



## Accountability on your behalf

### Our Vision

We want to be recognised for excellence in the provision of independent public sector audit services and as a result our Vision is

"Excellence in Audit Services".

### Our Purpose

To provide Parliament with independent opinion, advice and recommendations on the performance of the Tasmanian Public Sector (including local government and State-Owned Entities).

### Our Strategic Objectives

- Public confidence in the performance of public sector entities.
- Improved service delivery by public sector entities.

### Our Values

#### Accountability

- We will safeguard the interests of the community, the Parliament and its laws.
- We hold ourselves accountable for managing our resources efficiently and effectively.
- We will be responsive to the needs and expectations of our clients although we must manage expectations.

#### Client Service

- We will seek to understand our clients' risks and business environments.
- We value service that meets the needs of each client or stakeholder.
- We will seek to continuously improve our client service.

#### Our People

- We value diversity and respect individual rights and freedoms.
- We will respond to the needs and aspirations of our staff.
- We value teamwork and will encourage each other to fulfil our potential.

#### Professionalism

- We will act honestly, ethically and fairly with an independent and unbiased attitude.
- We value our professional skills and promote the pursuit of excellence.
- We value creativity and will develop innovative solutions for service delivery.

## TAO at a Glance

### Our History

The first Auditor-General of Tasmania was George Boyes. He took office on 21 November 1826 and was known as the Colonial Auditor.

Since then there have been 19 Auditors-General with Mike Blake being the incumbent.

On 30<sup>th</sup> November 2006 we celebrated 180 years since establishment of the role of Auditor-General by launching the book "Independence – a foundation of accountability. A history of the Tasmanian Audit Office".

### What we did

Undertook the following activities:

- Audited the Budget Outcomes Statements and the Public Account Statements within the Treasurer's Annual Financial Report and the Consolidated Financial Statements for the State of Tasmania;
- Conducted financial statement audits for 158 State public sector entities, including Parliament, government departments, public bodies, government business enterprises, state-owned corporations and local government entities; and
- Undertook wide ranging performance audits concerned with the economic, efficient and effective use of public resources and compliance audits to ensure compliance with legislation and policies.

### Available Resources

At 30 June 2007, we:

- Had 39 in-house staff (35 at 30 June 2006);
- Engaged 8 external audit service providers (7 during 2005-06);
- Received \$1.397m funding from the Government for performance and compliance audits and to fund reports to Parliament (\$1.091m in 2005-06); and
- Raised \$2.987m in revenue from financial audit services (\$2.965m in 2005-06).

### Governance

Reviewed our governance structure, continued the implementation of the balanced scorecard and undertook internal and external reviews of the Office and of business units.

Continued to review and adjust our risk management framework.

## Highlights of 2006-07

### Providing value for money

- Internal – operated at a small deficit and maintained working capital position.
- External - despite staff shortages both the financial audit and performance audit programs delivered our statutory obligations.

### Highly satisfied Parliament and clients

- Based on surveys conducted during the year, Parliamentarians and Clients continue to hold the Office in high regard.
- Strong support and positive feedback for our Client seminar.

### Rigorous methodology and process

- Internal and external reviews resulted in improvement to processes and internal controls.
- Implemented the Integrated Public Sector Audit Methodology (IPSAM) for all financial audits.
- Conducted internal and independent audit file quality reviews resulting in enhancements to audit processes.
- Implemented a new policy development framework. Financial management and human resource management policies are being developed under this framework.
- Installed new computer hardware infrastructure to address redundancy, performance and data security concerns.
- Received commendation from our external auditors for improvements in our accounting functions and associated internal controls.

