets or equity
- share price related measures
- dividend return
- debt/equity
- gearing, etc.

These measures have little or no relevance to the agencies included in this Chapter where 'profit' is not a motivating factor. Instead, users of financial and ARs of these agencies are, or should be, more interested in how effectively and efficiently funds provided were spent.

This was a major objective of the Framework introduced in 1997.

5 *Organisation for Economic Co-operation and Development, Government at a Glance 2013 [Internet], OECD Publishing, 2013, available from http://www.oecd-ilibrary.org/governance/government-at-a-glance-2013_gov_glance-2013-en [accessed 9 January 2014].*

6 *Steering Committee for the Review of Government Service Provision, Report on Government Services 2014, Volume A: Approach to performance reporting, Productivity Commission, Canberra 2014, P.1.4.*

HOW DOES OUTPUT-BASED REPORTING ENHANCE DECISION-MAKING AND ACCOUNTABILITY?

The Framework is superior to an input-based model because it facilitates decision-making based on how effectively outputs, particularly those with a service delivery component, are provided and how efficiently they are performed. The input-based model simply budgeted and recorded what resources were planned and allocated, not how well or efficiently they were applied or used.

Other benefits of output-based reporting include:

- facilitates comparison with other, similar, jurisdictions
- better information on which to base resource allocation decisions.

Let's illustrate this. In recent times Government has, understandably in view of budgetary constraints, had a focus on reducing expenditure particularly on employee-based costs. This resulted in 521 fewer FTE in the Tasmanian State Service from 30 June 2013 to 30 June 2015.

However, decisions about where to reduce FTE were not, as far as we have been able to publicly ascertain, based on where existing possible inefficiencies in our public services may be. This could result in any one or combination of the following outcomes:

1. Any existing inefficiencies continue
2. Reductions in resource allocation to services already provided efficiently
3. Continuing to provide services no longer needed
4. Restricting services where additional resources are needed.

This is not to say that recent reductions in FTE did not include positive efficiency outcomes. Many of the decisions made were based on detailed reviews and individual business cases. There is little doubt that employee reduction strategies by way of redundancies, renewal programs, amalgamations, pay pauses and re-profiling has resulted in significant savings. However, without appropriate efficiency measures in place, impacts on performance may not be readily apparent.

For ease of simplicity, and without wishing to suggest inefficiencies exist, Table 1 provides an illustration of measures of performance that require careful development, public reporting, explanation and Parliamentary scrutiny[7]:

Table 1 Illustration of the usefulness of measures of efficiency[8]

<table>
<tr><th>Health</th><th>Performance measure</th><th>Outcome</th><th>Questions arising and action needed</th></tr>
<tr><td>THO North</td><td>Weighted cost per admitted average acute separation</td><td>$4 782</td><td rowspan="3">1. Why is THO North-West the most expensive? Allocate resources based on the most efficient location bearing in mind complexity, although complexity is built into the measure.
2. Report these three measures over time and compared with interstate public hospitals and explain variances.
3. Establish relevant targets and explain variations from target.</td></tr>
<tr><td>THO North-West</td><td>Weighted cost per average acute separation</td><td>$5 474</td></tr>
<tr><td>THO South</td><td>Weighted cost per average acute separation</td><td>$5 026</td></tr>
</table>

7 *These measures were selected because their calculation is straight forward; they are comparable over time and inter-jurisdictionally.*

8 *The weighted separation measures were for 2013-14*

Health	Performance measure	Outcome	Questions arising and action needed
THO North	Cost per head of population	\$2 728	1. Intuitively we would expect THO South to be the most costly. Why is it in fact THO North? 2. Evaluate why THO North is the most costly, set targets and manage the cost down to less than THO South. 3. Why does THO NW have the lowest cost per head of population but the highest weighted cost per average acute separation?
THO North-West	Cost per head of population	\$2 226	
THO South	Cost per head of population	\$2 641	
Department of Education (DoE)	Average cost per head of population, 2014-15	\$1 853 (2013-14, \$1 845)	The 2014-15 increase by average cost per head of population was less than 1%. Was this in line with expectations or target? How does this compare with other jurisdictions? Why do they differ? The 2013-14 increase per-student expenditure in Government schools was 3%. Was this in line with expectations? What were the targets? How does this compare with other jurisdictions? Why do they differ?
	Total per-student expenditure in Government schools, 2013-14	\$16 724 (2012-13, \$16 215)	

Therefore, we suggest that useful measures of efficiency provide significantly better opportunities for:

- enhancing accountability for delivering government policy objectives
- improving decision-making based on valid output data rather than inputs.

WHAT HAVE WE DONE IN THE PAST

In 2007-08, we commenced projects aimed at examining the usefulness of publicly reported performance information in agencies' ARs and BPs. This resulted in the preparation of the following public reports (report locations on the Tasmanian Audit Office's website provided in each case):

- Special Report No. 72 *Public sector performance information*, tabled in April 2008. Departments included in this project were Education, Health and Human Services, then Police and Emergency Management and the former Infrastructure, Energy and Resources. However, recommendations were aimed at all departments and following release of the report a series of 'round tables' were held aimed at assisting departments develop improved measures for inclusion in BPs and public reporting. *http://www.audit.tas.gov.au/media/Special-Report-No-72-Public-sector-performance-information-April-2008.pdf*
- Special Report No. 92 *Public sector productivity: a ten-year comparison*, tabled in October 2010. All nine then departments were included in that report. *http://www.audit.tas.gov.au/media/Public-sector-productivity-report.pdf*
- Report of the Auditor-General No. 11 of 2012-13 Volume 5 *Other State entities 30 June 2012 and 31 December 2012* tabled in May 2013. *http://www.audit.tas.gov.au/media/2012-Volume-5-Other-State-entities.pdf*.
  This Report analysed output based expenditure in Health. Recommendations were specific to health agencies but the principles discussed have application to all departments. This report was followed up in 2015 with progress reported in *Report of the Auditor-General No. 4 of 2015-16: Follow up of four reports published since June 2011 tabled in October 2015. http://www.audit.tas.gov.au/media/Follow-up-of-four-reports-published-since-June-2011.pdf*

- Report of the Auditor-General No. 9 of 2013-14 *Volume 5 Auditor-General's Report on the Financial Statements of State entities, 30 June and 31 December 2013*, matters relating to 2012-13 audits and key performance indicators. This Report was tabled in May 2014 and included a Chapter titled "Reporting Key Performance Indicators – trial project". This trial focused on the need for inclusion of measures of departmental efficiency and we noted that our work:

  > "… is provided as a starting point to highlighting the important role that reported efficiency indicators can play in assessing performance in the public sector. This is a journey towards improved reporting and accountability for us and departments".

Examples of efficiency indicators that could be reported were provided for all departments other than DPAC and Treasury. *http://www.audit.tas.gov.au/media/AGR-Volume-5-2014.pdf.*

- Report of the Auditor-General No. 12 of 2014-15 Volume 5 *Auditor-General's Report on the Financial Statements of State entities, 30 June and 31 December 2014*, findings related to 2013-14 audits and other matters. This Report was tabled in June 2015 and included a Chapter headed "Reporting Key Performance Indicators" which was prepared following discussions with departmental staff from those departments included in Report No. 9 referred to immediately above. In Report No. 12 we noted the following:

  > "It was pleasing to note that all departments were supportive of the trial program's outcomes and agreed to explore and develop appropriate efficiency indicators within the context of their individual reporting processes.
  >
  > Since issuing Report No. 9, we have met with a number of departments as they review, refine and expand their performance reporting to consider incorporating efficiency indicators. It can be particularly challenging for multi-faceted departments to develop KPIs that address the entirety of their operations. We acknowledge that selecting appropriate, relevant and beneficial indicators can take time. We will continue to assist in this process." *http://www.audit.tas.gov.au/media/AGR-Volume-5.pdf*

WHAT WE DID NOW

The next stage in our 'trial project' was to assess performance measures reported in agencies' 2014-15 ARs which resulted in completion of management letters and memoranda of findings for each agency.

Work we did in relation to reported performance measures included in 2014-15 annual reports

We did not audit nor review the measures reported. Instead we conducted a comparative assessment and:

- Broadened the scope of our work to include all departments, the former Tasmanian Health Organisations and TasTAFE.
- Compared measures reported in the 2014-15 BPs with those reported in ARs
- Where relevant compared reported information with the following:
  - recommendations made by us in previous public reports
  - performance measures reported in the Productivity Commission's 2015 ROGs
  - audited key performance indicators reported in ARs of selected Western Australian Government departments
  - Government's output based budgeting and financial reporting framework.

WHAT WE FOUND

As noted previously, our work resulted in the issue to each of the 10 agencies assessed:

- A covering letter summarising work done, high level findings and examples of better practice

- A memorandum of findings detailing what we found at the agency and providing recommendations for improvement
- In the case of Treasury, matters we considered it should take up bearing in mind its role as the Central Agency responsible for the Framework.

In this section of this Chapter, we summarised common findings and recommendations.

Were budgeted performance measures reported in annual reports?

We expected to find that all measures included in BPs were then acquitted in ARs and where this might not be the case, reasons were provided. This would then follow the basic principle of Australian Accounting Standard AASB 1055 *Budgetary Reporting*, which requires reporting actual performance against that planned. This would also enable Parliament to assess performance against the budgets it had approved.

Our assessment identified varied performance. We noted:

- linkages between information reported in BPs and in ARs needs improvement
- in one agency we found it extremely difficult to find where performance measures were reported in the AR
- in other agencies information in ARs mirrored that in the BPs – these agencies are included in our examples of 'better practice' later in this Chapter
- ARs included measures not in the BPs and vice versa. We have no difficulty with this as long as reasons are provided.

Recommendation 1

We recommend that for all measures reported in BPs:

- these be reported in the AR
- they be reported in the AR by output groups in easily located places.

Were performance measures included for all outputs?

We expected to find:

- that all Budget chapters were developed in line with the Framework in that each chapter included at least one output group
- for all output groups, inclusion in the BPs of performance measures or, where this was not the case, clear reasons for not doing so or cross reference to where else in the BPs relevant measures could be found.

We found:

- some outputs had no performance measures reported in either the BPs or ARs
- in one case, output group 2 at the Department of Health and Human Services (DHHS), there were no performance measures in the BPs nor the AR, despite this being the highest output group based on expenditure. Instead, both the BPs and the AR referenced the need to report outputs in line with Service Agreements between the Minister for Health and the three THOs. The THOs reported against these measures although, consistent with findings elsewhere in this Chapter we noted inconsistent use of targets (referred to as 'standards', rather than targets), failure to explain variances from target, insufficient measures of efficiency and no inter-state (or even inter-hospital) comparisons. However, we noted inclusion in a separate section of the THO ARs of three efficiency measures for 2012-2014 (but not 2014-15) which included useful explanation.
  While we support inclusion of measures negotiated with the Minister for Health, our concern is that these are not measures subjected to Parliamentary debate and accountability to the Minister is not the same as accountability to the Parliament
- BPs included a chapter for TasTAFE – that chapter included neither performance measures nor output groups making it difficult for Parliament to hold management and the Board to account for their performance. However, we noted inclusion in the BPs for State Growth of

their TasTAFE related measures. This approach is supported as long as both report outcomes in ARs

- that statutory authorities (like TasTAFE) are not required to develop output groups. This is contrary to the THOs which each had at least one output group. All GGS entities included in the BPs should be required to develop and report output groups, related performance measures, and acquit these in annual financial statements and ARs respectively.

Recommendation 2:

We recommend that:

- all output groups include relevant and appropriate measures of performance or reasons provided where this is not the case
- performance measures agreed with a Minister be included in budget papers so as to facilitate Parliamentary scrutiny at both the budget and annual reporting stages
- all GGS entities develop output groups and associated performance measures for inclusion in BPs and ARs.

Did budget papers and annual reports include targets for reported performance measures?

We expected to find that, for each measure included in BPs, a target would be determined with reasons provided for targets selected. We then expected to find acquittal of the targeted measure in ARs or reasons provided why this did not occur.

We found:

- generally, BPs performance measures included targets and prior year comparisons
- in some cases targets for 2014-15 were included in the BPs but not in ARs making it difficult for readers to assess planned against actual performance
- surprisingly, in some cases, departments included targets for 2015-16 in ARs
- it was not clear how targets were determined.

Recommendation 3:

We recommend that, for all State entities included in the BPs, selected performance measures include targets with clear explanations provided on how targets were determined.

Were there too many or too few measures?

It is our view that, generally, 'too few' measures is better than 'too many', that measures selected should be 'key' measures and measures of efficiency be included for all output groups.

We found:

- too many measures are included in BPs resulting in too many included in ARs; for example, one agency reported 93 performance measures in its AR
- very few efficiency measures were reported making it difficult for readers to assess whether planned outputs were delivered efficiently or not
- lack of useful efficiency measures make resource allocation decisions difficult, including effective decisions about budgetary control and allocation of resources at both a departmental and whole of government level.

Recommendation 4:

We recommend that agencies limit public reporting to those measures regarded as 'key' in evaluating their performance.

Were relevant inter-state comparisons made?

We consider that, at least as it relates to services reported in the Productivity Commission's annual ROGS report, comparison with similar services provided in other jurisdictions should be provided and variances explained. We found limited use of such comparisons.

On occasion we noted exclusion of performance measures on the basis that these are reported in ROGS. We have three difficulties with this approach:

- the ROGS report is at least 12 months behind annual reporting by relevant agencies
- ROGS information is often adjusted for national comparisons by way of aggregations, exclusions and different policy approaches
- while ROGS provides extremely useful comparative information, it lacks ownership and explanation at a jurisdictional level.

Recommendation 5:

We recommend that, at least as it relates to services reported by Tasmanian agencies in ROGS, agencies report in ARs comparative effectiveness and efficiency performance and provide reasons for variations.

Were measures reported more in the nature of workload, activity or 'busyness' measures?

We expected to find that BPs and ARs reported relevant and appropriate measures of effectiveness and efficiency and that measures reporting how active or busy an agency is, or its workload, not be included but perhaps reported elsewhere. That is not to say that measures of activity, workload or busyness are not important; however, such measures should not be claimed to represent performance in achieving policy outcomes. Nor should measures be included where agencies may not be able to exert influence.

We found too many measures we regard as workload or activity focussed not being, in our view, measures of efficiency or effectiveness. However, we acknowledge the Framework currently requires inclusion of measures of performance and activity so it is not surprising that activity type measures are being reported. Often such indirect measures are included as they are perceived as containing useful information to the community or industry.

Examples of workload or activity type measures are noted in Table 2:

Agency	Output group	Measure
DoE	Tasmanian Archives and Heritage	Number of heritage documents and artefacts publicly available in digital format
	LINC	Number of visits in person Library items borrowed
DPAC	State Service Management	Participants in TTC programs
	Communities, Sport and Recreation	New Seniors Cards issued
DPIPWE	Primary Industry	Overseas exports Actual catch by fishery (x7 different fisheries)
	Parks and Wildlife Management	Visitor numbers (x7 different parks and reserves)

Agency	Output group	Measure
DPEM	Public Safety	Number of vehicle patrol hours
	Traffic Policing	Speeding Offences Speed camera operating hours Fatal and serious injury crashes
DHHS	State-wide Services	Total Ambulance responses
	Human Services Management	Accommodation support clients

While we may be critical of these types of measures, they are helpful and could be reported or used to develop measures of efficiency, such as average cost per ambulance response.

Where activity information is deemed necessary for reporting to users about agency operations, it would be beneficial if they were reported separately from performance information. Separate presentation in BPs and ARs would help distinguish between measures used for performance evaluation and other operational statistics.

Recommendation 6:

We recommend that:

- measures selected for reporting performance link to Output objectives, demonstrating effectiveness and/or efficiency
- guidance is provided on the difference between activity and performance measures and how or when activity should be publicly reported
- agencies consider separate presentation of performance measures from other operational statistics.

ADMINISTERED TRANSACTIONS

Administered transactions are those where an agency administered functions on behalf of the Government as a whole but where the agency does not 'control' these functions. Examples include:

- funding provided by Government, via DoE, for non-government schools
- collection by Treasury of State taxes and Commonwealth grants
- management by Treasury, on behalf of all agencies, of the vehicle fleet arrangements and of the Tasmanian Risk Management Fund
- management by the Department of Justice (Justice) of the Monetary Penalties Enforcement System (MPES).

The Framework does not require agencies to develop output groups or performance measures for administered transactions. It was not surprising for us to find, therefore, with one exception, no measures reported regarding these transactions.

In some cases administered transactions are significant and the same outputs based budgeting and reporting principles should similarly apply. In saying this, we acknowledge cases where receivers of administered grants and subsidies could be held responsible for achieving outputs and outcomes, but we found no evidence of this being a requirement. An example of this might be funding provided under contract by State Growth to Metro Tasmania Pty Ltd.

