



Tasmanian
Audit Office



**Report of the Auditor-General
No. 9 of 2017-18**

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

Volume 4

State entities 30 June and 31 December 2017

June 2018

INTRODUCTION

This Report is the fourth and final volume in our series advising Parliament on the outcome of our financial audits for 2016-17 and the 2017 calendar year and it includes summaries relating to:

- the timeliness of financial reporting
- audit opinions on financial statements
- audit findings
- audits dispensed with
- setting audit fees for financial audits.

This Report also includes Chapters on:

- developments in financial reporting and auditing
- public sector readiness for developments in financial reporting
- an assessment of Agency audit committees.

STATE ENTITIES COVERED BY THE REPORT

This Report contains a Chapter for the University of Tasmania (University) and its controlled entities; University of Tasmania Foundation Inc (University Foundation), AMC Search Limited (AMC Search) and the Tasmanian University Union Inc (TUU). It also includes a summary Chapter for other 31 December 2017 State entities; ANZAC Day Trust, the Solicitors' Trust and the Theatre Royal Management Board.

The University and the other 31 December 2017 entities included in this Report submitted their financial reports within the statutory deadline apart from the Solicitors' Trust. The audits were completed satisfactorily and unqualified opinions issued in all instances.

The Report also covers the 30 June 2017 audit of River Clyde Trust. River Clyde Trust failed to meet the statutory deadline for the submission of its 30 June 2017 financial statements. This was the third consecutive year it failed to meet this deadline.

SUBMISSION OF FINANCIAL STATEMENTS AND TIMELINESS OF AUDIT OPINION

Compliance with the 45 days statutory deadline for submission of financial statements declined in the 2017 audit cycle compared to the 2016 audit cycle. Seven State entities failed to comply with the requirement compared to two entities the year before.

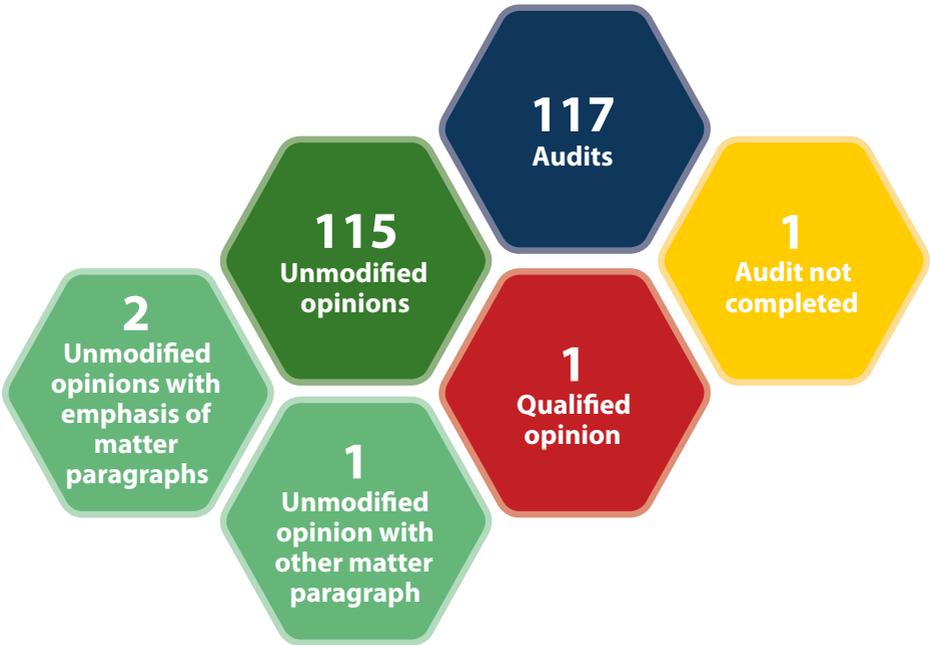
Our compliance with the requirement to complete audits of financial statements within 45 days of their receipt also declined from 2016. Seven audits were completed outside the time required, compared to one audit in the 2016 audit cycle.