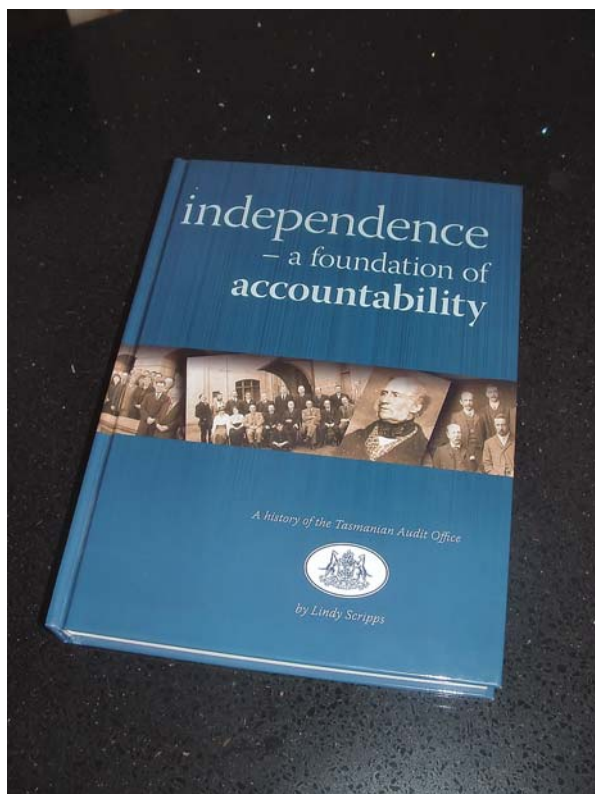
### Strongly performing teams

- Implemented a competency framework including new statements of duties.
- Revised our recruitment and selection policy, organisational structure and performance management policy.
- Undertook training on IPSAM, new auditing and accounting standards, COBIT and ITIL frameworks, workplace safety and harassment and bullying.
- Our staff continued to achieve outstanding academic results.

- Health and well-being initiatives were implemented and there has been less absenteeism due to sickness.
- Recruited four performance auditors and two audit cadets.

## Governance

- During the year the drafting of an Audit Bill commenced. It is anticipated the Bill will be tabled in Parliament during the 2007-08 financial year.
- Revised the frequency of Executive Management Team meetings.
- Restructured the Support Services and Financial Audit Services units.
- Established an Advisory, Audit and Review Committee.
- Initiated the conduct of an internal audit.
- Continued participation in the Public Sector Induction Program.
- Signed a Memorandum of Understanding with the Tasmanian Parliamentary Standing Committee of Public Accounts, being a Joint Committee of the Legislative Council and the House of Assembly.
- Launched our history book on 30<sup>th</sup> November 2006 in Parliament House titled "Independence – a foundation of accountability. A history of the Tasmanian Audit Office".



## Five Year Performance Summary

Measure	2002-03	2003-04	2004-05	2005-06	2006-07
<b>Providing Value for Money</b>					
Achieve revenue target for financial audit services	6.3% over	3.7% under	4.5% under	2.92% under	N/a <sup>1</sup>
Achieve revenue target for performance audit services	0%	5.8% over	14.7% over	9.0% under	8.0% under
Break-even overall financial result	2.1% loss	0.5% profit	9.6% loss	3.7% profit	0.1% loss
<b>Highly Satisfied Parliament &amp; Clients</b>					
Overall satisfaction from Parliamentarians	73%	71%	96%	N/m	95%
Overall satisfaction from Financial audit Clients	75%	N/m	68%	N/m	76%
Statutory reports tabled by due date	100%	100%	100%	100%	100%
Annual report tabled by due date	100%	100%	100%	100%	100%
<b>Rigorous Methodology and Processes Relevant to Context</b>					
Financial statement audits completed with 30 days of signed financial statements	92%	90%	78%	93%	N/a <sup>1</sup>
Financial statements for Agencies, GBEs and SOCs signed within 3 ½ months of year-end	N/m	N/m	65%	80%	N/a <sup>1</sup>
Financial statements for other public bodies signed within 4 months of year-end	71%	79%	53%	74%	N/a <sup>1</sup>
Completion of performance audits within eight months	35%	50%	38%	33%	56%
Unqualified audit report for our financial statements	Achieved	Achieved	Achieved	Achieved	Achieved
<b>Strongly performing teams</b>					
Average number of days spent on training per FTE	13.9	9.7	14.5	7.9	12.3
Completion of bi-annual performance appraisals	100%	100%	100%	100%	100%
Average days of sick leave	7.5	8.0	5.4	13.2	7.1
Number of workers compensation claims	1	-	-	1	1
<b>Corporate Profile</b>					
Number of staff at year end	35	36	34	37	39
Turnover per annum	11.7%	(10.5%)	8.8%	(8.1%)	10.3%
Staff Satisfaction	62	64	60	70	N/m
Number of Clients	127	137	145	154	158
Revenue	3.389m	3.628m	3.907m	4.594m	4.793m
Expenditure	3.464m	3.610m	4.323m	4.429m	4.832m
Net Assets	0.719m	0.717m	0.311m	0.476m	0.437m
Net (Deficit)/Surplus	(0.063m)	0.018m	(0.416m)	0.165m	(0.039m)