Our rough estimate is that administered transactions, which are service delivery related, totalled approximately $879m in 2014-15, and examples of where we consider the principles underlying the Framework should similarly apply to these transactions are:

- that more than $270m provided to non-government schools in Tasmania in 2014-15 (it may be argued that the Commonwealth's share of this is in the nature of a 'pass-through' or 'transfer' arrangement with the Commonwealth holding these schools to account for provision of these funds. We suggest that for the State's contribution, in excess of $50m in 2014-15, performance measures and associated outcomes, are needed)

- funding provided to the racing industry
- funding provided to Metro Tasmania Pty Ltd
- management by Justice of the Asbestos Compensation Scheme
- management by Treasury of the Tasmanian Risk Management Fund
- management by Treasury of the State vehicle leasing arrangements
- management by Treasury of the State's superannuation arrangements.

We noted inclusion in Justice's AR of measures reporting its performance in managing the MPES which we consider appropriate, although there were no measures in the Justice BPs for this function.

Recommendation 7:

We recommend that where Administered funding is provided to secure services, be it direct or via arrangements with other entities, performance measures be developed that are relevant and appropriate for inclusion in BPs and ARs.

Capital Investment Program (CIP) and Special Capital Investment Fund (SCIF) (Capital Programs)

These Capital Programs provide funding for investment in capital projects such as building construction or new road works. In 2014-15 the BPs included $391m for Capital Programs the majority of which was allocated to:

- State Growth – $192m the majority of which was for road construction or ongoing programs and maintenance, $66m
- DHHS – $144m much of which was for the Royal Hobart Hospital and housing projects.

The Framework requires agencies that are allocated capital funding under Capital Programs to report funding provided and costs incurred in both the BPs and ARs and we found compliance with these requirements where relevant. However, we had the following concerns:

- The Capital Program output group for State Growth's roads program included recurrent (not capital) expenditure in respect of which a separate output group should be devised with relevant and appropriate measures of performance developed and reported. Measures we suggested to State Growth were:
    - effectiveness
        - community satisfaction with road maintenance
        - preventative maintenance indicator
        - smooth travel exposure
        - return on construction expenditure (as part of facilitating economic and regional development)
    - efficiency
        - percentage of road contracts completed on time
        - average cost of network management
        - average cost of network maintenance per lane kilometre of road network
- Agencies are not being held to account, at least not through the Framework, for their performance in managing Capital Programs. Mechanisms that could be considered to assess performance include reporting in ARs completion in line with:
    - budgeted time-frames
    - budgeted amounts.

Recommendation 8:

We recommend that:

- State Growth separate its Capital Program between recurrent and capital components and that performance measures be devised for the recurrent component
- For all Capital Program output groups greater than $25m agencies be required to report in BPs proposed timeframes and budgets and progress against these in ARs.

GUIDANCE AND MONITORING

Apart from Parliamentary processes, such as the annual Estimates process and scrutiny by Parliamentarians of agency ARs, the Framework includes no mandatory scrutiny or monitoring processes. Also noted is that the Framework is not part of Treasurer's Instructions and there is no 'formal' requirement for agencies to comply.

We consider this a gap in accountability.

By comparison, the Treasurer issues Treasurer's Instructions requiring agencies to prepare annual financial statements in compliance with Model Financial Statements issued by Treasury. The model statements comply with Australian Accounting Standards. Agencies have no choice but to comply and doing so ensures:

- consistent practices
- comparability with prior years
- comparability with other agencies both in Tasmania and inter-jurisdictionally
- comparability with the budget
- compliance with generally accepted standards.

During the course of our work described in this Chapter, we noted the following areas where improvements to the Framework should be considered:

- guidance be provided to agencies on what are appropriate and relevant performance measures of access, effectiveness and efficiency
- a statutory requirement for all General Government Sector agencies to annually report measures of performance in ARs
- inclusion of efficiency measures is mandated with measures selected for all major outputs
- where agencies report measures also included in ROGS, they be encouraged to provide details in ARs in full, ahead of ROGS, including appropriate explanation rather than simply cross referencing ROGS
- guidance provided include the requirement that the following be noted in ARs:
    - performance measures be reported in only one location within ARs
    - as a minimum, all BP measures be reported in ARs including targets and variances therefrom
    - explanation provided in BPs as to why a particular target was established
    - for each selected performance measure, the AR note:
        - what does the indicator measure
        - how is the indicator calculated
        - what does the indicator show/tell a reader
        - report current year, at least two years' prior and the target
        - explain variance over time and from target
        - if appropriate, include comparative jurisdictional (or whole of Australian average) performance
        - relationship with Government or agency performance objectives; that is, how will delivery of the relevant service or function achieve associated objectives or desired outcomes

- provision for separate presentation in BPs and ARs of output operational statistics
- inclusion in the framework of outputs relating to administered transactions and material Capital Programs
- an agency take responsibility for monitoring compliance with the Framework.

Who should provide the guidance and monitoring?

The obvious question then is "which agency should take on the guidance and monitoring role?" In our view this should be either or both DPAC or Treasury.

The case for DPAC

Section 36 of the *State Service Act 2000* (SSA) requires each Head of Agency, in each year, to:

- submit to the appropriate Minister a report, in a form approved by the Minister after consultation with the Treasurer, for the period of 12 months that ended on the last preceding 30 June (or such other period of 12 months as may be prescribed) relating to
- the performance of the functions and the exercise of the powers of the Head of Agency under this Act.

The annual report should include the audited annual financial statements and acquittal of outputs outlined in BPs.

Under section 20 of the SSA, the head of the State Service is the Secretary of DPAC.

On this basis, the Secretary of DPAC could take on the guidance and monitoring role?

The case for Treasury

Treasury developed the Framework and manages the budget process on behalf of Government.

On this basis, the Secretary of Treasury could take on the guidance and monitoring role?

We concluded that:

- the existing framework requires review
- the Secretary of Treasury should provide the guidance role
- the Secretary of DPAC should provide the monitoring role.

Recommendation 9:

We recommend that :

- Both Treasury and DPAC review the essential content and application of the existing framework
- Secretary of Treasury provide guidance on the application of the Framework
- Secretary of DPAC monitor compliance with the Framework annually.

IMPLEMENTATION TIMEFRAMES

We acknowledge that revisiting the Framework must await promulgation of the proposed *Financial Management Bill 2015.* Never-the-less, it is our view that dedicating resources now to improving the Framework, in particular requirements to develop and report relevant and appropriate measures of efficiency, could result in savings far greater than the cost.

In any event, we encourage Treasury and DPAC to work together to develop a multi-year program that enhances the reporting of performance objectives for all inner-government entities by:

1. Reviewing the Framework and identifying relevant and appropriate performance measures of access, effectiveness and efficiency that relate to the outputs and outcomes relevant to government's performance objectives
2. Ensuring that the measures selected for public reporting are high level and key in nature with an objective being not to identify too many measures
3. Ensuring the measures selected are useful, not only for public reporting enabling the Parliament to hold government to account, but also to assist those charged with governance to manage respective entities and both government and State entities to make relevant resource allocation decisions

4. Building on foundational work already well established by others including the Productivity Commission and the Commonwealth and Western Australian Governments; doing this has a better chance of ensuring consistent application of the Framework both within Tasmania and comparatively
5. Revisiting the possible applicability of the Framework to administered transactions and relevant material Capital Programs
6. Holding discussions with agencies regarding the data, and systems requirements needed to collect information, to report the identified measures both internally and externally
7. Developing necessary guidance along the lines noted in this Chapter
8. Developing requirements aimed at monitoring compliance
9. Eventually requiring the Auditor-General to audit performance information reported.

Recommendation 10:

We recommend that:

- Treasury and DPAC work together to develop a multi-year program of improvement to the performance reporting framework.

EXAMPLES OF BETTER PRACTICE

During the course of our work we noted better practice performance measure reporting at Treasury, DPIPWE, and DPEM. While we made recommendations for further improvement to each of them, their reporting stood out because:

- output reporting measures in BPs linked and were reflected in ARs
- the choice or reasoning behind performance indicators was explained
- BPs and ARs included comparatives
- targets included in BPs with clear explanations provided on how targets were determined and these were reflected in ARs
- ARs included appropriate explanations on outcomes and variances for individual outputs
- comparatives with other like entities, interstate entities or industry averages.

Recommendation 11:

We recommend that all agencies consider and adopt examples of better practice performance measure reporting, both locally and inter-state.

REPORTING OF NON-FINANCIAL PERFORMANCE INFORMATION AT THE TASMANIAN AUDIT OFFICE

Having reviewed other agencies, it is only fair that we should look at our own presentation of performance information having regard to findings and recommendations in this Chapter.

In BPs the Tasmanian Audit Office has one Output group comprising twelve indicators. Whilst all performance measures were present in our AR, they were not presented in a systematic manner, but in amongst thirty-eight measures in our section on performance. Thirty eight measures is, clearly, too many! Whilst we noted that our AR incorporated many of the elements of better practices noted in this Chapter, there is room for improvement.

One difference in the inclusion of performance information in our AR is that our external auditor reviews and provides an opinion on this information. This provides greater assurance to Parliament regarding the veracity of performance information reported.

WHAT ABOUT OTHER STATE ENTITIES?

The focus in this Chapter was the 10 agencies noted in the Introduction. However, there are many other agencies and statutory bodies in the BPs that are not, under the current Framework, required to include output group performance measures or activity. Most BPs for these entities contain comments on key deliverables, but these tend to be overarching statements with no detail on actual performance.

The majority of these entities are required to table their ARs in Parliament. However, a lack of planned performance information hampers scrutiny on whether an entity has achieved its objectives and how efficiently and effectively it has used its resources.

We acknowledge that some include limited performance information, but often these are operational statistics not necessarily performance related.

Recommendation 12:

We recommend that:

- the Framework require all agencies and statutory authorities within the Budgetary process develop key performance information for inclusion in future BPs, where applicable, and then present actual performance in their ARs.
- where BPs already include output based performance measures, entities account for their performance against these in their ARs.

OTHER DEVELOPMENTS

Future accounting requirements for reporting of performance information

The Australian Accounting Standards Board (AASB) currently has an Exposure Draft (ED270) out for comment titled Reporting Service Performance Information. The objective is to establish principles and requirements for not-for-profit entities (including public sector not-for-profit entities) that prepare general purpose financial statements, to report service performance information that is useful for accountability and decision-making purposes.

The proposed standard is partly based on:

- the International Public Sector Accounting Standards Board's (IPSASB) Recommended Practice Guide (RPG3) published by the International Federation of Accountants (IFAC) in March 2015
- similar developments in New Zealand.

The proposed standard aims to deliver a consistent framework for not-for-profit entities to report their service performance information. The proposed principles for reporting align with earlier observations and recommendations, in requiring entities report service performance information that:

(a) is useful for accountability and decision-making purposes,

(b) shall be appropriate to the entity's service performance objectives,

(c) clearly shows the extent to which the entity has achieved those service performance objectives,

(d) should enable users to assess the efficiency and effectiveness of the entity's service performance.[9]

Submission for comment on ED 270 closed on 29 April 2016 with developments beyond that date uncertain at the time of writing. However, our purpose for raising this is that, should the ED become a Standard, then compliance with it may well become a requirement where entities prepare financial reports in accordance with Australian Accounting Standards, which is currently the case in Tasmania.

Local Government reporting

Since the gazettal of Local Government Ministerial Orders in 2014, all Tasmanian councils are now reporting in their annual financial statements certain financial sustainability indicators. It has been pleasing to see some councils provide context to these indicators although further detail is needed around targets and outcomes. Our assessment of these was presented in Report of the Auditor-General No.6 of 2015-16 – Volume 3 *Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15.* This volume also included a Chapter on operational efficiency.

The Premier's Local Government Council (PLGC) continues to develop local government reporting and is currently designing a Continuous Improvement Framework. This aims to provide meaningful performance reports and new resources to promote learning development for all councils.

Following consultation with local government by the PLGC's working group, the data collection process and format of presentation is currently being reviewed. Options include the provision of an "open data" approach allowing individual councils a flexible approach to analyse their own performance over time, or in comparison to others. This process would provide information to users to formulate informed recommendations or decisions.

Given the breadth of functions councils deliver, ascertaining individual key performance information to monitor and report will need careful consideration. The requirements of ED 270 will likely also impact reporting of performance information.

OVERALL SUMMARY OF OUR ASSESSMENT OF AGENCY PERFORMANCE

Appendix 1 to this Chapter summarises our assessments.

9 *ED270 Reporting Service Performance Information*

Submissions and comments received

A copy of this Chapter was provided to the 10 agencies indicated in the Introduction for their comments.

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 were considered in reaching our conclusions.

Department of Education

Thank you for the opportunity to comment on your report on Reporting Non-financial Performance. The Department appreciates the Tasmanian Audit Office's commitment to encouraging State entities to improve their service delivery.

Ensuring useful performance related information is included in our Annual Reports and Budget Papers is important to the Department of Education. We are committed to a process of continuous improvement. For the first time, in our 2014-15 Annual Report, the Department made a significant amount of data publicly available as part of our commitment to transparency and encouraging community discussion around the value and importance of education in Tasmania.

The recommendations in this report will be used to inform the type of non-financial performance related information included in our future Annual Reports and Budget Papers.

Ms Jenny Gale

Secretary

Department of Health and Human Services

Thank you for your letter of 3 March 2016 which was a request for a management response to reporting non-financial performance.

The Department of Health and Human Services (DHHS) notes the recommendations in this Report, and will seek to implement those recommendations relevant to the Department when preparing future Budget Papers and Annual Report information.

Thank you for the opportunity to provide comment

Mr Michael Pervan

Secretary

Department of Justice

Thank you for your letter dated 3 March 2016 regarding the draft Reporting Non-Financial Performance Audit Report and the opportunity to comment on the draft report.

The Department of Justice supports the principles and intent of the recommendations to provide consistency in performance information reported in the budget papers and annual reports, as well as improving the reporting of non-financial performance. The Department intends to undertake a review of its reported performance measures based on the principles recommended in this report.

Mr Simon Overland

Secretary

Department of Police and Emergency Management

I would like to thank the Tasmanian Audit Office for consulting with the Department of Police and Emergency Management (DPEM) during this review and for providing the opportunity for management to respond to the report and its recommendations.

DPEM has been working to improve and streamline its performance reporting for several years. Significant progress has been made and it is pleasing to note that we are identified in the report as one of the agencies employing better practice performance measure reporting. Further refinements to the process is a work in progress and we are currently reviewing our indicators and targets in the context of the report's findings and recommendations. We are also looking at ways in which additional information might be presented on why particular targets are selected and to explain significant variations.

As you acknowledge, jurisdictional comparisons are problematic, and systems limitations make the monitoring and reporting of some indicators difficult without the implementation of onerous manual techniques. However, we are continuing to examine new effectiveness and efficiency measures, including those applied in other States and Territories, to assess their value in providing a clearer picture of performance in producing agency outputs linked to government outcomes.

While reporting by the Tasmania Fire Service (TFS) was not examined as part of this review, I will refer Recommendation 2, as it relates to General Government Sector entities, to the incoming TFS Chief Officer to raise with the State Fire Commission consistent with the DPEM's broader integration agenda.

We look forward to further enhancing DPEM's performance reporting framework and this report will assist in that regard.

Mr Darren Hine

Secretary

Department of Primary Industries, Parks, Water and the Environment

Thank you for your letter dated 3 March 2016 and the accompanying draft Chapter on Reporting Non-Financial Performance which will be included in your upcoming report to Parliament. DPIPWE is generally supportive of the recommendations in the draft Chapter. I make the following additional comments:

- In regard Recommendation 4 DPIPWE has reduced the number of performance measures reported in our Annual Report in recent years, down from 136 in 2013-14 to 93 in 2014-15. The Departments extraordinarily varied activities across 17 Outputs in 8 Output Groups makes it challenging to reduce this number even further.
- DPIPWE agrees that some of its measures are contextual and concern matters not directly related to Agency performance. They are included because they contain useful information for the community or industry. In principle we agree that there is a good case for separating such measures from those directly related to performance (Recommendation 6, and also relevant to Recommendation 4).
- In regard Recommendation 7, I note this applies to administered payments which are service delivery related. DPIPWE is responsible for an administered payment to Tasracing however in this case the Department has little or no control or authority, and is therefore not well placed to report on performance. It may be worth considering a separate part of the Budget Papers for reporting performance measures for administered payments in a whole-of-government context.
- The recommendations mentioned above, and others in the draft Chapter would be best addressed by a whole-of-government approach rather than by individual agencies. DPIPWE is therefore supportive of general high-level guidance, as suggested in Recommendations 9 & 10 on the roles of central agencies in this area.

