



Tasmanian
Audit Office



**Report of the Auditor-General
No. 5 of 2017-18**

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

Volume 2

Government Businesses and Tasmanian Water and
Sewerage Corporation Pty Ltd 2016-17

November 2017

INTRODUCTION

Tasmanian Government businesses offered a diverse range of services ranging from essential utilities such as transport and electricity, to irrigation and financial services. Government businesses were expected to deliver services at the lowest sustainable cost, while also providing an appropriate financial return to the government in the form of dividends, income tax equivalents and guarantee fees.

Government businesses operated outside the Public Account, principally on the basis of funds derived through operations and generally had no direct impact on Budget expenditure except in circumstances where funding for Community Service Obligations (CSOs) was received, or payment was received for services provided to government agencies.

STATE ENTITIES COVERED IN THIS REPORT

The Report contains the results from our financial audits of 17 entities and two subsidiaries in the government business sector, as listed below, comprising six Government Business Enterprises (GBE's), eight State-Owned Companies (SOC's), two other Public Non-Financial Corporations (PNFC) and Tasmanian Water and Sewerage Corporation Pty Ltd which was owned by councils.

For the purpose of the Report, entities covered in aggregate will be referred to as Government businesses.

GBEs

Forestry Tasmania (Forestry)
Hydro-Electric Corporation (Hydro)
Motor Accidents Insurance Board (MAIB)
Port Arthur Historic Site Management Authority (PAHSMA)
Public Trustee (PT)
Tasmanian Public Finance Corporation (Tascorp)

SOCs

Aurora Energy Pty Ltd (Aurora Energy)
Metro Tasmania Pty Ltd (Metro)
Tasmanian Irrigation Pty Ltd (Tasmanian Irrigation)
Tasmanian Networks Pty Ltd (TasNetworks)
Tasmanian Ports Corporation Pty Ltd (TasPorts)
Tasmanian Railway Pty Ltd (TasRail)
Tasracing Pty Ltd (Tasracing)
TT-Line Company Pty Ltd (TT-Line)

Other PNFCs

Macquarie Point Development Corporation (MPDC)
Private Forests Tasmania (PFT)

Council Owned Entity

Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater).

DEVELOPMENTS

During 2016-17 individual Treasurer's instructions were issued specifically to Tascorp and Forestry. The instructions exempted the entities from applying certain Australian Accounting Standards. This resulted in the inclusion of an emphasis of matter paragraph in the respective audit opinions drawing users' attention to the non-application of the relevant Accounting Standard.

The process of issuing Treasurer's instructions to modify the reporting framework by exempting entities from applying certain Australian Accounting Standards should only be used in rare circumstances where changes to the reporting framework are necessary in order to present more reliable information to users.

On 26 October 2016, the Minister for Resources announced the new operating model Forestry would operate under from 1 July 2017. The Government forestry business remained a Government business, but was downsized and renamed Sustainable Timber Tasmania (STT). It is expected STT will be leaner, more efficient and agile, and have a more defined commercial focus.

The Government proposed to transfer responsibilities for water and sewerage from TasWater and councils to the Tasmanian Government. To achieve this, the Government tabled the *Water and Sewerage Tasmania Bill 2017* and *Water and Sewerage Tasmania (Consequential and Transitional Provisions) Bill 2017* in Parliament on 8 August 2017. The Bills had not passed both houses of Parliament as at the time of writing this Report.

On 29 June 2017, in accordance with the *Tasmanian Public Finance Corporation Amendment (Mersey Community Hospital) Act 2017*, \$730.40m was received by the Tasmanian Government from the Australian Government. The amount was subsequently transferred to Tascorp to establish the Mersey Community Hospital (MCH) Fund.

FINDINGS FROM FINANCIAL AUDITS

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

43

Audit matters raised this year

13

Audit matters raised in prior periods
assessed as unresolved

2

High risk
findings

15

Moderate risk
findings

26

Low risk
findings

Because of the diversity of entities in the government business sector, the degree of commonality of these findings was relatively low compared to other sectors. High risk findings observed related to:

- timeliness of TasWater converting capital work in progress to depreciable assets
- lack of segregation of duties at Tasmanian Irrigation, across a number of financial processes, which can present a challenge for smaller organisations..

Other common findings included deficiencies in the design and implementation of controls over computer information systems used for the processing, storage and communication of financial information, the processing of revenue and payroll transactions, and the existence of excessive leave balances.

Matters specific to each Government business are discussed within individual Chapters of the Full Report.

SUBMISSION OF FINANCIAL REPORTS AND TIMELINESS OF AUDIT OPINIONS

Government businesses are required to submit financial statements to the Auditor-General within 45 days after the end of each financial year.