N/m – Not measured in that year

N/a<sup>1</sup> – Not available as the cycle not completed at time of the statutory date for this report.

## Auditor-General's Report

My Office has responded wonderfully to a particularly challenging year. Internally we experienced a restructure in support services, implementation of a new financial audit methodology, a restructure in financial audit services, internal quality assurance reviews, introduction of competency based statements of duties, reclassification of a number of positions, installation of new computer hardware infrastructure, upgrades to software applications, implementation of new auditing standards and recruitment of four staff in performance audit services and two cadets in financial audit services.

The structure of the following commentary mirrors the layout of this annual report.

### The Office provided value for money

Despite staff shortages both business units were able to complete their statutory obligations thus ensuring our clients were able to meet their annual reporting objectives. In general client surveys indicated we are adding value to their businesses.

Both business units addressed findings from quality assurance reviews and are evaluating reasons for not completing their programs within internally established benchmarks. I anticipate further benefits in our quality assurance programs from participation in an Australasian Council of Auditors-General project dealing with this.

Although the Office did not meet its revenue targets, both business units operated at a small operating profit. However, production costs of our book – the history of the Tasmanian Audit Office - caused an overall deficit.

### Highly satisfied Parliament and clients

It is pleasing to report, based on surveys of Members of Parliament and Clients of both financial and performance audit services, a high degree of satisfaction of the services we provide. In particular, our reports to Parliament were rated highly.

These surveys also indicated that financial audit clients rated strongly our audit processes, reporting and the value of our services. Similar results were achieved for our performance audit services.

While rating our services highly, Members and Clients provided useful feedback in survey responses which we are evaluating for continuous improvement.

The attendees at our client seminar held in June rated the content strongly.

## Improved our methodologies and processes

This year significant effort went into the implementation of a new financial audit methodology, a new policy development framework and changes to processes as a result of internal reviews. New computer hardware infrastructure and a web content management system were installed. We will benefit from these investments in future years.

Steady progress has been made in reviewing and rewriting our corporate policies and procedures and this project will be completed by June 2008. In addition, we continue to implement recommendations made by the internal and external reviews conducted over the last two years.

Our external auditors reported that we made improvements in our accounting functions and associated internal control framework.

## Our teams performed admirably

It has been a challenging year for my staff. Financial auditors had to adapt to new auditing standards and to new processes associated with the new methodology. Performance auditors managed competing priorities yet exceeded target. Support Services staff coped with a minor restructure and embarked on implementing the competency framework and revised policy development.

The new competency framework resulted in revised statements of duties resulting in positions being re-classified and a number of these positions were advertised in June. At the time of writing this report, the recruitment process is nearing completion.

Our staff undertook professional development in excess of that planned. This was necessary to ensure we continue to be up to date with emerging standards, thus equipping us with the necessary skills and competencies.

From a health and well-being perspective, we initiated three programs aimed at focusing staff on improved health outcomes. It was pleasing to see a majority of staff participate in these programs. While it is still too early to accurately measure the outcomes, I note a decrease in the level of absenteeism through sickness this year.