Finally, I would like to acknowledge the productive discussions DPIPWE has had with the Auditor-General in recent years on this matter. I am pleased to see that the improved clarity of our performance measures and reporting approach has led to DPIPWE's inclusion among the Examples of Better Practice.

Mr John Whittington

Secretary

Department of State Growth

Thank you for the opportunity to comment on the draft report to Parliament in relation to reporting non-financial performance.

The department is supportive of recommendations 1 through to 8 together with recommendations 11 and 12.

The Department of State Growth developed its first Corporate Plan last year following the restructure of our organization. Further refinement will be required this year to the Plan, in including the development of relevant performance indicators for this Department. This includes a review of the indicators reported in budget papers and annual report together with their applicability; data collected in agency systems including those provided under national agreements; and a cross jurisdictional scan of other States. I have requested that your recommendations be considered as part of this process. I note in particular your comments regarding the infrastructure performance indicators and further work will be undertaken with my Treasury colleagues in relation to these aspects.

As you would appreciate the department has a number of diverse functions and associated systems. We are committed to the development of meaningful indicators of effectiveness and efficiency, but this will take some time to develop and refine. I will keep you informed of our progress.

Mr Kim Evans

Secretary

Tasmanian Health Service

Thank you for your letter of 3 March 2016 seeking management responses in relation to your report to Parliament on Non-Financial Performance.

The Tasmanian Health Service (THS) notes and supports the recommendations and is committed to working with the Department of Health and Human Services to implement those recommendations relevant to the THS for inclusion in future Annual Reports and Budget Papers.

Thank you for the opportunity to provide comment.

Mr David Alcorn

Interim Chief Executive

Joint response from:

Department of Premier and Cabinet and Department of Treasury and Finance

We are writing in relation to correspondence of 3 March 2016 from the then Auditor-General requesting comments on a copy of the draft Chapter for inclusion in an Auditor-General's Report to Parliament on the above matter. The information provided below represents a joint response from the Department of Treasury and Finance (Treasury) and the Department of Premier and Cabinet (DPAC).

We note that there has been a previous opportunity to discuss sections of this Chapter with your Office and that both our respective Departments have provided written comments on previous draft sections received.

As previously indicated, we share the Tasmanian Audit Office (TAO)'s interest in improving the usefulness of agency performance information and we recognise that the TAO has undertaken significant work in this area. While we note that a number of the recommendations included in the Report embody what are stretch targets or aspirational suggestions, we concur and support the TAO's general intention for an upwards shift in agency performance information and for ongoing improvement and regular audit review of this important area.

In supporting this general direction we note the following:

- significant resources are already allocated by agencies in preparing extensive non-financial performance information in Budget Papers, Agency Annual Reports and other major reports such as the annual national Productivity Commission's Report on Government Services;
- there is a level of significant complexity in the identification and preparation of appropriate performance indicators that reflect the specific services provided by agencies. This is particularly evident in measuring the effectiveness and efficiency of providing policy advice where arguably no Australian government jurisdiction provides a best practice approach; and
- the base information required to enable the preparation of some desirable performance indicators is not currently available. To this end, significant work is being undertaken through projects such as the across government Stats Matter Project and through the development of agency ICT systems to improve the data available.

In relation to policy advice, the unique role of delivering services to support the Treasurer, Premier and Executive Government further compounds the challenge to determine appropriate performance measures for policy functions, whereby 'good advice' may still be rejected and a satisfied client may be one that gets what they want to hear, rather than what they need to hear.

Given these and other issues, it is highly likely that the achievement of the stretch targets and aspirational suggestions embodied in the TAO's recommendations will require agencies allocating significant additional resources over a number of years to enable them to make the necessary changes and to prepare and deliver the resulting information on an ongoing basis. At the same time, agencies who regularly review their performance measures are finding it difficult to identify best practice approaches in other jurisdictions that can add real value in the Tasmanian context.

In relation to other matters, the section of the Chapter on "How does output-based reporting enhance decision making and accountability" (page 7) includes commentary and judgements about the process undertaken to implement recent FTE reductions and the possible implications of these changes. We believe that it is important to state that the reduction in FTEs that has occurred since June 2014 has been the subject of comprehensive reviews by agencies with a particularly strong focus on the prioritisation of services and improving the efficiency of services provided. To suggest otherwise on the basis of limited publicly available information encourages a mistaken understanding of the process that has been undertaken. Agencies have also been subject to close ongoing monitoring by Budget Committee of FTE changes and the Government has been proactive in publicly releasing information on changes in FTE levels.

While the establishment of well-considered and accurate measures should certainly assist in assessing performance, whether those measures are internally or externally available, such measures do not represent the only information that is available to agency management and the Government on which well informed and effective decisions can be made in relation to FTE levels and other matters.

The following comments are provided in relation to specific recommendations.

Recommendation 1 • all measures reported in Budget Papers be also reported in the Annual Report, by output groups in easily located places	We support the recommendation but note that many agency Annual Reports already comply with this recommendation.
Recommendation 2 • all GGS entities develop output groups and associated performance measures for inclusion in Budget Papers and Annual Reports.	The vast majority of General Government Sector entities that do not currently report on an output basis have a relatively small impact on the Budget, receive funding from a range of sources and are tasked with delivering a relatively specific service for the Government. As is the case with the TAO, it is likely that many of these entities would have a single Output Group and Output. Reporting on this basis is therefore likely to provide little incremental information for users.
Recommendation 3 • for all State entities included in the Budget Papers, selected performance measures include targets with clear explanations provided on how targets were determined.	The basis for the determination of targets is often quite complex. Therefore explaining the basis may not necessarily improve the assessment of the information provided. The presentation of this information may also lead to increased focus on the methodology for determination of the target rather than more fundamental issues relating to actual performance. We are not aware of other Australian jurisdictions that take such an approach.
Recommendation 7 • that where administered funding is provided to secure services, be it direct or via arrangements with other entities, performance measures be developed that are relevant and appropriate for inclusion in Budget Papers and Annual Reports.	While there may be benefit in the presentation of performance indicators for some Administered Payments, the nature of the payments means that agencies have extremely limited control over the outcomes delivered. Furthermore, often Administered Payments provided by the Government are part of a much wider funding envelope that is used by the recipient entities to deliver outcomes. The extent to which the Administered Payment funding provided can be directly linked to specific outcomes may be problematic. Furthermore, we question whether the requirement to provide performance measures for all Administered Payments is consistent with Recommendation 4 which states "that agencies limit public reporting to those measures regarded as key in evaluating their performance".

Recommendation 8 For all Capital Program Output Groups greater than $25 million agencies be required to report in Budget Papers proposed timeframes and budgets and progress against these in Annual Reports	Budget information for all funded infrastructure projects is currently provided in the Budget Papers (on an agency by agency basis and a whole of infrastructure program basis). Project timeframes are reflected in the funding cash flows detailed in the Budget Papers over the Budget and Forward Estimates period.
Recommendation 9 • Both Treasury and DPAC review the essential content and application of the existing framework. • Secretary of Treasury provide guidance on the application of the Framework. Secretary of DPAC monitor compliance with the Framework annually	As noted previously, we support a process involving the ongoing improvement in agency performance information. Such a process is, however, only considered to be part of a broader process of improving accountability for Government expenditure. Important other elements of this process include improving the quality of the base information available to agencies and other decision makers, improving the use and understanding of performance information by the community and facilitating the comparison of performance across entities within Tasmania, but also with similar entities in other jurisdictions. Any development of the current framework should include these factors and the level of resources available to investigate and implement what are often complex issues. We will continue to work together to improve agency performance information.

Mr Greg Johannes
Secretary
Department of Premier and Cabinet

Mr Tony Ferrall
Secretary
Department of Treasury and Finance

CHAPTER APPENDIX

The following is a summary of the common findings from the ten agencies we reviewed.

Common findings	DPAC	DoE	DPIPWE	DHHS	DPEM	State Growth	Justice	Treasury	TasTAFE	THOs N, S & NW
Comparing Budget Papers to the Annual Report	✗	✗	✗	✗	✗	✗	✗	✗	✗	✗
Measures of efficiency, and other effectiveness, included?	✗	✗	✗	✗	✗		✗	✗	✗	✗
Too many measures?	✗	✗	✗	✗	✗		✗	✗		
Comparing measures reported with previous reports by the Auditor-General		✗	✗	✗	✗	✗	✗			
Workload measures	✗	✗	✗	✗	✗					
Administered transactions	✗	✗				✗		✗		
Capital Investment Program						✗				
Comparing measures reported with other jurisdictions and/or ROGs						✗				
Basis for targets selected	✗									
Client satisfaction	✗									
Ability to influence outcomes	✗									

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REGULATED FINANCIAL STATEMENTS AND OTHER AUDITS

TASMANIAN NETWORKS PTY LTD (TASNETWORKS) REGULATORY ACCOUNTS AND REGULATORY INFORMATION NOTICES

SNAPSHOT

- Unqualified audit reports were issued on actual financial information. Review opinions were issued on estimated financial information and actual and estimated non-financial information.
- Thirteen management points were raised, aimed at improving the process in future years.

INTRODUCTION

TasNetworks in its capacity as a distribution network service provider (DNSP) and transmission network service provider (TNSP) is regulated under the National Electricity Rules (NER).

TasNetworks is subject to a number of on-going regulatory reporting obligations. These include submission of Regulatory Financial Statements and Other Reporting Statements and Regulatory Information Notices (RINs), which must be submitted annually.

TasNetworks must complete the following five RINs:

- Annual Reporting RIN (distribution)
- Economic Benchmarking RIN (distribution)
- Economic Benchmarking RIN (transmission)
- Category Analysis RIN (distribution)
- Category Analysis RIN (transmission).

The five RINs comprise templates which contain actual financial information, non-financial information and estimated information.

We engaged our own expert to conduct reviews of the non-financial information within each of the RIN templates.

REGULATORY FINANCIAL STATEMENTS

The regulatory financial statements are an ongoing annual requirement. The regulatory financial statements perform a similar function to that of the Annual Reporting RIN for distribution in that the information is intended to assist the Australian Energy Regulator (AER) to monitor a TNSP's ongoing performance against its current revenue determination. The AER's past practice has been to publish an annual TNSP regulatory report using this data.

The regulatory financial statements must be accompanied by an audit certificate and a Directors' responsibility statement and must be approved by the Board prior to being submitted by 31 October each year.

ANNUAL REPORTING RIN

The purpose of the Annual Reporting RIN is to allow the AER to:

- monitor compliance with the 2012-17 distribution determination
- publish reports relating to the financial and operational performance of TasNetworks
- prepare for future TasNetworks' distribution determinations.

The RIN requires submission of both financial and non-financial data and a suite of supporting narratives including a basis of preparation. The basis of preparation must set out and explain the methodology used to derive inputs.

The requirements of the RINs included:

- regulatory accounting statements (the financial data)

- non-financial regulatory templates (the non-financial data)
- basis of preparation
- confidential information statement
- audit certificates
- Chief Executive Officer's statutory declaration
- a narrative component that requires comprehensive written responses to the AER's specified questions.

The Annual Reporting RIN also required data to be disaggregated including providing actual performance against RINs.

The Annual Reporting RIN for the 2014-15 regulatory year was due on or before 5 December 2015.

ECONOMIC BENCHMARKING RINS

The purpose of the Economic Benchmarking RINs is to collect a consistent, standardised time series of expenditure, related drivers and volumes. The related drivers are variable and relate directly to the data being examined. This data and information will be used by the AER to conduct trend and benchmarking analysis which will be supplemented with other information.

The AER utilised this data to set benchmark operating and capital expenditure that would be incurred by an efficient Network Service Provider (NSP). The AER published this data in annual benchmarking reports in November 2015, with a separate report for DNSPs and TNSPs.

RINs were issued to the former distribution business Aurora Energy Pty Ltd and transmission business Transend Networks Pty Ltd on 28 November 2013 and transferred to TasNetworks on 1 July 2014.

Economic Benchmarking RINs require all actual data requested be provided. Where data is not collected, TasNetworks can provide estimated data. Estimated data was allowed to be submitted up until the 2014-15 year and thereafter the AER expects all NSPs to provide actual data.

The requirements of the notice included:

- actual financial information and non-financial information
- estimated information
- consolidated information
- basis of preparation
- confidential information statement
- audit and review certificates
- Chief Executive Officer's statutory declaration.

These RINs must be submitted by 31 October each year.

CATEGORY ANALYSIS RINS

The purpose of the Category Analysis RINs is to collect a consistent, standardised time series of expenditure, related drivers and volumes. This information will be used by the AER to conduct trend and benchmarking analysis. This information was supplemented with other information, including a Reset RIN prepared in 2014, which provided regulatory/revenue proposal information, and was used to inform the outcomes of a revenue determination for an NSP.

Similar to the Economic Benchmarking RINs, the Category Analysis RINs contain both financial and non-financial components, are subject to independent audit and review processes. The submission requires both financial and non-financial data and a suite of supporting narratives including a basis of preparation. The basis of preparation must set out and explain the methodology used to derive the inputs to the Notice.

RINS were issued to the former distribution business Aurora Energy Pty Ltd and transmission business Transend Networks Pty Ltd on 7 March 2014 and transferred to TasNetworks on 1 July 2014.

The requirements of the notices include:

- actual information and non-financial information
- estimated information
- consolidated information
- basis of preparation
- confidential information statement
- audit and review certificates
- CEO statutory declaration.

These RINs must be submitted by 31 October each year.

AUDITS AND REVIEWS OF THE 2014-15 REGULATORY FINANCIAL STATEMENTS AND RINS

All audits and reviews were completed on time. Unqualified audit reports were issued on actual financial information for the Regulatory Financial Statements and the RINs. Review opinions were issued on estimated financial information and actual and estimated non-financial information for each RIN. The dates of the audit reports and review opinions were:

- Regulatory Financial Statements – 30 October 2015 (audit report only)
- Annual Reporting RIN (distribution) – 13 November 2015
- Economic Benchmarking RIN (distribution) - 30 October 2015
- Economic Benchmarking RIN (transmission) - 30 October 2015
- Category Analysis RIN (distribution) - 30 October 2015
- Category Analysis RIN (transmission) - 30 October 2015

KEY FINDINGS

Audits and reviews were completed satisfactorily, with 13 management points raised, aimed at improving the process in future years.

Management of TasNetworks accepted the findings and noted there were a number of learnings to be taken from the process due to it being the first annual cycle for both TasNetworks and the Tasmanian Audit Office.

TASMANIAN WATER AND SEWERAGE CORPORATION PTY LTD (TASWATER) REGULATORY FINANCIAL STATEMENTS

SNAPSHOT

- Regulatory Financial Statements were received on 30 October 2015 and an unqualified audit report issued on the same day.
- There were two moderate risk findings related to internal control over the preparation of the Financial Statements and preparation of an asset movement schedule.

INTRODUCTION

TasWater is regulated by the Tasmanian Economic Regulator (TER). TERs functions include:

- administering the licensing system for water and sewerage entities
- establishing and administering the customer service code
- regulating prices, terms and conditions for water and sewerage services
- monitoring the performance of the water and sewerage industry and reporting on the performance of regulated entities.

Under section 64(2) of the *Water and Sewerage Industry Act 2008* (the Act) TER issued the Water and Sewerage Accounting Ring Fencing Guideline (Guideline) together with a Water and Sewerage Regulatory Accounting Ring Fencing Template May 2013 (Financial Report Template). The objectives of accounting ring fencing are to:

- provide the TER with sufficiently detailed and accurate information to undertake price determination investigations
- facilitate the monitoring of compliance with any relevant price determinations
- facilitate the effective regulation of monopoly activities by identifying and attributing expenditure and revenue to relevant business segments
- facilitate the introduction of competition wherever possible by identifying and ring fencing, regulated and unregulated services
- avoid the anti–competitive effects of cross–subsidies between regulated and unregulated activities
- ensure that unfair competitive advantage is not secured by using information acquired by the monopoly activity for the benefit of an unregulated activity.

The purpose of the Guideline and the Financial Report Template was to ensure TasWater maintained relevant accounting records and prepared financial statements for regulatory purposes according to specified principles. This was the second year TasWater has prepared regulated financial statements in accordance with the Guideline.

AUDITS AND REVIEWS OF THE 2014-15 REGULATORY FINANCIAL STATEMENTS

Signed Regulatory Financial Statements were received on 30 October 2015 and an unqualified audit report meeting the requirements under clause 5 of the Guideline was issued on the same day.

KEY FINDINGS

The audit was conducted and completed satisfactorily. There were two moderate risk findings which related to internal control over the preparation of the Financial Report and preparation of an asset movement schedule. Recommendations in relation to these were agreed by Management.

OTHER COMPLIANCE AUDITS

The following is a summary of other compliance audits conducted during the 2014-15 audit cycle.