Copping Refuse Disposal Site Joint Authority (Copping) submitted financial statements on 8 August 2017. A disagreement with Copping as to whether it was a for-profit or not-for-profit entity and whether it had control of the C Cell Unit Trust resulted in the audit not being completed within 45 days from the date of submission of the statements. On 15 February 2018, Copping withdrew the financial statements originally submitted, with revised financial statements submitted on 9 May 2018. As at the date of this Report the audit had not been completed.

The disagreement with Copping contributed to delays in finalising the audits of the four owner councils of Copping within the 45 day deadline.

Financial statement audits of all State entities, excluding Copping, for the years ended 30 June 2017 and 31 December 2017 have been completed.

AUDIT OPINIONS ON FINANCIAL STATEMENTS



We issued unmodified audit opinions on all financial statement audits completed during the 2017 audit cycle, except for the National Trust Australia (Tasmania).

National Trust of Australia (Tasmania)

The Trust possesses certain heritage collections, but not all of these assets were recognised. Due to the nature of the assets, we were unable to quantify the financial effect.

Two of the unmodified audit opinions contained an emphasis of matter paragraph.

Forestry

Emphasis of matter paragraph drew attention to a note which described Forestry's application of Treasurer's Instruction GBE-08-52-08P in respect of an exemption from application of the requirements of Australian Accounting Standard AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Tascorp

Emphasis of matter paragraph drew attention to a note which described Tascorp's application of Treasurer's Instruction GBE-08-051-08P in respect of \$730.40m received from the Tasmanian Government on 29 June 2017 for the establishment of the Mersey Community Hospital Fund.

One unmodified audit opinion contained another matter paragraph.

West Coast Council

The other matter paragraph drew attention to West Coast Council failing to disclose overnight recreational vehicle parking and camping services as a significant business activity as required by the *Local Government Act 1993*. The disclosure was not made on the basis that Council disagreed with the findings of the Regulator and disputed that it provided any services at all.

FINDINGS FROM 30 JUNE 2017 AND 31 DECEMBER 2017 AUDITS



We report deficiencies in internal controls, matters of governance interest and unresolved issues identified during our audits to management and those charged with governance of State entities. We do this through management letters, which include our observations, related implications, recommendations and risk ratings. For the 2016-17 audit cycle:

- 187 matters were raised
- there were 16 high risk findings, 91 moderate risk findings and 80 low risk findings
- the majority of matters raised related to the valuation of non-current physical assets, corporate governance and information systems
- 40% of issues previously reported remained unresolved in 2017, which included two high risk issues that were over 12 months old.

AUDIT DISPENSED WITH



The Auditor-General has the authority to dispense with the audits of State entities, but must consult with the Treasurer prior to exercising such dispensation. Audits are dispensed with on the condition the entity demonstrated appropriate financial reporting or the entity was controlled by a State entity and the financial transactions and balances of the controlled entity were subject to audit procedures as part of the group audit of the controlling entity.

In 2016-17, 47 (2015-16, 39) audits were dispensed.

BASIS FOR SETTING AUDIT FEES

Fees for financial audits are determined by the Auditor-General pursuant to Section 27 of the Audit Act. Fees are set for each State entity commensurate with the size, complexity and risks of the engagement. Charge rates for Tasmanian Audit Office (TAO) audit staff are based on the principle of the Office being able to recover its costs of operation. Charge rates comprise of two parts, direct salary cost and overhead recovery.

Where circumstances surrounding an audit engagement have materially changed, additional audit fees may be sought from the State entity.

For 2017-18 financial year audits, the adjustment to fees was:

- 2.5% – 4.0% for General Government Sector entities
- 6.0% for Local Government Authorities
- 4.0% for Government Businesses.

This increase was primarily based on salary increases in the *2016-2018 Public Sector Union Wages Agreement* and as such reflects that employee costs are the main driver of our costs. The higher increase for local government audits was caused by the need for the Office to mitigate losses incurred across all audits within this sector.

DEVELOPMENTS IN FINANCIAL REPORTING AND AUDITING

This Report includes a Chapter summarising developments in financial reporting and audit requirements. Topics covered include:

- financial reporting in the public sector
- financial reporting developments for 2017-18
- financial reporting developments for financial years after 2017-18
- financial audit developments.