Our staff continue to undertake courses of study in accounting, auditing and other disciplines. Performance was again very strong and I congratulate those who passed their various examinations. At the beginning of the year three audit cadets were employed all of whom progressed to be financial auditors by 30 June.

## Revised Governance arrangements

The recommendations from the peer review conducted in 2005-06 have been implemented. During the year I established an Auditor-General's Advisory, Audit and Review Committee and initiated the conduct of an internal audit.

During the year we assisted in the drafting of a Bill to create an Audit Act that will separately define the role and functions of the Auditor-General. It is expected that the Bill will be debated in Parliament in the 2008 calendar year. The current Bill proposes tighter reporting requirements on the Office and on certain Clients which I support strongly. It will also require me to make public information about my Office's strategic planning, a measure I also support. My Memorandum of Understanding with the Tasmanian Parliamentary Standing Committee of Public Accounts, being a Joint Committee of the Legislative Council and the House of Assembly, will assist this process.

### **A demanding year ahead**

I anticipate that next year will, once again, be demanding. We will:

- Consolidate the implementation of the financial audit methodology and maximize the benefits it provides;
- Investigate a new performance audit methodology;
- Enjoy the benefits of a full staff compliment in both audit service units;
- Continue to implement recommendations from the various reviews and surveys undertaken;
- Complete the revision of policies and procedures;
- Upgrade corporate application systems;
- Implement new human resource management procedures such as a revised performance management system;
- Seek additional funds for completing special investigations. There is a growing expectation in this respect;
- Seek funds to improve our accommodation; and
- Prepare for the introduction of a new Audit Act.

Thank you to all staff for the manner in which you have tackled your demanding roles and for accepting and overcoming the challenges we faced this year.



HM Blake  
Auditor-General  
19 October 2007



## Role and Corporate Objectives

### The Role of the Auditor-General.....

The Office is part of the accountability framework where we assist the Parliament in holding the Government accountable for fulfilling its responsibilities.

The Government is obliged to account to the citizens of Tasmania, through the Parliament, for its management of public funds and in the achievement of agreed outputs. It must ensure that funds are properly raised, protected from loss and spent with maximum efficiency and effectiveness for the purposes approved by the Parliament. This duty to account is discharged in part by the production of annual financial statements. The information in these statements needs to be examined by a suitably qualified independent person to ensure that it is sound, accurate and complete. The Auditor-General is responsible for ensuring that this is done.

### Is Enshrined in Legislation.....

The *Financial Management and Audit Act 1990* is the main legislation governing the appointment, tenure, duties, responsibilities and authority of the Auditor-General. This Act provides the legal basis for the Auditor-General's access to all government information and the freedom to report findings arising from audits to Parliament.

The Auditor-General is responsible for audits under the *Financial Management and Audit Act 1990*, *Government Business Enterprises Act 1995*, *Local Government Act 1993* and other relevant legislation such as the *Corporations Act*. The Auditor-General also has audit responsibilities in respect of Commonwealth grants and payments to the State under Commonwealth legislation.

The Tasmanian Audit Office is a government department established to assist the Auditor-General in meeting his statutory requirements. The Auditor-General is the administrative head of the Office and the Auditor-General may engage private sector firms as his agents.

### That Ensures His Independence.....

The Audit Office is responsible for the administration of the *Financial Management and Audit Act 1990* in so far as it relates to audit matters and it is not part of the Government itself. This independence from the Executive Government of the day is vital if the Audit Office is to perform its work effectively and make independent and unbiased judgments.

The Auditor-General is an independent Officer appointed by the Governor and is not subject to control or direction either by the Parliament or the Government.

The independence of the Auditor-General is assured by wide powers assigned by legislation. This independence ensures that findings that arise from a range of

financial and wider performance audits are communicated regularly to the Parliament without interference.

## **And Defines His Mandate...**

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

The Auditor-General must provide an audit opinion on the annual financial statements of all audited agencies, on components of the Treasurer's Annual Financial Report and on the Consolidated Financial Statements of the State. The Auditor-General may also investigate instances of waste, impropriety or lack of financial prudence in the use of public resources, and has the power to investigate whether the government and its agencies effectively, efficiently and economically use public resources.