State Entity	Subject Matter		Audit Report		
	Requirements	Regulations	Period	Opinion	Date Issued
Hydro Electric Corporation	Compliance with the Compliance Plan throughout the year. The Compliance Plan specifies how Hydro intends to comply with the principles specified in the Ministerial Notice, which primarily relate to bids for the cost to transport power across Basslink. In addition, the Compliance Plan must continue to meet legislative requirements.	Section 37 of the *Electricity Supply Industry Act 1995* and the Compliance Plan. Ministerial Notice issued under Section 36 of the *Electricity Supply Industry Act 1995*	2015-16	**Qualified** - Hydro failed to submit its 2015-16 draft compliance plan to the Minister by the prescribed date.	2 September 2015
Hydro Electric Corporation	Meeting obligations to the Australian Securities and Investments Commission (ASIC) under an Australian Financial Services (AFSL) licence in relation to cash needs and assurance requirements and submission of audited financial report.	*Corporations Act 2001*, mainly Part 7.6 Division 3 - Obligations of financial services licensees.	2015-16	**Unqualified.**	16 October 2015
Retirement Benefits Fund	Meeting obligations to the Australian Securities and Investments Commission under an Australian Financial Services licence in relation to cash needs requirements and submission of audited financial report.	*Corporations Act 2001*, mainly Division 3 - Obligations of financial services licensees.	2015-16	**Unqualified.**	14 August 2015
Aurora Energy Pty Ltd	Meeting obligations to ASIC under an AFSL licence in relation to cash and assurance requirements and submission of audited financial report.	*Corporations Act 2001*, mainly Part 7.6 Division 3 - Obligations of financial services licensees.	2015-16	**Unqualified.**	28 October 2015

GRANT ACQUITTALS AND OTHER AUDITS

SNAPSHOT

- The Auditor-General was responsible for the audit of 82 grant acquittal and other audits of financial statements during 2014-15.
- In all cases unqualified audit opinions were issued.

BACKGROUND

In addition to audits of the financial statement of State entities, we also performed a number of other smaller audits, the majority of which related to grant acquittal audits. Generally, the purpose of these audits is to provide a reasonable level of assurance that:

- funding was expended in accordance with the funding agreement
- the acquittal report was prepared, in all material respects, in accordance with specified financial reporting requirements
- the acquittal report presented fairly the financial transactions for an activity in accordance with funding agreements.

AUDITS COMPLETED

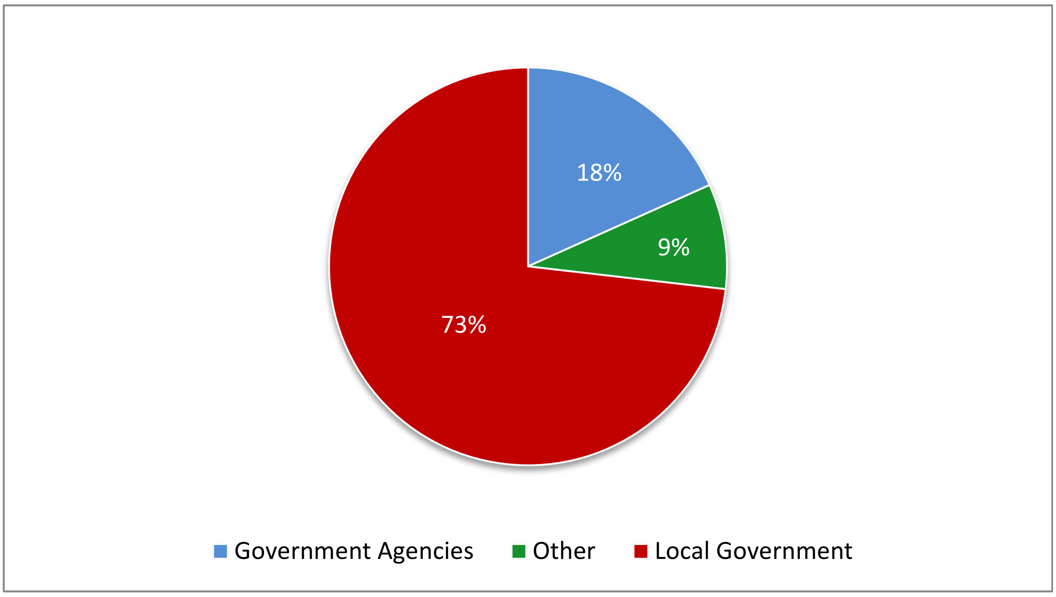
Acquittals

In the 2014-15 year we issued 82 audit opinions for grant acquittal and other audits, including:

- Roads to Recovery Program funding received by local government councils
- specific local government capital works programs, such as the Kangaroo Bay Community and Economic Development Precinct Project and the Glenorchy Art and Sculpture Park
- projects such as Maintaining Australia's Biodiversity Hotspots, Tasmanian Wilderness World Heritage Area, Fox Free Tasmania, Eradication of Rabbits and Rodents on Macquarie Island, and the Aboriginal Trainee Ranger Programs for which funding was received by DPIPWE from the Australian Government
- Residential Aged Care and Home and Community Care audits for the former three Tasmanian Health Organisations.

As can be seen in Figure 1 below, the majority of grant acquittal and other audits related to local government.

Figure 1: Grant acquittals and other opinions



Source: Tasmanian Audit Office

In all cases unqualified audit opinions were issued which indicated acquittal financial statements were correct in all material respects and presented in accordance with specified requirements.

BASIS FOR SETTING AUDIT FEES

SNAPSHOT

- Fees for financial audits are determined by the Auditor-General pursuant to Section 27 of the *Audit Act 2008* (Audit Act).
- The basis for setting fees is to be described in a report to Parliament dealing with the results of financial audits of State entities. This Chapter fulfils that requirement.
- Fees are set for each State entity commensurate with the size, complexity and risks of the audit engagement.
- Charge rates are based on the principle of the Office being able to recover its costs of operation. Charge rates comprise two parts, direct salary cost and overhead recovery.
- Where circumstances surrounding the audit engagement have materially changed, additional audit fees may be sought from the State entity.
- For the current 2015-16 financial year audits, the adjustment to fees was nil for General Government Sector entities and an increase of 0.44% for the remaining entities.

BACKGROUND

Section 27 of the Audit Act provides that:

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

In relation to the tabling of Auditor-General's reports on audits of the financial statements of State entities the Audit Act also requires the following at section 29(3):

> *"(3) A report under subsection (1) is to describe the basis on which audit fees are calculated."*

To comply with section 29(3), the basis for setting audit fees for conducting audits of the financial statements of State Entities is detailed in this Chapter. Audit fees are not charged for performance audits, compliance audits or investigations

DETERMINATION

We have determined that an audit fee will be charged for the audits of the financial statements of all State entities other than the University of Tasmanian Foundation Inc. and the Anzac Day Trust.

PRINCIPLE FOR AUDIT FEE DETERMINATION

Fees are set for each State entity commensurate with the size, complexity and risks of the engagement. These factors affect the mix of staff we assign to each audit and therefore the overall fee. Staff are assigned hourly charge rates for use in determining the allocation of work on the audit and in computing the fee.

There is an expectation that audits of similar complexity and risks will have a similar mix of staff.

PRINCIPLE FOR DETERMINING CHARGE RATES

Fees are set for each State entity commensurate with the size, complexity and risks of the engagement (excluding those completed by our contract auditors, which are subject to a tender process). These factors affect the mix of staff we assign to each audit and therefore the overall fee. Staff are assigned hourly charge rates for use in determining the allocation of work on the audit and in computing the fee.

There is an expectation that audits of similar complexity and risks will have a similar mix of staff.

BASIS OF FEES

Fees are calculated on the basis that:

- current accounting systems will be operating throughout the year with a satisfactory appraisal of internal control
- no errors or issues requiring significant additional audit work will be encountered
- the standard period-end general ledger reconciliations will be available at the commencement of our year-end audit
- assistance for our staff will be provided with respect to reasonable requests for additional schedules and analysis throughout the audit
- agreed timetables will be met within reason, particularly with regards to the preparation of the financial statements
- the financial statements presented for audit are materially complete and do not require on-going changes/adjustments
- additional work (including new accounting standards or issues associated with key risks and other matters arising) will be billed separately if it cannot be absorbed into the existing fee
- the nature of the entity's business and scale of operations will be similar to that of the previous financial year
- fees incorporate financial statement disclosure and other specific audit related advice.

ADDITIONAL AUDIT FEES

If the circumstances outlined under the section headed "Basis of Fees" change in a year, we would seek additional fees from the entity. Any future impact of agreed additional fees would be assessed in terms of the on-going audit fee.

ADJUSTMENT TO FEES

Fees may be adjusted in the following circumstances:

- changes to the size and nature of the entity and its operations
- changes to the risks associated with a particular audit engagement
- changes to accounting and auditing standards requiring greater effort on our part
- ad-hoc reviews that impact upon significant balances within the financial statements, such as a significant asset revaluation or identification program
- unavoidable increases in costs of maintaining our Office.

There may also be circumstances where, based on our assessment of size, complexity and risks of the engagement, our fees may be reduced. Fees may also take into account our assessment of the relevance to our audits of work conducted by internal auditors.

In all cases, fees are communicated to each accountable authority prior to audit commencement or during the planning phase. For the current 2015-16 financial year audits, the adjustment to fees was nil for General Government Sector entities and an increase of 0.44% for the remaining entities. The 0.44% increase was based the Consumer Price Index (Hobart All Groups) percentage change for the previous year ending 30 June minus 30%. This was consistent with a previous commitment to limit fee increases.

TRANSPARENCY OF INDIVIDUAL AUDIT FEES

We have chosen to make the fee setting process for individual State entities transparent. As a consequence, staff are now required to explain:

- the specific factors taken into account in proposing the fee (particularly the risk assessment)
- the assumptions upon which the fee is based in terms of, for example, the standard of the entity's control environment, coverage of internal audit, quality of working papers and so on

- what is included in the fee and what is not included
- what specific actions the client could take to reduce the level of its audit fee in the future
- processes for agreeing additional fees if circumstances change or the assumptions upon which the fee is based are not met.

AUDIT FEE SCALES

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

- size of the entity based on total revenue and expenditure. This was used to determine the base amount of time required to conduct the audit. Revenue and expenditure were based on the client's actual income and expenditure for the preceding financial year, adjusted for any known factors (Fixed element).
- risk and complexity profiles for each entity determined by our staff. These profiles include the corporate structure, complexity of systems, operations and financial statement reporting requirements. The time bands applied range from 40 per cent below to 40 per cent above the base time (Variable element).

The fee scales take account of:

- changes to Australian Auditing or Accounting Standards
- in some cases, particularly audits returning from contract, a change in scope of work being performed in line with our audit approach whereby selected probity matters will be considered during the course of all audits.

Fee scales are as follow:

Revenue and expenditure*	Base Hours	Variable Component
<$145 500	19	+/-40%
$145 501 to $2.2m	30	+/-40%
$2.2m to $14.5m	100	+/-40%
$14.5m to $80m	155	+/-40%
$80m to $176m	270	+/-40%
$176m to $291m	460	+/-40%
$291m to $597m	610	+/-40%
$597m to $1.5bn	830	+/-40%
>$1.5bn	1 350	+/-40%

** may be adjusted in line with CPI movements.*

Bandings are based on current cost experience in conducting audits.

After applying the above model, the hours to undertake the audit are allocated according to the staff mix necessary to conduct the audit. The respective staff charge rates are then applied to the allocated hours so as to determine a dollar amount (the audit fee). Where applicable, travel and other direct costs (out of pocket expenses) are added to the audit fee on a full cost recovery basis.

In practice, the Office uses the fees scales to estimate fees for new audits or in cases where client circumstances change significantly, eg discontinued operations, restructuring or mergers. After taking into account the actual audit costs following the first full year of an audit, a final fee is then determined. From that point onwards, fees are indexed annually consistent with the principle of the Office being able to recover its costs of operation.

FEE SETTING

It is emphasised that the fee scales only provide a framework within which we set the actual fees charged to individual State entities.

The level of fee, and any change, experienced by individual State entities will therefore vary according to local circumstances and the risks each entity faces.

In certain circumstances, for example, where a State entity faces a particular challenge to manage high risks or there are particular local circumstances, a fee may fall outside the noted bands. In these cases, the audit fee will be determined in discussion between our staff and entity management, to reflect our assessment of risk and the extent and complexity of the audit work required.

SKILL-RELATED FEE SCALES

In certain circumstances, we may need to use staff or contractors with specialist skills in order to review specific local issues. Where this is the case, it can result in higher costs being incurred. In these circumstances, the fee to be charged will be determined in discussion between our staff and entity management and will reflect the size, complexity or any other particular difficulties in respect of the audit work required. Where possible, we attempt to absorb such costs within the base audit fee.

ADDITIONAL AUDIT WORK

In carrying out additional audit work, including government grant acquittals and other similar returns, we will recover, in respect of such work, an amount that covers the full cost of the relevant work undertaken.

The actual fees to be charged will be determined in discussion between our staff and entity management to reflect the size, complexity or any other particular difficulties in respect of these types of audits. Fees will have regard to the time taken, the audit staff assigned and their respective charge rates.

AUDITS DISPENSED WITH

SNAPSHOT

- Auditor-General has the authority to dispense with the audits of State entities.
- Auditor-General must consult with the Treasurer prior to such dispensation.
- Audits are dispensed with on the condition that entities have demonstrated appropriate financial reporting.
- In 2014-15, 41 (2013-14, 42) audits were dispensed.

INTRODUCTION

The Auditor-General has the discretion under the Audit Act to dispense with certain audits if considered appropriate in the circumstances. The dispensation is subject to meeting one of the following conditions determined by the Auditor-General:

1. the entity must demonstrate to us that its financial reporting and auditing arrangements are appropriate. To satisfy this condition, the entity is required to submit their audited financial statements to us each year. The financial statements are reviewed and, where necessary, feedback on information presented in the financial statements is provided to the entity
2. the entity is controlled by a State entity and the financial transactions and balances of the controlled entity are subject to audit procedures as part of the group audit of the controlling entity
3. grants made to a category of entities are properly managed under Treasurer's Instruction 709 "Grant Management Framework" (discussed further under the heading 'Categories of audits and Non-Government Organisations' later in this Chapter).

It is important to note that dispensation of the audit does not limit any of the Auditor-General's functions or powers given under the Audit Act.

The Audit Act also requires the Auditor-General to consult with the Treasurer before exercising the power to dispense with audits. Following consultation with the Treasurer, the audits of the annual financial statements of the following specific audits or categories of audits were dispensed with:

SPECIFIC AUDITS

Controlled Subsidiaries – Year Ended 30 June 2015 (controlling entity shown in brackets)

- AETV Pty Ltd (Hydro Tasmania)
- Auroracom Pty Ltd (Tasmanian Networks Pty Ltd)
- Bell Bay Pty Ltd (Hydro Tasmania)
- Bell Bay Three Pty Ltd (Hydro Tasmania)
- Ezikey Group Pty Ltd (Tasmanian Networks Pty Ltd)
- Flinders Island Ports Corporation Pty Ltd (Tasmanian Ports Corporation Pty Ltd)
- Heemskirk Holdings Pty Ltd (Hydro Tasmania)
- Heritage Building Solutions Pty Ltd (Southern Midlands Council)
- Heritage Education & Skills Centre Pty Ltd (Southern Midlands Council)
- HT Wind Developments Pty Ltd (Hydro Tasmania)
- HT Wind Operations Pty Ltd (Hydro Tasmania)
- HT Wind New Zealand Pty Ltd (Hydro Tasmania)
- Hydro Tasmania Consulting (Holding) Pty Ltd (Hydro Tasmania)
- Kingborough Waste Services Pty Ltd (Kingborough Council)

- King Island Ports Corporation Pty Ltd (Tasmanian Ports Corporation Pty Ltd)
- Lofty Ranges Power Pty Ltd (Hydro Tasmania)
- Metro Coaches (Tas) Pty Ltd (Metro Tasmania Pty Ltd)
- Newood Holdings Pty Ltd (Forestry Tasmania)
- Newood Energy Pty Ltd (Newood Holdings Pty Ltd)
- Newood Huon Pty Ltd (Newood Holdings Pty Ltd)
- Newood Smithton Pty Ltd (Newood Holdings Pty Ltd)
- RBF Property Pty Ltd (Retirement Benefits Fund Board)
- RBF Direct Pty Ltd (Retirement Benefits Fund Board)
- RE Storage Project Holdings Pty Ltd (Hydro Tasmania)
- Schools Registration Board (Department of Education)
- Woolnorth Bluff Point Holdings Pty Ltd (Hydro Tasmania)
- Woolnorth Studland Bay Holdings Pty Ltd (Hydro Tasmania).