Section 19 of the *Audit Act 2008* (the Audit Act) required the Auditor-General to finalise audits within 45 days from the day financial reports were received.

94%

Financial statements submitted on time

94%

Audits completed on time

Momentum Energy's directors signed the financial report on 14 August 2017, but it was not submitted to the Tasmanian Audit Office until 17 August 2017. The audit opinion for PAHSMA was not issued within the required time due to corrections required to the financial statements which were identified during the course of our audit. Refer to Appendix A of the Full Report for a detailed list of each entity's timeliness of reporting.

Certification of submitted financial reports

Section 17 of the Audit Act, requires State entities to submit financial statements to the Auditor-General within 45 days after the end of the financial year. Previously, we required State entities to submit statements certified by the accountable authority.

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

In 2016-17, two of the 17 Government businesses chose to submit management certified financial statements.

AUDIT OPINIONS ON FINANCIAL STATEMENTS

19

Unmodified audit opinions issued on financial statements

2

Emphasis of matter paragraphs

All Government business audits were completed satisfactorily and unmodified audit opinions issued in all cases. Two of the unmodified audit opinions contained an emphasis of matter paragraph. We include an emphasis of matter paragraph with audit opinions to highlight matters that, although appropriately presented or disclosed in the financial report, are of such importance that they are fundamental to users' understanding of the financial report. Including an emphasis of matter does not modify our audit opinion. The emphasis of matter paragraphs related to:

Forestry	Emphasis of matter paragraph drew attention to a note which described Forestry's application of Treasurer's Instruction GBE-08-52-08P <i>Exemption from IFRS 5 for Forestry Tasmania's 2016-17 Financial Statements</i> in respect of an exemption from application of the requirements of Australian Accounting Standard AASB 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> .
Tascorp	Emphasis of matter paragraph drew attention to a note which described Tascorp's application of Treasurer's Instruction GBE-08-051-08P <i>Application of AASB 132 and AASB 1004 for the Tasmanian Public Finance Corporation's 2016-17 Financial Statements</i> in respect of \$730.40m received from the Tasmanian Government on 29 June 2017 for the establishment of the MCH Fund.

SECTOR ANALYSIS SUMMARY

Government businesses generated overall Net profit before tax of \$28.36m in 2016-17. This result was an improvement compared to the Net loss before tax of \$51.77m in the prior period.

Government businesses as a whole recorded an Underlying profit of \$424.98m for 2016-17. This was a 59.3% improvement on the 2015-16 result. The change was primarily due to Hydro's \$85.53m improvement, driven by increased electricity prices in the National Electricity Market and the elimination costs for diesel electricity generation incurred in 2015-16 arising from the Basslink outage and MAIB's \$70.41m increase as a result of higher returns on investments.

Government businesses returned \$312.69m to the Tasmanian Government in 2016-17 and TasWater returned \$30.00m to owners. Dividends were paid by Aurora, TasNetworks, MAIB, Tascorp, TasWater, TT-Line and TasPorts in 2016-17. These seven Government businesses accounted for 98.3% of total returns to Government and owners.

Entities that did not make dividend payments in 2016-17 did not generate sufficient profit in 2015-16 to declare a dividend or were reliant on government operational funding or commercial industry support funding to maintain operations and meet their community obligations.

As some businesses continue to be reliant on Government funding or commercial support to maintain sustainability, and are not expected or are unlikely to generate profit sufficient enough to provide future returns to the Government the 'for-profit' corporate structures for these entities may not be appropriate unless a significant improvement in their financial performance is expected to occur.

Government businesses (other than MAIB and Tascorp) invested a total of \$2.12bn in capital projects over the past four years. This was \$337.33m, or 14.7%, under combined capital budgets for that period.

There were eight Government businesses that held debt at 30 June 2017 (other than Tascorp whose borrowings were a key component of its core business). The total debt (other than Tascorp) was 3.32bn (30 June 2016, \$3.17bn) which was consistent with the prior year.

Government businesses with debt had a weighted average current ratio of 0.75. This was below the benchmark of 1, which indicated a Net working capital deficit. The result was driven by Forestry, Hydro, Tasmanian Irrigation, TasNetworks and TasWater whose ratios were impacted by short-term loan facilities and fixed term debt maturing in 2017-18.

For the full report go to:
<http://www.audit.tas.gov.au/publications/reports-to-parliament/>



Tasmanian Audit Office

Phone (03) 6173 0900
Fax (03) 6173 0999
email admin@audit.tas.gov.au
Web www.audit.tas.gov.au

Launceston Office
Phone (03) 6173 0971

Address Level 8
144 Macquarie Street, Hobart
Postal Address GPO Box 851, Hobart 7001
Office Hours 9am to 5pm Monday to Friday

Address 2nd Floor, Henty House
1 Civic Square, Launceston