## **And His Corporate Objectives**

The State of Tasmania applies an output based management system that underpins the allocation of funds from the State Budget. While the Office is largely a fee for service operation it is still a government department and it operates within the budgetary system. The Office's outcome is to have:

"Stakeholders, including Parliament, who are well-informed and who value the Tasmanian Audit Office as a source of independent audit advice and assurance on the performance and accountability of public sector entities".

The sole output of the Office is "Public Sector Management and Accountability" and this output encompasses our products and services (sub-outputs), which are:

- Parliamentary reports and services; and
- Audit reports on financial statements.

## **Strategy, Direction and Performance Outcomes**

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## Strategy and Direction

The context of our strategic planning framework is provided by our risk management plan. This plan is reviewed annually to identify and analyse all our business risks and indicate how we will deal with them. This involves carrying out a detailed environment scan that is aimed at identifying emerging public sector developments, and any consequential accountability implications that may impact on our activities. It enables the Office to update its knowledge of international, national and local trends in public sector practices. It also ensures that the Office's audit focus adequately reflects shifts in public sector strategies and operations, including changes in direction of government policy.

The Office's strategic planning framework is under-pinned by our balanced scorecard depicted below.

### Balanced Scorecard

<b>Providing value for money</b> <ul style="list-style-type: none"> <li>Improved public sector accountability, outcomes and processes</li> <li>Efficient and effective Audit Office operations</li> </ul>	<b>Highly satisfied Parliament and clients</b> <ul style="list-style-type: none"> <li>Appropriate reports</li> <li>Positive, action focused, independent advice</li> <li>Audit role and scope to current match and emerging needs</li> </ul>
<b>Strongly performing teams</b> <ul style="list-style-type: none"> <li>Skills profile matches needs</li> <li>People engaged with objectives and values and motivated to perform</li> </ul>	<b>Rigorous methodology and process</b> <ul style="list-style-type: none"> <li>Appropriate delivery, methodology and processes</li> <li>Optimal resource planning and allocation</li> <li>High quality business decisions and processes</li> </ul>

## Providing value for money

Operating in an environment where we judge entities' performance, financial and operational, and report our findings means we also must meet our critical success factor of providing value for money for all our stakeholders.

The Office's has two objectives for the critical success factor of 'providing value for money':

- Improved public sector entity accountability, outcomes and processes; and
- Efficient and effective Audit Office operations.

### Objective - Improved public sector entity accountability, outcomes and processes

#### Strategy

The strategy for ensuring achievement of this objective is to focus on performance and processes where there is potential for improvement.

To ascertain whether this objective is achieved the following measures of progress and success are applied:

- Outcome and process benefits and efficiency dividend achieved by the auditee from implementing our recommendations; and
- The number of our recommendations implemented.

#### Key Performance Indicators

Measure	Business Unit	Target	Actual	Comment
Recommendations agreed and acted upon by clients within 2 years	Financial Audit	70%	No measure required until 2007/08	A data collection method has been designed and results will be reported next year.
Recommendations agreed and acted upon by clients within 2 years	Performance Audit	70%	60% based on the previous follow-up audits for 2001-04	The percentage remains unchanged from the last follow-up of audits for 2000-01.
Number of performance audit reports tabled each year	Performance Audit	8	9	Despite staff shortages and alterations to the agreed program the target was met.

Measure	Business Unit	Target	Actual	Comment
Statutory reports tabled by due dates	Financial Audit	100%	100%	The Office tables two separate reports on the results of the financial audits – November 2006 and April 2007
Statutory reports tabled by due dates	Support Services	100%	100%	The Office's Annual report was forwarded to the Treasurer prior to 31 October 2006.
Recommendations from internal quality assurance reviews implemented within 12 months	Financial Audit	100%	100%	The quality assurance review for 2005-06 audit cycle was completed. Recommendations have been addressed.
Recommendations from internal quality assurance reviews implemented within 12 months	Performance Audit	100%	100%	The quality assurance review was completed. Recommendations have been addressed.
Recommendations from internal quality assurance reviews implemented within 12 months	Support Services	100%	75%	Refer to the support services unit section in this report for details. Steady progress is being made in addressing the recommendations.
Triennial external peer review	Office	Last review completed May 2006  Next Due – 2008/09	Completed	The eight major recommendations have been addressed. Refer to the external review section later in this report.