Foreign Controlled Subsidiaries – Year Ended 30 June 2015 (controlling entity shown in brackets)

For these entities the Auditor-General is not the auditor and, therefore, there is no dispensation. However, the financial results are subject to audit procedures as part of the group audit:

- Hydro Tasmania Consulting India Private Limited (Hydro Tasmania)
- Hydro Tasmania South Africa (Pty) Ltd (Hydro Tasmania)
- Hydro Tasmania Neusberg (Pty) Ltd (Hydro Tasmania).

Drainage Trusts – Year Ended 30 June 2015

- Egg Lagoon Drainage Trust
- Elizabeth Macquarie Irrigation Trust
- Forthside Irrigation Water Trust
- Lake Nowhere-Else Dam/Whitehawk Creek Irrigation Trust
- Lawrenny Irrigation Trust
- Mowbray Swamp Drainage Trust
- Richmond Irrigation Trust.

Drainage Trusts – Year Ended 30 June 2014

- Britton's Swamp Drainage Trust
- Britton's Swamp Water Board.

Other Boards and Authorities - Year Ended 30 June 2015

- Tasmanian Pharmacy Authority.

Controlled subsidiaries – Year Ended 31 December 2015 (controlling entity shown in brackets)

- Sense-Co Tasmania Ltd (University of Tasmania)
- UTASAT Pty Ltd (University of Tasmania).

Other Boards - Year Ended 31 December 2015

- Board of Architects.

Categories of audits and non-government organisations

The definition of State entities may encompass public bodies and Non-Government Organisations that traditionally are in receipt of Government grants. Agencies managing these grants are subject to the provisions of Treasurer's Instruction 709 – *"Grant Management Framework"*.

Compliance with the requirements of Treasurer's Instruction 709 should ensure appropriate reporting and auditing requirements are satisfied. It is our intention to keep the status quo, that is, those agencies dispensing the funds will be responsible for implementing and monitoring the requirements of the above Treasurer's Instruction.

As a result, separate audits of these entities were not conducted by our Office and we have not specifically dispensed with each of these audits.

Entities the audits of which were dispensed with in the past but where dispensation is now being reconsidered

As indicated in the introductory section of this Chapter, audits are dispensed with on the condition that the entity must demonstrate to us that its financial reporting and auditing arrangements are appropriate. To satisfy this condition, the dispensed with audit entities are required to submit their audited financial statements to us each year. To date we have not received audited financial statements from the entities listed below, as a result of which dispensation is being reconsidered:

- Britton's Swamp Drainage Trust (30 June 2015)
- Britton's Swamp Water Board (30 June 2015)
- Togari Drainage Trust (30 June 2014 and 30 June 2015).

Under section 182 of the *Water Management Act 1999* (the Water Act), each responsible water entity is required to provide the Minister for Primary Industries and Water with a written report, including financial statements, on its administration during the preceding year. Having not met this requirement either, and if it is not rectified without delay, these entities can risk being dissolved by the Minister under Section 223 of the Water Act.

DEVELOPMENTS IN FINANCIAL REPORTING AND AUDITING

SNAPSHOT

- AASB Disclosure Initiative – "Decluttering"
- Fair Value Disclosures relief for Not-for-Profit Public Sector Entities
- New and revised standards:
  - Related Party Disclosures for Not-for-Profit Public Sector Entities
  - Statement of Cash Flows Financing Activity Disclosures
  - Revenue from Contracts with Customers
  - Financial Instruments
  - Leases.
- Standards setters are finalising new standards dealing with:
  - Income of Not-for-Profit Entities
  - Service Concession Arrangements: Grantor
  - Service Performance Reporting.
- Enhancements to Auditor Reporting.

REPORTING IN 2015-16

For the 2015-16 financial reporting period there are very few new changes to reporting requirements in the public sector. The majority of changes have been available for some time now, well documented and should not pose any real impediment. There are also a number of other accounting standards not discussed below that will become progressively effective over current and future reporting periods. Entities are encouraged to monitor and consider implementation of reporting requirements to ensure smooth transition. Those developments of significance for reporting in 2015-16 are discussed below.

AASB Disclosure Initiative- "Decluttering"

Based on the International Accounting Standards Board's (IASB) Disclosure Initiative project, AASB 2015-2 - *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*, was issued in February 2015 to address a perceived disclosure overload in financial statements. The amendments clarify that entities should not disclose information that is qualitatively and quantitatively immaterial. The notes to the financial statements can and should be tailored to provide users with a clear picture of an entity's financial position and performance. The amendments address the view that there is too much irrelevant information and not enough relevant information in financial statements. It clarifies how entities using their professional judgement can "declutter" their financial statements without reducing understandability.

The amendments clarify that:

- information should not be aggregated or disaggregated in a way that obscures what is useful
- the line items in the primary financial statements can be disaggregated and aggregated when such presentation is relevant to an understanding of an entity's financial position and performance
- the concept of materiality applies to both the financial statements and the accompanying note disclosures
- even when a standard specifies minimum disclosure requirements, if the disclosure is immaterial, it does not need to be disclosed
- notes are to be presented systematically (or grouped) to enhance the understandability and comparability of the financial statements. They need not follow the order of the four primary financial statements. Notes can be grouped by their operating activity,

measurement basis or importance to users. The amendments provide examples of ways preparers can improve disclosures

- the nature of an entity's operations and user expectations should be considered when determining which accounting policies to disclose.

Entities are strongly encouraged to consider the materiality and relevance of proposed disclosures when preparing financial statements. As entities prepare draft financial statements they are encouraged to discuss their justification for proposed changes to streamline presentation and disclosures with the audit team.

Fair Value Disclosures relief for Not-for-Profit Public Sector Entities

AASB 2015-7 *Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities*, provides relief from certain AASB 13 *Fair Value Measurement* disclosures. It applies to Not-for-Profit (NFP) public sector entities with assets within the scope of AASB 116 *Property, Plant and Equipment*, which are held primarily for their current service potential rather than to generate future net cash inflows.

While the amendments apply to annual reporting periods beginning on or after 1 July 2016, early adoption is permitted. It will be of assistance to entities that have had to "create" information to comply with disclosure requirements. NFP public sector entities with recurring and non-recurring level 3 fair value measurements may take immediate advantage from the relief and not disclose:

- quantitative information about the significant unobservable inputs used
- the amount of gains or losses for the period included in the profit or loss attributable to the change in unrealised gains or losses relating to the assets held at the end of the reporting period, and the line items(s) in profit or loss which those unrealised gains or losses are recognised
- information about the sensitivity of the fair value measurements to changes in unobservable inputs.

Entities can choose to present some or all of the above disclosures if they so wish.

The relief does not apply to all level 3 fair value measurement disclosures. Consequently, NFP public sector entities must continue to disclose:

- a description of the valuation technique(s) and the inputs used
- changes in valuation technique(s) and reasons for the change
- a reconciliation of the movements
- a description of the valuation process used.

Looking Further Forward

Progressively over future reporting periods, there are a number of new accounting standards that will become effective for the first time. State entities are encouraged to monitor and consider implementation of reporting requirements over the next few reporting periods to ensure smooth transition. The following are a selection of pertinent standards/projects with a high-level overview.

Related Party Disclosures for Not-for-Profit Public Sector Entities

In March 2015 the AASB issued the long-awaited AASB 2015-6 *Amendments to Australian Accounting Standards - Extending Related Party Disclosures to Not-for-Profit Public Sector Entities*. The standard removed the prior exemption from AASB 124 *Related Party Disclosures* for not-for-profit public sector entities and applies to annual reporting periods beginning on or after 1 July 2016. Early adoption is permitted. The amendments apply prospectively, with comparative information not required in the first period of application. Detailed implementation guidance is included to assist in the application of the standard. The implementation guidance is an integral part of AASB 124 and has the same authority as other parts of the standard. The guidance addresses a range of matters and situations reflecting the need for entities to analyse the facts and circumstances, including the terms of relevant enabling legislation, in determining the appropriate disclosures that apply.

This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments. The standard defines a related party as:

" …a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

a. A person or a close member of that person's family is related to a reporting entity if that person:
    i. has control or joint control of the reporting entity;
    ii. has significant influence over the reporting entity; or
    iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b. An entity is related to a reporting entity if any of the following conditions applies:
    i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
    ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
    iii. Both entities are joint ventures of the same third party.
    iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
    v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
    vi. The entity is controlled or jointly controlled by a person identified in (a).
    vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
    viii. The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity."

The standard defines a related party transaction as:

> "*A related party transaction* is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged."

The standard prescribes specific and general disclosures for related party relationships and related party transactions and resulting balances.

The principle underpinning the standard is that transactions with related parties should be disclosed, and key management personnel (KMP) are related parties. KMP are defined as:

> "*Key management personnel* are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity."

For public sector NFP entities, KMP will capture those charged with governance including boards and local government councillors or alderman as well as Ministers. It will also cover senior or executive management. The actual determination of KMP will need to done on a case by case basis evaluating the governance and management structures of each State entity against the above definition. The standard contains numerous examples to assist preparers of financial statements.

The standard covers relationships with KMP in two main forms, compensation paid and other transactions.

Compensation paid includes all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered. In the main this would include a KMP's salary, or wage, allowances, leave entitlements and any other benefit received. Such information is required to be disclosed in total for KMP and is often presented in a tabular format.

Other related party transactions include the transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. An example of this would be if a KMP of one entity was also a KMP for another entity, and the two entities transacted in some way. Both entities would then have to evaluate those "related party" transaction disclosures. Related party transactions also extend to include close members of family where they are the other party to the transaction, or where they have control, joint control or significant influence over the other entity. Such information is usually presented in written format explaining the context and nature of the transaction and amount disclosed.

In the Tasmanian public sector, some disclosures are already present. For Government Businesses, the guideline on *"Director and Executive Remuneration"*, have established presentation of KMP remuneration and related party transactions. Separate tables are required for directors and senior executives, which includes significant disclosure requirements. These disclosures are based on those of a private sector for-profit listed company. For Agencies reporting under the *Financial Management and Audit Act 1990*, Treasurer's Instruction 206 *Presentation of Financial Statements*, prescribes remuneration disclosures of senior executives within the Agency. In the local government sector there is limited disclosure of councillors' emoluments within annual reports under the *Local Government Act 1993*. In previous Parliamentary reports for improved transparency, we have recommended that local government and other State entities apply enhanced KMP remuneration disclosure similar to those of listed companies. All these entities will require additional disclosures of some degree when the amended standard becomes fully effective.

Ministers are sometimes compensated through one or more central government agencies. It is those agencies that would be required to disclose remuneration requirements. Other agencies or authorities, where they are not obliged to reimburse the central agency for services, are not required to disclose such KMP compensation, only related party transactions specific to their entity where they are individually or collectively significant.

Entities need to apply judgment to assess whether a transaction is material, especially when qualitative assessments are made about the nature of transactions. Related party transactions occurring during the course of delivering a public sector entity's objectives, which occur on the same terms as those provided to the general public, may be considered by the entity as not material for the purposes of disclosure in the financial statements. Consequently normal taxes and rates paid by KMP, or their use of public transport, would generally not need to be disclosed. However, commercial contracts entered into for services may need to be disclosed. Related party transactions require disclosure sufficient for users to understand the nature and potential effects of the relationship on the financial statements.

The revised definition of a related party also extends to an "*entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity*". As a result an entity is a related party where the same government entity has control, joint control or significant influence over both the reporting entity and the other entity, (for example, government business, statutory authorities or government departments).

Accordingly, Ministers who are members of the KMP for their government, such as Cabinet, are also related parties of each controlled entity of that government. As a consequence, each controlled entity may, where the transaction is material, have to disclose the transactions with a minister who has no responsibility for the entity.

In preparing for the future, State entities should familiarise themselves with the new requirements and review their systems for capturing and reporting this information to ensure they:

- identify related parties such as Ministers, aldermen, councillors, key management personnel, their close family members and business interests, agencies and entities that are part of the reporting entity, which they control, jointly control or over which they exert significant influence
- identify related party transactions, balances and commitments with those parties and summarise the information for reporting purposes.

Financing Activity Disclosures in the Statement of Cash Flows

In March 2016 the AASB issued AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107.* It aims to improve disclosure of information relating to financing liabilities, and is in response to requests from investors to help them better understand changes in an entities debt. The amendment requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, both changes arising from cash flows and non-cash changes. Disclosure is also required for changes in financial assets, (for example, assets that hedge liabilities arising from financing activities), if cash flows from those financing assets were, or in future cash flows will be, included in cash flows from financing activities.

One way to fulfil the disclosure requirements, included as an example in the amendment, is by providing a reconciliation between opening and closing balances in the statement of financial position for liabilities arising from financing activities. Such an approach needs to include sufficient information to enable users to link items included to the Statement of Financial Position and Statement of Cash Flows. Another approach would be to provide the disclosure requirements as part of a reconciliation of net debt.

The AASB decided not to make a not-for-profit specific amendment, citing that whilst less relevant to the sector, the benefits of compliance outweighed the cost of making the additional disclosure. While the amendment applies to annual reporting periods beginning on or after 1 July 2017, early adoption is permitted.

Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* was issued by the AASB in December 2014. The new standard enhances quality and consistency in how revenue is reported. It was initially to be applied from 1 January 2017, but application date has now been pushed out to reporting periods commencing on or after 1 January 2018, consistent with the international equivalent. This provides entities with additional time to assess potential impacts and implement any changes in processes. Early adoption is permitted. It replaces AASB 118 *Revenue,* AASB 111 *Construction contracts* and five other revenue related interpretations.

The core principle of the standard is that an entity will only recognise revenue upon the transfer of promised goods or services to customers, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Entities will need to apply a five-step model to determine when to recognise revenue, and at what amount.

The standard requires retrospective application, but the transitional requirements allow two alternative retrospective methods. The lengthy period before application reflects the fact that the standard's new rules are likely to have significant impacts on a wide range of organisations. Entities are encouraged to prepare early in anticipation by:

- establishing a complete and accurate register of contracts
- considering potential changes that may be required to revenue recognition
- considering whether changes need to be made to the organisation's IT systems and recording and recognition of revenue transactions
- considering forecast budgetary impacts
- planning appropriate training for affected staff
- consider if any disclosures are required by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- discussing concerns about the impact of the proposed requirements with financial advisors and/or auditors.

AASB 15 will apply to contracts of not-for-profit entities that have reciprocal transactions. AASB 1004 *Contributions* will continue to apply to non-reciprocal transactions until the Income of Not-for-Profit Entities standard is issued.

Income of Not-for-Profit Entities

In May 2015 the AASB released ED 260 *Income of Not-for-Profit Entities*, which proposed guidance in the application of income recognition in applying the principles of AASB 15 and replacing the income recognition requirements in AASB 1004 *Contributions*.

Under AASB 1004, there have been concerns with income prematurely recognised, with associated expenses with the good or services provided being recognised in a future reporting period. This has resulted in a mismatch between income and expenditure and volatility in reported results. ED 260 goes part way in addressing these concerns.

The proposals will change the current practice of accounting for income from grants and donations. NFP entities will be able to defer income from grants and donations where the conditions attached to the goods or services are enforceable and sufficiently specific, regardless of whether the ultimate beneficiary is the grantor or a third party. Currently income is recognised immediately if the ultimate beneficiary is not the grantor. Some types of transfers will continue to be recognised immediately. For example, appropriations, general grants and donations received without conditions, will continue to be recognised as income when the entity receives or becomes entitled to receive the funds. Transactions that require the fulfilment of promises, obligations or certain events, will require further consideration and possibly dissection to determine when revenue recognition will occur.

The AASB has clarified that a moral obligation or economic compulsion alone is not considered sufficient. Constructive obligations, arising from non-enforceable agreements outside the scope of AASB 15, should only be recognised when there is no realistic alternative to settling and there is a sufficiently specific promise, consistent with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. The AASB does not expect that this would give rise to many deferrals.

The proposals also require transactions with a donation element to be recognised at fair value. A finance lease with a peppercorn rental will be recognised at fair value, with a corresponding recognition of grant income, (unless performance conditions are attached).

A resulting standard is currently being deliberated and due to be issued in the third quarter of 2016, with implementation guidance to follow in quarter four. For–profit entities will continue to account for grants and contributions under AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.

Financial Instruments

Following the IASB's project work on financial instruments, the AASB reissued AASB 9 *Financial Instruments* in 2014, replacing all previous versions and AASB 139 *Financial Instruments: Recognition and Measurement*. The aim is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

It is built on a single classification and measurement approach for financial assets and financial liabilities. It requires financial assets to be classified on the basis of the entity's business model within which they are held and their contractual cash flow characteristics. The existing four categories of financial assets; fair value through profit or loss, held to maturity, loans and receivables and available for sale financial assets; have been replaced with three; amortised cost, fair value through profit or loss and fair value through other comprehensive income. There is also another option for equity investments not held for trading. Under these circumstances an entity can make an irrevocable election to measure these at fair value through other comprehensive income.