PUBLIC SECTOR READINESS

All entities will need to understand and report how and to what extent they will be impacted by ever changing accounting standards. We looked at the three key upcoming changes in accounting standards that included:

- Revenue (AASB 15 and AASB 1058)
- Financial instruments (AASB 9)
- Leases (AASB 16).

As part of the review we assessed selected entities' disclosures in two parts, the understanding of the nature of change and discussion of the impact on the financial statements.

We found that while a few entities presented disclosure of future accounting standard impacts well, there were quite a number of instances where there appeared to be a lack of understanding of future accounting standard impacts, a level of non-engagement by clients in assessing the impacts and a lack of adequate detail in some of the disclosures with short inadequate comments. This was evident in some disclosures where the accounting standards quoted were incorrect, did not apply to that entity type, had already been applied or didn't actually need to be included.

All entities need to be cognisant that disclosure requirements for pending accounting standards requires more than just a listing those that are relevant. In order to comply with these requirements, entities need to ensure they are fully informed and understand the effects of each new standard.

An observation that is evident from this review is that many entities need to revisit and complete a revised assessment of the potential impacts of pending accounting standards.

AGENCY AUDIT COMMITTEES

Audit Committees play a key accountability role in the governance framework of Tasmanian public sector agencies. While management retains ultimate accountability for operations, the Audit Committee should independently review and assess the effectiveness of key aspects of an Agency's operations.

Our review assessed the Audit Committees' composition, operational arrangements and the roles and responsibilities of the Committee in the Agency, as documented in the Audit Committee's current charter. The review was performed against the requirements of Treasurer's Instruction TI 108 *Internal Audit* (the Treasurer's Instruction) and better practice guidance, specifically, the Australian National Audit Office's *Public Sector Audit Committees: Independent assurance and advice for Accountable Authorities* (the ANAO better practice guide).

The review found there is significant room for improvement in the governance arrangements of the Audit Committees of the Agencies reviewed. Audit composition is the most critical area that should be addressed to ensure independence as it was found that Audit Committees generally do not have a majority of independent members, an independent Chair and several instances where members held management positions in the Agency that create potential conflicts of interest.

As a result of this review several recommendations have been made that include both amendments to the Treasurer's Instruction and improvements to the Agencies' Audit Committee charters.

Recommendations

Recommendation 1

The Treasurer's Instruction is amended to ensure the composition of the Audit Committee supports an adequate level of independence to meet the required functions. The required composition should include:

- the appointment of an external chair
- the majority of members are independent/external
- regular rotation of Audit Committee membership.

Recommendation 2

The Treasurer's Instruction is amended to include the following requirements:

- Audit Committee Charters are reviewed and, where necessary, updated on an annual basis
- Audit Committee's commission an annual assurance map.

Recommendation 3

Audit Committee Charters are amended to include the following roles and responsibilities in relation to engagement with external audit:

- have a members-only meeting with the TAO at least once per year so that the committee can obtain the views of the TAO without internal audit or management being present
- periodically review the performance of external audit, and report the results to the Accountable Authority.

Recommendation 4

The Treasurer's Instruction is amended to include reviewing financial reporting responsibilities and the financial report as a role in the Audit Committee's oversight function.

Audit Committee Charters are more specific on the role of the Audit Committee in reviewing financial reporting responsibilities and the financial report.

Recommendation 5

The Treasurer's Instruction is amended to include reviewing performance reporting responsibilities as a role in the Audit Committee's oversight function.

Audit Committee Charters include oversight of performance reporting as part of their roles and responsibilities.

Recommendation 6

The Treasurer's Instruction is amended to include oversight of the Agency's risk agement function as a responsibility and as a role of the Audit Committee

Recommendation 7

Audit Committee Charters include oversight of the Agency's responsibility to manage the exposure to fraud risk in order to ensure that the Audit Committee complies with the Treasurer's Instruction.

Recommendation 8

It is recommended that the Treasurer's Instruction expands the oversight functions of the Audit Committee around the system of internal control to include:

- oversight of the Agency's system of internal control in order to ensure that the Audit Committee complies with the Treasurer's Instruction
- oversight of the Agency's systems for monitoring legislative and policy compliance
- promotion of ethical and lawful conduct
- obtaining an annual report from Internal Audit on the overall controls of the Agency
- business continuity management
- delegations
- ethical and lawful conduct.

NOTES

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



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