## Future Plans

Whilst the Office is making progress a number of initiatives to assure continuous improvement are planned for 2008 including:

- o Finalising processes to collect information regarding the implementation of financial audit recommendations – this is being managed in the Integrated Public Sector Audit Methodology (IPSAM); and
- o Ensuring senior levels of client management are given the opportunity to discuss our recommendations – based on the client survey results we have been communicating findings to clients in a timely manner and allowing appropriate time for responses. Whilst there have been improvements, this will again be given attention.

## Overall Summary

The Office has been dealing with staffing shortages, business unit restructures and industrial relations matters. Despite these pressures, both the financial and performance audit services units completed their overall objectives for the year.

We still need to improve on some internal processes particularly relating to timeliness, quality and completion of audits on budget.

## Objective - Efficient and effective Audit Office operations

### Strategy

The strategy for ensuring the achievement of this objective is to focus on productivity and financial viability of internal activities.

To ascertain whether this objective is achieved the following measures of progress and success are applied:

- Use benchmarks to measure our performance against peers;
- Cost/benefit analysis; and
- Financial performance.

### Key Performance Indicators

Measure	Business Unit	Target	Actual	Comment
Implement Quality Assurance recommendations	Financial Audit	100%	100%	The quality assurance review for 2005-06 audit cycle was completed. Recommendations have been addressed.
Staff productivity targets met	Financial Audit	100%	102%	Billable audit hours exceeded target.
Break-even result for audits	Financial Audit	+/- 10%	2.92% under budget	The final outcome for the 2005-06 audit cycle was a good result.
Implement Quality Assurance recommendations	Performance Audit	100%	100%	The quality assurance review was completed. Recommendations have been addressed.



Measure	Business Unit	Target	Actual	Comment
Staff productivity targets met	Performance Audit	100%	83%	This was a strong result bearing in mind staff shortages.
Break-even result for audits	Performance Audit	+/- 10%	8% under budget	Revenue target not met due to staff shortages.
Completion of agreed audit program	Performance Audit	80%	41%	The agreed program was interrupted by unplanned projects. The target of 8 reports was exceeded by 1.
Completion of audits within eight months	Performance Audit	100%	56%	Achievement of this target was impacted by staff shortages and corresponding delays in completing audits.
Overall financial result	Office	Break-even	0.08% under budget	Small loss incurred due to production costs of History book.
Overhead budget variance	Support Services	+/- 5% of budget	12.1% over budget	Overheads exceeded budget due to increased costs for HR consultants and history book costs.
Financial Performance index	Support Services	80	71	Below target due to additional overheads and not achieving revenue target.

## Future Plans

Initiatives planned for 2008 include:

- Consolidate the implementation of IPSAM and capture the reporting and other benefits it provides;
- Consolidate benefits flowing from a full compliment of staff in the performance audit services unit;
- Continuing enhancements to the quality assurance program including leveraging from Australasian Council of Auditors-General (ACAG) developments in this area;
- Follow-up of performance and compliance audits conducted in 2005 with the objective of assessing uptake of recommendations made;
- Implementing recommendations from the Advisory, Audit and Review Committee; and
- Continuing enhancements to reporting performance of business units and support services with a focus on revenue generation and cost controls.

## Overall Summary

The overall financial result for the Office was a small deficit. This was despite the overrun in overhead costs and both business units not achieving their revenue targets. This was offset by savings in employee costs due to staffing shortages.