The requirements for classification and measurement of liabilities were carried forward largely unchanged from AASB 139. However, financial liabilities measured at fair value are recognised in profit or loss, except changes relating to the entity's own credit risk which are recognised in other comprehensive income.

Unlike previous models, under the new "expected credit loss" model, impairment of financial liabilities is forward looking. This requires an entity to base its measurement of expected credit losses on reasonable and supportable information that is available without undue cost or effort, and that includes historical, current and forecast information.

The standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment.

The standard is effective for annual reporting on or after 1 January 2018 and available for early adoption. Application is retrospective so comparatives will require restatement in the prior period to the extent possible.

Leases

In its February 2016 meeting, the AASB approved the long awaited AASB 16 *Leasing* standard. The standard is applicable for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, provided AASB 15 *Revenue from Contracts with Customers* is also applied. The new standard will require lessees to recognise most leases on their balance sheets as lease liabilities, with corresponding right-of-use assets. This change has flowed in a large part from the concerns of investors and analysts over insufficient information around lease commitments. The result will be that these obligations will now be treated in the same manner as other debt on an entity's balance sheet. Lessor accounting remains largely unchanged.

Lessees will also likely see an impact in other statements. In the Statement of Comprehensive Income, the financing component of the lease expense will result in a larger portion of interest expense skewed to year one and then decreasing over the lease term as the lease liability declines. (The total cost of the lease over the entire lease term of course remains the same.) In the Statement of Cash Flows the actual cash expense will remain the same, but the split between the operating component, which will be lower in the early years, and the interest expense; often a financing activity; will be higher in the early years.

The grossing-up in the balance sheet may also cause a deterioration in debt ratios and return on assets compared with current reporting. Certain other performance and regulatory ratios may also be impacted. Entities may need to review how key performance ratios and indicators are impacted and communicate these with those charged with governance and other stakeholders. Impacts on future procurement practices, budgets and long term plans may also need revision.

The new standard will drive a need for entities to critically assess how they manage existing leases and how they intend to transact in future lease negotiations. The effects of the financing expense component in early years may see a reduction in lease terms being adopted, along with a greater focus on non-lease components. There is an option to make an accounting policy election by lessees to recognise the lease and non-lease components as a single lease component on the balance sheet, but this would have the effect of increasing the total lease obligation. This could be an appealing option when non-leasing components are not significant. Under certain conditions there are also exemptions for leases of 12 months or less and leases of low value items (e.g. laptops or small items of furniture).

Entities that transact in leases are encouraged to familiarise themselves with the standard. The new standard requirements significantly more effort than before. Its implementation will result in changes to lease administration policies, processes, controls and accounting systems. Education of operational areas that are involved in or rely upon leasing arrangements may require a degree of education as changes are implemented.

Whilst the effective date of 1 January 2019 seems a long way off, preparers should not underestimate the preparation time and systems changes that may be required to capture operating leases effectively.

Service Concession Arrangements: Grantor

Public sector entities (grantors) often enter into contractual service arrangements to engage private sector businesses to design, finance and build infrastructure for the delivery of public services and to provide operational/management services. These are commonly referred to as "service concession arrangements", (SCAs), where the grantor is granting the right to operate. To address a gap in accounting for these arrangements the AASB released ED 261 *Service Concession Arrangements* for comment in May 2015.

The aim of the standard is to ensure consistent, more transparent and comparable reporting of such arrangements by grantors. The proposed standard will require a grantor to recognise the assets and liabilities of SCAs where the grantor controls the service potential and underlying asset. Grantor will be required to initially measure the SCA at fair value with the liability measured at the same amount. The adoption of this approach will result in the earlier recognition of assets and liabilities on a grantor's balance sheet.

The final standard should clarify that an SCA is a specialised asset that the grantor uses for its service potential to achieve public service objectives. Consequently, only the cost approach to measuring the fair value of SCAs is relevant and in this specific instance, that where the operator has been granted the rights to future cash flows, this need not be considered in the valuation. The AASB recently confirmed that under the grant of the right to the operator model, the grantor would recognise revenue, and accordingly reduce the liability, in accordance with the economic substance of the arrangement.

The AASB is currently redeliberating this project as they work through responses and field test outcomes. A resulting standard and application guidance is due for release in the fourth quarter of 2016. Whilst such arrangements are not prevalent in Tasmania, entities contemplating service concessional arrangements will need to consider their reporting requirements and financial impacts.

Service Performance Reporting

The AASB has issued ED 270 *Reporting Service Performance Information* for comment closing 29 April 2016. For further information on this topic refer to the Other Developments section of the Reporting Non-Financial Performance Chapter in this Report.

DEVELOPMENTS IN FINANCIAL AUDITING

Enhancements to Auditor Reporting

Over the past year the IASB has continued to build on revisions to International Standards on Auditing (ISAs) project on auditor reporting. This has included research, public consultations, and stakeholder outreach, including global roundtables. In response to concerns by investors and other users, the IASB set out to develop new and revised standards relating to auditor reporting aimed at enhancing the information and value of the auditor's report. The intended benefits of the program include:

- enhanced communication between auditors and investors, as well as those charged with corporate governance
- increased user confidence in audit reports and financial statements
- increased transparency, audit quality, and enhanced information value
- increased attention by management and financial statement preparers to disclosures referencing the auditor's report
- renewed auditor focus on matters to be reported that could result in an increase in professional scepticism
- enhanced financial reporting in the public interest.

Following the prior year release of the overarching standard ISA 700 (Revised) *Forming and Opinion and reporting on Financial Statements* and ISA 701 (New) *Communicating Key Audit Matters*, the IASB's auditor reporting program continued resulting in the release of a suite of other revisions and conforming amendments to other auditing standards. Following on from these developments, the Australia Auditing and Assurance Standards Board (AUASB) conducted a review program prior to adoption locally. While the majority of the international revisions and enhancements were adopted, certain aspects proposed locally were adjusted, omitted or reinstated following review and consultation with stakeholders.

The new and revised standards included:

ASA 700	*Forming an Opinion and Reporting on a Financial Report*
ASA 701	*Communicating Key Audit Matters in the Independent Auditor's Report*
ASA 705	*Modifications to the Opinion in the Independent Auditor's Report*
ASA 706	*Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
ASA 260	*Communicating with Those Charged with Governance*
ASA 570	*Going Concern*
ASA 720	*The Auditor's Responsibilities Relating to Other Information.*

Conforming amendments were also made to 17 other auditing standards.

In addition to some general changes made by the AUASB to the IASB's ISAs, the AUASB also made a number of local changes addressing specific technical matters including:

- Retention of references in the Auditing Standards to requirements by other legislation or regulations, particularly those contained in the Corporations Act.
- Inclusion of a diagram linking going concern considerations, per the revised ISA, with the appropriate types of audit opinions. This is a long-standing addition to the standard on the basis it is helpful to practitioners. (ASA 570)
- Retention of the long-standing requirement for auditors to assess going concern for a period of approximately 12 months from the date of the auditor's report. This more onerous requirement replaces the ISA requirement that extends such an assessment to the next financial year-end. (ASA 570)
- Removal of reference(s) to the use of internal auditors to provide direct assistance to the external auditor. Direct assistance is prohibited under the Australian Auditing Standards. (ASA 610 *Using the Work of Internal Auditors*)
- Non-retention of the pre-existing requirement for the auditor to express an opinion on whether the financial report complies with IFRS. This requirement was considered redundant in view of changes to the Act which now requires the directors' declaration to include a statement on compliance with IFRS. (ASA 700)
- The addition of a "decision-tree" for reporting on other information in the auditor's report. (ASA 720)

The application date for the AUASB's enhancements to auditor reporting is for financial statement periods ending on or after 15 December 2016, but are available for early adoption.

OTHER GUIDANCE

Superannuation Guarantee Levy (SGL)

The SGL schedule has been updated in accordance with the *Minerals Resource Rent Tax Repeal and Other Measures Act 2014* passed in September 2014. Future SGL rates will remain at 9.5 per cent until 30 June 2021, before making yearly increments of 0.5 per cent from 2021 to 2025. State entities should take into account these changes when estimating and measuring their employee benefits liabilities and expenses for financial reporting and in future budget estimates. The levy increases are as follows:

Date	Levy
1 July 2016	9.50 %
1 July 2017	9.50 %
1 July 2018	9.50 %
1 July 2019	9.50 %
1 July 2020	9.50 %
1 July 2021	10.00 %
1 July 2022	10.50 %
1 July 2023	11.00 %
1 July 2024	11.50 %
1 July 2025	12.00 %

APPENDICES

APPENDIX 1 - GUIDE TO USING THIS REPORT

This Report is prepared under section 29 of the *Audit Act 2008* (the Audit Act), which requires the Auditor-General, on or before 31 December in each year, to report to Parliament in writing on the audit of State entities and audited subsidiaries of State entities in respect of the preceding financial year. The issue of more than one report titled the *Auditor-General's Report on the Financial Statements of State Entities*, comprising four volumes, satisfies this requirement each year. The volumes are:

Volume 1 – Treasurer's Annual Financial Report, General Government Sector and Other State entities 2014-15

Volume 2 – Government Business 2014-15

Volume 3 – Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15

Volume 4 – University and Other State Entities - 31 December 2015.

Where relevant, State entities are provided with the opportunity to comment on any of the matters reported. Where they choose to do so, responses are detailed within that particular section.

FINANCIAL ANALYSIS

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Financial Performance		
Earnings Before Interest and Tax (EBIT)		Result from Ordinary Activities before Gross Interest Expense and Tax
EBITDA		Result from Ordinary Activities before Gross Interest Expense, Tax, Depreciation and Amortisation
Operating margin	>1.0	Operating Revenue divided by Operating Expenses
Underlying surplus (Deficit)		Operating Revenue less Operating Expenses
Operating surplus ratio	>0	Net Operating surplus (deficit) divided by total operating revenue
Own source revenue		Total Revenue less Total Grant Revenue, Contributed Assets and Asset Revaluation Adjustments
Return on assets		EBIT divided by Average Total Assets
Return on equity		Result from Ordinary Activities after Taxation divided by Average Total Equity
Self financing ratio		Net Operating Cash Flows divided by Operating Revenue
Financial Management		
Asset consumption ratio	Between 40% and 60%	Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Asset renewal funding ratio	90%-100%	Future (planned) asset replacement expenditure divided by future asset replacement expenditure (actual) required
Capital investment gap, asset investment ratio or investment gap	>100%	Payments for Property, plant and equipment divided by Depreciation expenses
Capital replacement gap, asset renewal ratio or renewal gap	100%	Payments for Property, plant and equipment on existing assets divided by Depreciation expenses
Cost of debt		Gross Interest Expense divided by Average Borrowings (include finance leases)
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365
Current ratio	>1	Current Assets divided by Current Liabilities
Debt collection	30 days	Receivables divided by billable Revenue multiplied by 365
Debt to equity		Debt divided by Total Equity
Debt to total assets		Debt divided by Total Assets
Indebtedness ratio		Non-Current Liabilities divided by Own Source Revenue
Interest coverage ratio		Net operating cashflows less interest and tax payments divided by Net interest payments
Interest cover – EBIT	>2	EBIT divided by Gross Interest Expense
Interest cover – EBITDA	>2	EBITDA divided by Gross Interest Expense
Interest cover – Funds from Operations	>2	Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense
Liquidity ratio	2:1	Liquid assets divided by current liabilities other than provisions
Net financial assets (liabilities)		Total liquid assets less financial liabilities
Net financial liabilities ratio	0 – (50%)	Liquid assets less total liabilities divided by total operating income
Returns to Government		
CSO funding		Amount of community service obligation funding received from Government
Dividend payout ratio		Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Dividends paid or payable		Dividends paid or payable that relate to the year subject to analysis
Effective tax rate	30%	Income Tax paid or payable divided by Result from Ordinary Activities before Tax
Government guarantee fees		Amount of guarantee fees paid to owners (usually Government)
Income tax paid		Income Tax paid or payable that relates to the year subject to analysis
Total return to equity ratio		Total Return divided by Average Equity
Total return to the State or total return to owners		Dividends plus Income Tax and Loan Guarantee fees
Other Information		
Average leave per FTE		Total employee annual and long service leave entitlements divided by FTEs
Average long service leave balance	Not more than 100 days	Actual long service leave provision days due divided by average FTEs
Average recreational leave balance	20 days[3]	Actual annual leave provision days due divided by average FTEs
Average staff costs[2]		Total employee expenses (including capitalised employee costs) divided by FTEs
Employee costs[2] as a % of operating expenses		Total employee costs divided by Total Operating Expenses
Employee costs capitalised		Capitalised employee costs
Employee costs expensed		Total employee costs per Income Statement
Operating cost to rateable property		Operating expenses plus finance costs divided by rateable properties per valuation roll
Rates per capita		Population of council area divided by rates revenue
Rates per operating revenue		Total rates divided by operating revenue including interest income
Rates per rateable property		Total rates revenue divided by rateable properties per valuation rolls
Other Information		
Staff numbers FTEs		Effective full time equivalents

1 *Benchmarks vary depending on the nature of the business being analysed. For the purposes of this Report, a single generic benchmark has been applied.*

2 *Employee costs include capitalised employee costs, where applicable, plus on-costs.*

3 *May vary in some circumstances because of different award entitlement.*

An explanation of most financial performance indicators is provided below:

FINANCIAL PERFORMANCE

- **Earnings before interest and tax (EBIT)** – measures how well an entity can earn a profit, from its operations, regardless of how it is financed (debt or equity) and before it has to meet external obligations such as income tax. This is a measure of how well it goes about its core business.
- **Earnings before income tax, depreciation and amortisation (EBITDA)** – measures how well an entity can generate funds without the effects of financing (debt or equity), depreciation and amortisation and before it has to meet external obligations such as income tax. This measure is of particular relevance in cases of entities with large amounts of non-current assets as the distortionary accounting and financing effects on the entity's earnings are removed, enabling comparisons to be made across different entities and sectors.
- **Operating margin** – this ratio serves as an overall measure of operating effectiveness.
- **Operating surplus (deficit) or result from operations** – summarises revenue transactions and expense transactions incurred in the same period of time and calculates the difference.
- **Operating surplus ratio** – a positive result indicates a surplus with the larger the surplus the stronger the assessment of sustainability. However, too strong a result could disadvantage ratepayers. A negative result indicates a deficit which cannot be sustained in the long-term.
- **Own source revenue** – represents revenue generated by an entity through its own operations. It excludes any external government funding, contributed assets and revaluation adjustments.
- **Return on assets** – measures how efficiently management used assets to earn profit. If assets are used efficiently, they earn profit for the entity. The harder the assets work at generating revenues, and thus profit, the better the potential return for the owners.
- **Return on equity** – measures the return the entity has made for the shareholders on their investment.
- **Self financing ratio** – this is a measure of an entity's ability to fund the replacement of assets from cash generated from operations.

FINANCIAL MANAGEMENT

- **Asset consumption ratio** – shows the depreciated replacement cost of an entity's depreciable assets relative to their "as new" (replacement) value. It therefore shows the average proportion of new condition left in the depreciable assets.
- **Asset renewal funding ratio** – measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue, expense or debt consequences, or a reduction in service levels. This is a most useful measure relying on the existence of long-term financial and asset management plans.
- **Asset sustainability ratio** – provides a comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.
- **Capital investment gap, asset investment ratio or investment gap** – indicates whether the entity is maintaining its physical capital by re-investing in or renewing non-current assets (caution should be exercised when interpreting this ratio for entities with significant asset balances at cost as the level of depreciation may be insufficient).
- **Capital replacement gap, asset renewal ratio or renewal gap** – indicates whether the entity is maintaining its physical capital by re-investing in or renewing existing non-current assets. (Caution should be exercised when interpreting this ratio as the amount of

capital expenditure on existing assets has largely been provided by the respective councils and not subject to audit).

- **Cost of debt** – reflects the average interest rate applicable to debt.
- **Creditors turnover** – indicates how extensively the entity utilises credit extended by suppliers.
- **Current ratio** – current assets should exceed current liabilities by a "considerable" margin. It is a measure of liquidity that shows an entity's ability to pay its short term debts.
- **Debt collection** – indicates how effectively the entity uses debt collection practices to ensure timely receipt of monies owed by its customers.
- **Debt to equity** – an indicator of the risk of the entity's capital structure in terms of the amount sourced from borrowings and the amount from Government.
- **Debt to total assets** – an indicator of the proportion of assets that are financed through borrowings.
- **Interest cover** – EBIT – an indicator of the ability to meet periodic interest payments from current profit (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced profitability.
- **Interest cover** – examines the exposure or risk in relation to debt, an indicator of the ability to meet periodic interest payments from funds from operations (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced funds from operations.
- **Net financial liabilities ratio** – indicates the extent to which net liabilities can be met by operating income. A falling ratio indicates that the entity's capacity to meet its financial obligations from operating income is strengthening.

RETURNS TO GOVERNMENT

- **Dividend payout ratio** – the amount of dividends relative to the entity's net income.
- **Dividend to equity ratio** – the relative size of an entity's dividend payments to shareholders' equity. A low dividend to equity ratio may indicate that profits are being retained by the entity to fund capital expenditure.
- **Dividends paid or payable** – payment by the entity to its shareholders (whether paid or declared as a payable).
- **Effective tax rate** – is the actual rate of tax paid on profits.
- **Income tax paid** – tax payments by the entity to the State in the year.
- **Total return to equity ratio** – measures the Government's return on its investment in the entity.
- **Total return to the State** – the funds paid to the Owners consisting of income tax, dividends and guarantee fees.

OTHER INFORMATION

- **Average leave balance per FTE** – indicates the extent of unused leave at balance date.
- **Average long service leave balance or days long service leave due** – records the average number of days long service leave accumulated per staff member. In general public servants cannot accrue more than 100 days long service leave.
- **Average recreational leave balance or days annual leave due** – records the average number of days annual leave accumulated per staff member. In general public service employees accrue 20 days annual leave per annum.
- **Average staff costs** – measures the average cost of employing staff in the entity for the year.
- **Employee costs as a percentage of operating expenses** - indicates the relative significance of employee costs compared to other operating expenses.

- **Employee costs capitalised** – represents employee costs that have been capitalised rather than expensed.
- **Employee costs expensed** – represents the level of employee costs expensed, ie. included in the Comprehensive Income Statement. This together with the Employee costs capitalised will provide a total employee cost figure for use in other related ratios.
- **Staff numbers FTEs** – as at the end of the reporting period the number of staff employed expressed as full-time equivalents.

The above indicators are used because they are commonly applied to the evaluation of financial performance. Care should be taken in interpreting these measures, as by definition they are only indicators, and they should not be read in isolation.

AUDIT FINDING – RISK CATEGORIES

In reporting audit finding to clients, we determine three risk categories. These categories are based on their significance and potential impact on the client.

Risk Category	Client Impact
High	Matters which pose a significant business or financial risk to the entity and/or matters that have resulted or could potentially result in a modified or qualified audit opinion if not addressed as a matter of urgency by the entity.
Moderate	Matters of a systemic nature that pose a moderate business or financial risk to the entity if not addressed as high priority within the current financial year and/or matters that may escalate to high risk if not addressed promptly and/or low risk matters which have been reported to management in the past but have not been satisfactorily resolved or addressed.
Low	Matters that are isolated, non-systemic or procedural in nature and/or matters that reflect relatively minor administrative shortcomings and could be addressed in the context of the entity's overall control environment.

APPENDIX 2 - AUDIT STATUS

NOTE: The audit status for Council audits was provided within Report of the Auditor-General No. 6 of 2015-16 Auditor-General's Report on the Financial Statements of State entities; Volume 3 - Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15

Entity	Financial Statements							Timeliness of Audit Opinion Issue From Balance Date					
	Balance Date	Financial Statement Deadline	Signed Financial Statements Received	Resigned/ Amended Financial Statements Received	Clear Opinion Issued	Emphasis of Matter	Audit Opinion Signed	< 8 Weeks	8 to 10 Weeks	10 to 12 Weeks	12 to 14 Weeks	14 to 16 Weeks	> 16 Weeks
Government Sector State Entities													
Executive and Legislature													
House of Assembly	30 June 2015	14 August 2015	14 August 2015		✓		31 August 2015		✓				
Legislative Council	30 June 2015	14 August 2015	13 August 2015		✓		31 August 2015		✓				
Legislature-General	30 June 2015	14 August 2015	12 August 2015		✓		10 September 2015			✓			
Office of the Governor	30 June 2015	14 August 2015	13 August 2015		✓		28 September 2015				✓		
Ministerial Departments													
Department of State Growth	30 June 2015	14 August 2015	14 August 2015	24 September 2015	✓		28 September 2015				✓		
Tasmanian Development and Resources	30 June 2015	14 August 2015	14 August 2015		✓		11 September 2015			✓			
ABT Railway Ministerial Corporation	30 June 2015	14 August 2015	14 August 2015	24 September 2015	✓		29 September 2015				✓		
Tasmanian Museum and Art Gallery	30 June 2015	14 August 2015	14 August 2015	11 September 2015	✓		23 September 2015				✓		
Department of Education	30 June 2015	14 August 2015	14 August 2015		✓		22 September 2015			✓			
Department of Health and Human Services	30 June 2015	14 August 2015	14 August 2015		✓		28 September 2015				✓		
Ambulance Tasmania	30 June 2015	14 August 2015	14 August 2015	18 September 2015	✓		21 September 2015			✓			
Housing Tasmania	30 June 2015	14 August 2015	14 August 2015	24 September 2015	✓		24 September 2015				✓		
Tasmanian Affordable Housing Limited	30 June 2015	14 August 2015	1 October 2015		✓		2 October 2015				✓		

Entity	Financial Statements							Timeliness of Audit Opinion Issue From Balance Date					
	Balance Date	Financial Statement Deadline	Signed Financial Statements Received	Resigned/ Amended Financial Statements Received	Clear Opinion Issued	Emphasis of Matter	Audit Opinion Signed	< 8 Weeks	8 to 10 Weeks	10 to 12 Weeks	12 to 14 Weeks	14 to 16 Weeks	> 16 Weeks
Department of Justice	30 June 2015	14 August 2015	12 August 2015		✓		12 August 2015	✓					
Department of Police, Fire and Emergency Management	30 June 2015	14 August 2015	14 August 2015	25 September 2015	✓		25 September 2015				✓		
Department of Premier and Cabinet	30 June 2015	14 August 2015	14 August 2015		✓		14 September 2015			✓			
Tasmanian Community Fund	30 June 2015	14 August 2015	14 August 2015		✓		1 September 2015		✓				
Department of Primary Industries, Parks, Water and Environment	30 June 2015	14 August 2015	13 August 2015		✓		26 August 2015		✓				
Department of Treasury and Finance	30 June 2015	14 August 2015	14 August 2015		✓		26 September 2015				✓		
Tasmanian Health													
Tasmanian Health Organisation South	30 June 2015	14 August 2015	14 August 2015	25 September 2015	✓		15 September 2015			✓			
Tasmanian Health Organisation North	30 June 2015	14 August 2015	12 August 2015	7 September 2015	✓		15 September 2015			✓			
Tasmanian Health Organisation North-West	30 June 2015	14 August 2015	13 August 2015	11 September 2015	✓		15 September 2015			✓			
Tasmanian State Pool Account	30 June 2015	14 August 2015	24 July 2015		✓		11 September 2015			✓			
Other General Government Sector State Entities													
Asbestos Compensation Fund	30 June 2015	14 August 2015	14 August 2015	3 September 2015	✓		7 September 2015		✓				

Entity	Financial Statements							Timeliness of Audit Opinion Issue From Balance Date					
	Balance Date	Financial Statement Deadline	Signed Financial Statements Received	Resigned/ Amended Financial Statements Received	Clear Opinion Issued	Emphasis of Matter	Audit Opinion Signed	< 8 Weeks	8 to 10 Weeks	10 to 12 Weeks	12 to 14 Weeks	14 to 16 Weeks	> 16 Weeks
Inland Fisheries Service	30 June 2015	14 August 2015	3 August 2015	25 August 2015	✓		26 August 2015		✓				
Integrity Commission	30 June 2015	14 August 2015	10 August 2015	4 September 2015	✓		9 September 2015			✓			
Marine and Safety Authority	30 June 2015	14 August 2015	7 August 2015		✓		7 August 2015	✓					
Office of the Ombudsman and Health Complaints Commissioner	30 June 2015	14 August 2015	12 August 2015		✓		11 September 2015			✓			
Director of Public Prosecutions	30 June 2015	14 August 2015	14 August 2015	24 September 2015	✓		24 September 2015				✓		
Office of the Tasmanian Economic Regulator	30 June 2015	14 August 2015	14 August 2015		✓		25 September 2015				✓		
Royal Tasmanian Botanical Gardens	30 June 2015	14 August 2015	21 August 2015		✓		5 October 2015				✓		
State Fire Commission	30 June 2015	14 August 2015	14 August 2015	23 September 2015	✓		25 September 2015				✓		
Tasmanian Heritage Council	30 June 2015	14 August 2015	13 August 2015		✓		28 September 2015				✓		
The Nominal Insurer	30 June 2015	14 August 2015	12 August 2015		✓		25 September 2015				✓		
Tourism Tasmania	30 June 2015	14 August 2015	14 August 2015	28 September 2015	✓		28 September 2015				✓		
Workcover Tasmania Board	30 June 2015	14 August 2015	14 August 2015		✓		14 August 2015	✓					
Tas Tafe	30 June 2015	14 August 2015	13 August 2015		✓		13 August 2015	✓					
Other State Entities													
Aboriginal Land Council	30 June 2015	14 August 2015	14 August 2015		✓		21 September 2015			✓			

	Financial Statements							Timeliness of Audit Opinion Issue From Balance Date					
Entity	Balance Date	Financial Statement Deadline	Signed Financial Statements Received	Resigned/ Amended Financial Statements Received	Clear Opinion Issued	Emphasis of Matter	Audit Opinion Signed	< 8 Weeks	8 to 10 Weeks	10 to 12 Weeks	12 to 14 Weeks	14 to 16 Weeks	> 16 Weeks
Council of Law Reporting	30 June 2015	14 August 2015	13 August 2015		✓		28 August 2015		✓				
Forest Practices Authority	30 June 2015	14 August 2015	14 August 2015	25 September 2015	✓		28 September 2015				✓		
Legal Aid Commission of Tasmania	30 June 2015	14 August 2015	14 August 2015	15 September 2015	✓		17 September 2015			✓			
Legal Profession Board	30 June 2015	14 August 2015	14 August 2015	28 September 2015			28 August 2015		✓				
National Trust of Australia (Tasmania)	30 June 2015	14 August 2015	14 August 2015	28 September 2015		✓	28 September 2015				✓		
Property Agent Board	30 June 2015	14 August 2015	9 September 2015	24 September 2015	✓		28 September 2015				✓		
Property Agent Trust	30 June 2015	14 August 2015	14 August 2015	28 September 2015	✓		28 September 2015				✓		
River Clyde Trust	30 June 2015	14 August 2015	not yet accepted								✓		
Tasmanian Beef Industry (Research and Development) Trust	30 June 2015	14 August 2015	13 August 2015		✓		24 September 2015				✓		
Tasmanian Building and Construction Industry Training Board	30 June 2015	14 August 2015	14 August 2015	18 September 2015	✓		21 September 2015			✓			
Tasmanian Community Fund	30 June 2015	14 August 2015	14 August 2015		✓		1 September 2015		✓				
Tasmanian Dairy Industry Authority	30 June 2015	14 August 2015	20 August 2015		✓		5 October 2015				✓		
Tasmanian Early Years Foundation	30 June 2015	14 August 2015	7 August 2015		✓		3 September 2015		✓				

Entity	Financial Statements							Timeliness of Audit Opinion Issue From Balance Date					
	Balance Date	Financial Statement Deadline	Signed Financial Statements Received	Resigned/ Amended Financial Statements Received	Clear Opinion Issued	Emphasis of Matter	Audit Opinion Signed	< 8 Weeks	8 to 10 Weeks	10 to 12 Weeks	12 to 14 Weeks	14 to 16 Weeks	> 16 Weeks
Teacher Registration Board of Tasmania	30 June 2015	14 August 2015	14 August 2015		✓		28 September 2015				✓		
Wellington Park Management trust	30 June 2015	14 August 2015	14 August 2015	18 September 2015			21 September 2015			✓			
Superannuation Funds													
Retirement Benefits Fund Board	30 June 2015	14 August 2015	13 August 2015		✓		13 August 2015	✓					
RBF Financial Planning Pty Ltd	30 June 2015	14 August 2015	13 August 2015		✓		13 August 2015	✓					
Government Business Enterprises													
Forestry Tasmania	30 June 2015	14 August 2015	13 August 2015	30 September 2015	✓	✓	9 October 2015					✓	
Hydro-Electric Corporation	30 June 2015	14 August 2015	13 August 2015		✓		13 August 2015	✓					
Motor Accidents Insurance Board	30 June 2015	14 August 2015	13 August 2015		✓		13 August 2015	✓					
Port Arthur Historic Site Management Authority	30 June 2015	14 August 2015	14 August 2014		✓		3 September 2015		✓				
Public Trustee	30 June 2015	14 August 2015	11 August 2015		✓		12 August 2015	✓					
Tasmanian Public Finance Corporation (TASCORP)	30 June 2015	14 August 2015	7 August 2015		✓		7 August 2015	✓					
State Owned Corporations													
Aurora Energy Pty Ltd	30 June 2015	14 August 2015	12 August 2015		✓		12 August 2015	✓					

Entity	Financial Statements							Timeliness of Audit Opinion Issue From Balance Date					
	Balance Date	Financial Statement Deadline	Signed Financial Statements Received	Resigned/ Amended Financial Statements Received	Clear Opinion Issued	Emphasis of Matter	Audit Opinion Signed	< 8 Weeks	8 to 10 Weeks	10 to 12 Weeks	12 to 14 Weeks	14 to 16 Weeks	> 16 Weeks
Macquarie Point Development Corporation	30 June 2015	14 August 2015	11 August 2015		✓		8 September 2015		✓				
Metro Tasmania Pty Ltd	30 June 2015	14 August 2015	6 August 2015		✓		6 August 2015	✓					
Private Forests Tasmania	30 June 2015	14 August 2015	14 August 2015		✓		23 September 2015				✓		
Tasmanian Irrigation Pty Ltd	30 June 2015	14 August 2015	14 August 2015		✓		19 August 2015	✓					
Tasmanian Ports Corporation Pty Ltd	30 June 2015	14 August 2015	11 August 2015		✓		11 August 2015	✓					
Tasracing Pty Ltd	30 June 2015	14 August 2015	7 August 2015		✓		7 August 2015	✓					
Tasmanian Railway Pty Ltd	30 June 2015	14 August 2015	5 August 2015		✓		10 August 2015	✓					
Tasmanian Networks Pty Ltd	30 June 2015	14 August 2015	13 August 2015		✓		14 August 2015	✓					
TT-Line Company Pty Ltd	30 June 2015	14 August 2015	11 August 2015		✓		11 August 2015	✓					
Tasmanian Water and Sewerage Corporation													
Tasmanian Water and Sewerage Corporation Pty Ltd	30 June 2015	14 August 2015	7 August 2015		✓		7 August 2015	✓					

Entity	Financial Statements							Timeliness of Audit Opinion Issue From Balance Date					
	Balance Date	Financial Statement Deadline	Signed Financial Statements Received	Resigned/ Amended Financial Statements Received	Clear Opinion Issued	Emphasis of Matter	Audit Opinion Signed	< 8 Weeks	8 to 10 Weeks	10 to 12 Weeks	12 to 14 Weeks	14 to 16 Weeks	> 16 Weeks
Other State Entities – 31 December 2015 Year End													
ANZAC Day Trust	31 December 2015	15 February 2016	10 February 2016		✓		30 March 2016			✓			
Tasmanian Qualifications Authoritity*	31 December 2015	15 February 2016	Yet to be received								✓		
University of Tasmania	31 December 2015	15 February 2016	15 February 2016		✓		18 February 2016		✓		✓		
AMC Search Ltd	31 December 2015	15 February 2016	18 February 2016		✓		18 February 2016		✓				
Theatre Royal Management Board	31 December 2015	15 February 2016	4 February 2016		✓		4 February 2016	✓					
Solicitors Trust	31 December 2015	15 February 2016	12 February 2016				30 March 2016			✓			

** - Tasmanian Qualifications Authority ceased to exist as at 29 May 2016. We are currently in discussions with the Department in relation to obtaining these statements and completing the audit. For further details refer the "Audit Summary – Other 31 December Entities" section of this report.*

APPENDIX 3 - GLOSSARY

Accountability

The responsibility to provide information to enable users to make informed judgements about the performance, financial position, financing and investing, and compliance of the State entity.

Adverse opinion

An adverse opinion is issued when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial report.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

Asset

A resource controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the entity.

Asset useful life

The period over which an asset is expected to provide the entity with economic benefits. Depending on the nature of the asset, the useful life can be expressed in terms of time or output.

Asset valuation

The fair value of an asset on a particular date.

Audit Act 2008

An Act of the State of Tasmania that:

- ensures that the State has an Auditor-General with the necessary functions, immunities and independence
- provides for the independent audit of the public sector and related entities.

Auditor's opinion (or Auditor's report)

Written expression within a specified framework indicating the auditor's overall conclusion on the financial reports based on audit evidence obtained.