Staff shortages within the performance audit services unit meant that unit's target of hours was not met but it was able to table nine effective reports for the year. The agreed program was only completed to the extent of 41% but this was influenced by the requirement to conduct three special investigations. To assist the unit to meet its target two compliance audits were contracted to private sector auditing firms.

The financial audit services unit completed the 2005-06 audit cycle within 2.92% of budget but made slow progress in planning audits, and completing interim audits, for the 2006-07 audit cycle. This was partly due to the implementation of IPSAM and staff shortages.

Quality assurance reviews of both audit units concluded that audit work was appropriate. Improvement recommendations were accepted.

The support services unit has responsibility for monitoring the overhead budget and due to additional costs associated with consultancies, accommodation and history book production costs the result was over budget by 12.1%.

The financial performance index is a measure assessing performance in managing aged debtors, aged creditors, cash balances, unbilled work in progress, overhead recovery and financial outcome. The achievement of an index of 71 was below target and down compared to the prior year result of 87. The two components of the index that did not reach target were overhead budget being over by 12.1%, and revenue target falling short by 6.7%

## Highly satisfied Parliament and Clients

The Parliament is our main client and our reports and services are aimed at meeting its needs.

Our audit work and reports are designed to assure the Parliament that the public sector resource management practices are efficient and effective and to suggest ways the public sector can improve its performance. These reports provide commentary and advice on contemporary public sector developments to the Parliament, its committees, the Government, public sectors bodies and other external parties.

The Office's has three objectives for assessing the critical success factor of 'highly satisfied Parliament and clients':

- Producing appropriate reports;
- Providing positive, action focused, independent advice; and
- Ensuring audit role and scope match current and emerging needs.

## Objective - Producing appropriate reports

### Strategy

The strategy for ensuring the achievement of this objective is to focus on selecting the right topics, effective auditing and the preparation of user friendly reports.

To ascertain whether this objective is achieved the following measures of progress and success are applied:

- Level of positive feedback and what action flowed;
- Timeliness of the report; and
- Positive feedback from our external stakeholders.

## Key Performance Indicators

Measure	Business Unit	Target	Actual	Comment
For the four key attributes of feedback achieved a minimum rating from the Parliamentarians.  Presentation: Issues Identified: Balanced: Understandability:	Financial Audit	  75 75 75 75	  93 94 94 87	Targets exceeded and comparable with the 2005 results.
For the four key attributes of feedback achieved a minimum rating from the Clients.  Audit process: Audit reporting: Service value: Overall Performance:	Financial Audit	  70 70 70 70	  73 78 76 76	Targets exceeded and also comparable with the 2005 results.
For the four key attributes of feedback achieved a minimum rating from the Parliamentarians.  Apparent conclusions: Presentation: Balanced: Issues identified: Understandability: Important topics:	Performance Audit	  75 75 75 75 75 75	  84 93 93 80 95 88	Targets exceeded and also comparable with the 2005 results.
For the four key attributes of feedback achieved a minimum rating from the Clients.  Audit process: Audit reporting: Service value: Overall Performance:	Performance Audit	  70 70 70 70	  70 73 61 68	While "service value" is below target, 61% is an improvement on 54% achieved in 2005.
Statutory reports tabled by due dates	Financial Audit	100%	100%	Target achieved.
Statutory annual report tabled by due dates	Support Services	100%	100%	Target achieved.

## Future Plans

Initiatives planned for 2008 include:

- The client surveys identified a number of ideas for further enhancing service delivery which we are evaluating; and
- It is planned for the 2007-08 annual report to be forwarded to the Treasurer for tabling in Parliament by 15 September 2008.