Borrowing costs

Interest and other costs that an entity incurs in connection with the borrowing of funds.

Capital expenditure

Amount capitalised to the Statement of Financial Position (also referred to as the balance sheet) for expenditure on or contributions by a State entity to major assets controlled or owned by the entity, including expenditure on:

- capital renewal of existing assets that returns the service potential or the life of the asset to that which it had originally been commissioned
- capital expansion which extends an existing asset at the same standard to a new group of users.

Capital grant

Government funding provided to an agency for acquiring capital assets such as buildings, land or equipment.

Carrying amount

The amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

Cash

Cash on hand and demand deposits.

Cash equivalents

Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows

Inflows and outflows of cash and cash equivalents.

Combined employee costs

For the purpose of this Report, combined employee costs included wages, salaries, leave entitlements and on-costs, superannuation contributions made on behalf of employees and superannuation liability expenses relating to defined benefits schemes for which the Government is responsible.

Comprehensive result

The overall net result of all items of income and expense recognised for the period. It is the aggregate of net surplus (deficit) or profit (loss) and other movements in equity.

Consolidated financial statements

The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

Contributed assets

Assets, usually Property, plant and equipment, contributed to a State entity at no cost or are non-reciprocal.

Contributions from the State

Transactions in which one State entity provides goods, services, assets (or extinguishes a liability) or labour to another State entity without receiving approximately equal value in return. Grants can either be of a current or capital nature.

Control

The capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in achieving the objectives of the controlling entity.

Cost

The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Current asset

An asset that an entity:

- expects to realise or intends to sell or consume in its normal operating cycle;
- holds primarily for the purpose of trading;
- expects to realise within twelve months after the reporting period; or

- is cash or a cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

An entity shall classify all other assets as non-current.

Current liability

A liability that an entity:

- expects to settle in its normal operating cycle;
- it holds primarily for the purpose of trading;
- is due to be settled within twelve months after the reporting period; or
- does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

An entity shall classify all other liabilities as non-current.

Deficit

Total expenditure exceeds Total Revenue. Term is generally applied to results of not-for-profit entities. Equivalent term in the case of for-profit entities is a loss.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Disclaimer of opinion

A disclaimer of opinion is used when it is not possible for the auditor to form an opinion. This may occur in rare circumstances when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be both material and pervasive.

Emphasis of matter

An auditor's report can include an emphasis of matter paragraph that draws attention to a disclosure or item in the financial report that is relevant to the users of the report but is not of such nature that it affects the auditor's opinion (i.e. the auditor's opinion remains unmodified).

Employee benefits provision

The liability recognised for employees' accrued service entitlements, including all costs related to employment consisting of wages and salaries, leave entitlements, redundancy payments and superannuation contributions.

Equity or net assets

Residual interest in the assets of an entity after deduction of its liabilities. Where liabilities exceed assets, this gives rise to negative equity or net liabilities or accumulated deficits.

Expense

Outflows or other depletions of economic benefits in the form of incurrence of liabilities or depletion of assets of the entity, other than those relating to contributions by owners, that results in a decrease in equity, or increase in a liability, during the reporting period.

Fair value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial asset

Any asset that is:

- cash
- an equity instrument of another entity
- a contractual right:
    - to receive cash or another financial asset from another entity; or
    - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
    - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
    - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial liability

Any liability that is:

- a contractual obligation:
    - to deliver cash or another financial asset to another entity; or
    - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- a contract that will or may be settled in the entity's own equity instruments and is:
    - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
    - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial position

The relationship of the assets, liabilities and equity of an entity, as reported in the Statement of Financial Position (balance sheet).

Financial report

Structured representation of financial information, which usually includes accompanying notes, derived from accounting records and intended to communicate an entity's financial performance over a period of time and its economic resources or obligations at a point in time in accordance with a financial reporting framework.

Financial statements

A complete set of financial statements comprises:

- a Statement of Financial Position as at the end of the period
- a Statement of Profit or Loss and Other Comprehensive Income for the period
- a Statement of Changes in Equity for the period
- a Statement of Cash Flows for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information
- comparative information in respect of the preceding period

- a Statement of Financial Position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

An entity may use titles for the statements other than those used in the relevant accounting standard. For example, an entity may use the title 'Statement of Comprehensive Income' instead of 'Statement of Profit or Loss and Other Comprehensive Income'.

Financial sustainability

An entity's ability to manage financial resources so it can meet its spending commitments both at present and into the future.

Financial year

The period of 12 months for which a financial report is prepared.

For-profit entity

An entity whose principal objective is the generation of profit. A for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

Future economic benefit

The potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows.

General purpose financial report

A financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

Going concern

An entity which is expected to be able to pay its debts as and when they fall due, and continue in operation for the foreseeable future without any intention or necessity to liquidate or otherwise wind up its operations.

Governance

The control arrangements in place at an entity that are used to govern and monitor its activities in order to achieve its strategic and operational goals.

Impairment loss

The amount by which the carrying amount of an asset exceeds its recoverable amount.

Independent auditor's report

An expression of the independent auditor's opinion on an entity's financial (and performance) report.

Intangible asset

An identifiable non-monetary asset without physical substance.

Investment

The expenditure of funds intended to result in medium to long-term service and/or financial benefits arising from the development and/or use of infrastructure assets by either the public or private sectors.

Liability

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of resources from the entity.

Loss

Total expenditure exceeds total revenue. Term is generally applied to results of for-profit entities. Equivalent term in the case of not-for-profit entities is a deficit.

Material

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Materiality

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial report.

Modified audit opinion

The Auditing Standards establish three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

- the nature of the matter giving rise to the modification, that is, whether the financial report is materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- the auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial report.

Non-financial asset

Physical assets such as land, buildings and infrastructure.

Not-for-profit entity

An entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

Operating cycle

The time between the acquisition of assets for processing and their realisation in cash or cash equivalents.

Profit

Total revenue exceeds total expenditure. Term is generally applied to results of profit entities. Equivalent term in the case of not-for-profit entities is a surplus.

Property, plant and equipment

Tangible items that:

- are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period.

Public sector entity

A department; a public hospital; a local government; a statutory body; an entity controlled by one, or more than one department, public hospital, local government or statutory body; or an entity controlled by a public sector entity.

Qualified audit opinion

A qualification is issued when the auditor concludes that an unqualified opinion cannot be expressed due to one of the following reasons:

- The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial report; or
- The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be material but not pervasive.

A qualified opinion shall be expressed as being except for the effects of the matter to which the qualification relates.

Relevant

Measures or indicators used by an entity are relevant if they have a logical and consistent relationship to an entity's objectives and are linked to the outcomes to be achieved.

Revaluation

Recognising a reassessment or restatement of values for assets or liabilities at a particular point in time.

Revenue

Inflows of funds or other enhancements or savings in outflows of service potential, or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners which result in an increase in equity during the reporting period.

Special purpose financial statements

A financial report intended to only meet the information needs of specific users who are able to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

State entity

A body, whether corporate or unincorporated, that has a public function to exercise on behalf of the State or is wholly owned by the State, as defined under the *Audit Act 2008*, including:

- an agency
- a council
- a Government Business Enterprise
- a State Owned Corporation
- a State authority that is not a Government Business Enterprise
- the council, board, trust or trustees, or other governing body (however designated) of, or for, a corporation, body of persons or institution, that is or are appointed by the Governor or a Minister of the Crown
- a body or authority referred to in section 21, established under section 29 or 30, or continued under section 326, of the *Local Government Act 1993*
- the Corporation incorporated under section 5 of the *Water and Sewerage Corporation Act 2012*
- a body or authority in respect of which the Treasurer has made a determination under section 32A.

State owned corporation

A company incorporated under the Corporations Act which is controlled by:

- the Crown
- a State authority
- another company which is itself controlled by the Crown or a State authority.

Surplus

Total revenue exceeds total expenditure. Term is generally applied to results of not-for-profit entities. Equivalent term in the case of for-profit entities is a profit.

Unqualified audit opinion – financial report

A positive written expression provided when the financial report has been prepared and presents fairly the transactions and balances for the reporting period in accordance with the requirements of the relevant legislation and Australian accounting standards.

Also referred to as a clear audit opinion.

Value in use (in respect of not-for-profit entities)

Depreciated replacement cost of an asset when the future economic benefits of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits.

APPENDIX 4 - ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACIPA	Academy of Creative Industries and Performing Arts
ACT	Australian Capital Territory
AEMO	Australian Energy Market Operator
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
AETV	Aurora Energy Tamar Valley
AFS	Australian Financial Services
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ARM	Asset Revaluation Model
ASA	Australian Auditing Standard
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
BBP	Bell Bay Power Pty Ltd
BER	Building the Education Revolution
BHF	Better Housing Futures
BLW	Ben Lomond Water
CC&SB	Customer Care and Billing System
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLAF	Crown Land Administration Fund
CLP	China Light and Power
CMW	Cradle Mountain Water
CPI	Consumer Price Index
CPOL	Cargo and Port Operational Logistics
CREST	Crown Land Administration System
CSO	Community Service Obligation
DBP	Defined Benefit Pension
DEDTA	Department of Economic Development, Tourism and the Arts
DEPHA	Department of Environment, Parks, Heritage and the Arts
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
DIISRTE	Department of Industry, Innovation, Science, Research and Tertiary Education
DoE	Department of Education
DoJ	Department of Justice

DORC	Depreciated Optimised Replacement Cost
DPAC	Department of Premier and Cabinet
DPFEM	Department of Police and Emergency Management
DPIPWE	Department of Primary Industries, Parks, Water and the Environment
DTF	Department of Treasury and Finance
DVA	Department of Veterans Affairs
EBA	Enterprise Bargaining Agreement
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EEP	Environmental Energy Products
EFTSL	Equivalent Full-time Student Load
EOI	Expression of Interest
FCAS	Frequency Control Ancillary Services
FIND	Fines and Infringement Notices Database
FMAA	*Financial Management and Audit Act 1990*
FPM	Financial Procedures Manual
FRFI	*Forestry (Rebuilding the Forest Industry) Act 2014*
FSC	Forest Stewardship Council
FSI	Forest Services International
FSST	Forensic Science Services Tasmania
FTE	Full-time Equivalent
GBE	Government Business Enterprise
GDP	Gross Domestic Product
GGS	General Government Sector
GIF	Group Investment Fund
GMO	Grantham, Mayo and Otterloo
GSP	Gross State Product
GST	Goods and Services Tax
GWh	Gigawatt Hour
HEC	Hydro-Electric Corporation
HECS-HELP	Higher Education Loan Program
HIAPL	Hobart International Airport Pty Ltd
HoA	House of Assembly
HR	Human Resources
IMAS	Institute of Marine and Antarctic Studies
IPSASB	International Public Sector Accounting Standards Board
IRR	Inter Regional Revenues
IST	Island Speciality Timbers
IT	Information Technology
KIPC	King Island Ports Corporation
KMP	Key Management Personnel
KPI	Key Performance Indicators
KV	Kilovolt

LGAT	Local Government Association of Tasmania
LGH	Launceston General Hospital
LIST	Land Information System
LSL	Long Service Leave
MAIB	Motor Accidents Insurance Board
MAR	Maximum Allowable Revenue
MAST	Marina and Safety Tasmania
MIC	Member Investment Choice
MHS	Mental Health Services
MHS-N	Mental Health Services - North
MWh	Megawatt Hour
NDRRA	Natural Disaster Relief and Recovery Arrangements
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company Limited
Newood	Newood Holdings Pty Ltd
NRAS	National Rent Affordability Scheme
NTER	National Taxation Equivalent Regime
NWRH	North West Regional Hospital
OPWG	Optical Ground Wire
PA	Public Account
PAYG	Pay As You Go
PFC	Public Financial Corporation
PFT	Private Forests Tasmania
PIRP	Prison Infrastructure and Redevelopment Program
PNFC	Public Non-Financial Corporation
PNT	Pacific National Tasmania
POAGS	P&O Automotive and General Stevedoring Pty Ltd
PRBF	Parliamentary Retiring Benefits Fund
PSF	Parliamentary Superannuation Fund
PT	Public Trustee
PWC	PriceWaterhouseCoopers
RAB	Regulated Asset Base
RBF	Retirement Benefits Fund
RBFB	Retirement Benefits Fund Board
REC	Renewable Energy Certificates
RFDS	Royal Flying Doctor Service
RHH	Royal Hobart Hospital
RIN	Regulatory Information Notices
ROGS	Report on Government Services
RWSC	Rivers and Water Supply Commission
SDTF	Special Deposits and Trust Fund
SES	State Emergency Service
SEV	Soil Expectation Value
SFC	State Fire Commission

SFCSS	State Fire Commission Superannuation Scheme
SG	Superannuation Guarantee
SLIMS	Technology One Student Management System
SOC	State Owned Corporation
SPA	Superannuation Provision Account
SPFR	Specific Purpose Financial Reports
SW	Southern Water
TAFR	Treasurer's Annual Financial Report
TAHL	Tasmanian Affordable Housing Limited
TAS	Tasmanian Accumulation Scheme
TASCORP	Tasmanian Public Finance Corporation
TASSS	Tasmanian Ambulance Service Superannuation Scheme
TasWater	Tasmanian Water and Sewerage Corporation Pty Ltd
TCF	Tasmanian Community Fund
TCFA	Tasmanian Community Forest Agreement
TDIA	Tasmanian Dairy Industry Authority
TDR	Tasmania Development and Resources
TDRA	Temporary Debt Repayment Account
TESI	Tasmanian Electricity Supply Industry
TFA	Tasmanian Forest Agreement Act
TFIA	Tasmanian Forest Intergovernmental Agreement
TFS	Tasmanian Fire Service
THO	Tasmanian Health Organisation
THO-N	Tasmanian Health Organisation - North
THO-NW	Tasmanian Health Organisation - North West
THO-S	Tasmanian Health Organisation - South
TI	Treasurer's Instruction
TIDB	Tasmanian Irrigation Development Board Pty Ltd
TIPL	Tasmanian Irrigation Pty Ltd
TIS	Tasmanian Irrigation Schemes Pty Ltd
TMRN	Tasmanian Mobile Radio Network
TRB	Tasmanian Racing Board
TUOS	Transmission Use of System
TUU	Tasmanian University Union Incorporated
TVPS	Tamar Valley Power Station
TWSC	Tasmanian Water and Sewerage Corporation
UPF	Uniform Presentation Framework
Utas	University of Tasmania
VaR	Value at Risk
VET	Vocational Education and Training
VoIP	Voice over Internet Protocol
WACC	Weighted Average Cost of Capital
WHA	World Heritage Area
WIF	Water Infrastructure Fund
WIP	Work in Progress

APPENDIX 5 - RECENT PUBLICATIONS

Tabled	Report No.	Title
2015		
August	No. 1 of 2014-15	Recruitment practices in the State Service
September	No. 2 of 2014-15	Follow up of selected Auditor-General Reports October 2009 to September 2011
September	No. 3 of 2014-15	Motor vehicle fleet management in government departments
November	No. 4 of 2014-15	Volume 3 – Government Businesses 2013-14
November	No. 5 of 2014-15	Volume 2 – General Government and Other State entities 2013-14
December	No. 6 of 2014-15	Volume 1 – Analysis of the Treasurer's Annual financial Report 2013-14
February	No. 7 of 2014-15	Volume 4 – Local Government Authorities, Joint Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2013-14 Part 1: Key points, Joint Authorities, TasWater and other matters
March	No. 8 of 2014-15	Security of information and communications technology (ITC) infrastructure
March	No. 9 of 2014-15	Tasmanian Museum and Art Gallery: Compliance with the National Standards for Australian Museums and Galleries
May	No. 10 of 2014-15	Number of public primary schools
May	No. 11 of 2014-15	Road management in local government
June	No. 12 of 2014-15	Volume 5 – Other State entities – findings relating to 2013-14 audits and other matters
July	No. 1 of 2015-16	Absenteeism in the State Service
September	No. 2 of 2015-16	Capital works programming and management
October	No. 3 of 2015-16	Vehicle fleet usage and management in other state entities
October	No. 4 of 2015-16	Follow up of four reports published since June 2011
November	No. 5 of 2015-16	Volume 2 – Government Businesses 2014-15
	No. 6 of 2015-16	Volume 3 – Local Government Authorities, Joint Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15
December	No. 7 of 2015-16	Volume 1 – Analysis of the Treasurer's Annual Financial Report, General Government Sector Entities and the Retirement Benefit Fund 2014-15
2016		
February	No. 8 of 2015-16	Provision of social housing
February	No. 9 of 2015-16	Funding of Common Ground Tasmania

Auditor-General's reports are available from the Tasmanian Audit Office. These and other published reports can be accessed on the Office's website: www.audit.tas.gov.au

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Our Vision

Strive | Lead | Excel | To Make A Difference

Our Purpose

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

Availability of reports

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

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.

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