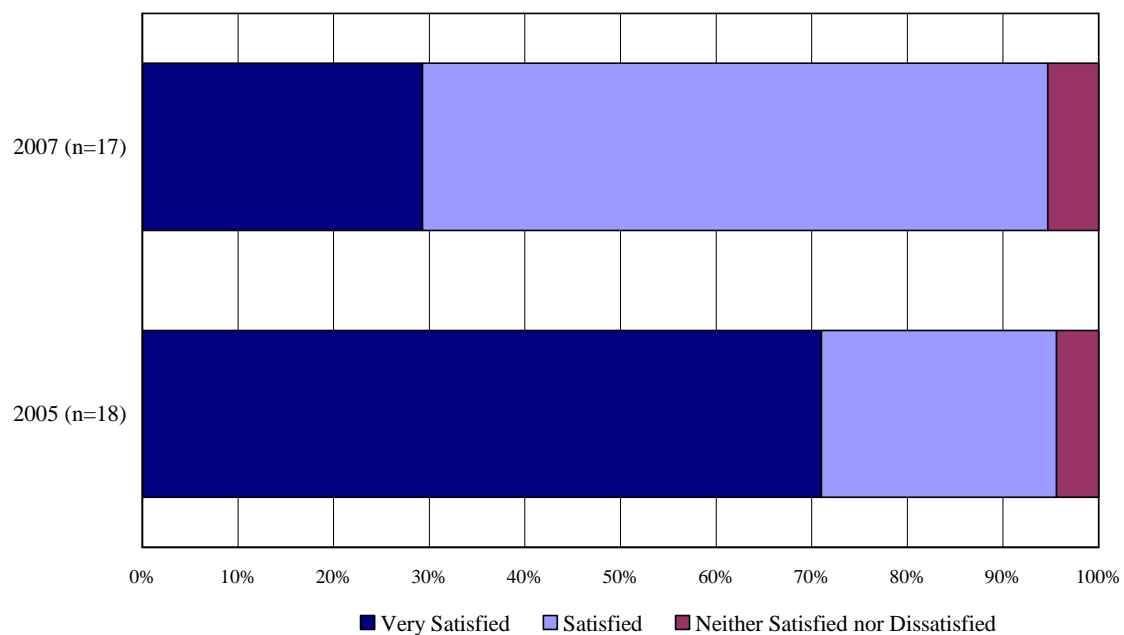
## Overall Summary

The Parliamentary and client surveys conducted during the year covering the activities of the financial and performance audit services units indicating a high level of satisfaction in the services provided. Surveys were previously conducted in 2005.

Further details of the survey results are included under the Business units section of this report.

The overall satisfaction by Parliamentarians with Special Reports and services remained very high in 2007, with 95% of Parliamentarians reporting that they were either satisfied or very satisfied (compared with 96% in 2005). However, the proportion of respondents who were 'very satisfied' decreased significantly from 71% in 2005 to 29%. There was also a corresponding increase in the proportion of respondents who indicated they were merely 'satisfied'.

Figure 1 – Overall satisfaction with the Audit Office's reports and services



From the Parliamentary survey the following comments made are representative:

"... reports are well presented and reader-friendly and contain the detail necessary. They meet the criteria of succinctness."

"Generally the Audit Office does a good job."

"I am reassured by the competency of the Audit Office."

"I'm most appreciative of staff services."

"I am unconvinced that the departments/agencies take seriously enough the recommendations pertaining specifically to accountability. I am unsure if the Audit Office provides sufficient follow-up review."

"The reports are still quite technical - and MPs are not."

"In my early years I was not familiar with just how valuable the reports or the A-G were and consequently hardly read them. But now I read all reports and move that a report be debated ..... which provides a valuable opportunity for close scrutiny of issues raised and also extra accountability by the Government."

## **Objective - Providing positive, action focused, independent advice**

### **Strategy**

The strategy for ensuring the achievement of this objective is to focus on improvement.

To ascertain whether this objective is achieved the following measures of progress and success are applied:

- Reputation for independence;
- Productivity and activity;
- Accessibility; and
- Perception.

## Key Performance Indicators

Four key performance indicators were identified to measure our performance relating to this objective. However systems to enable data capture have not been developed and revised measures and targets are under development. As an alternative, questions were included in the client surveys to assess the quality of our performance under this objective.

The financial audit client survey indicated that a percentage of clients were 'very satisfied' or 'satisfied' that:

- Our auditor's interaction with client organisation's staff during the audit was conducted in a professional manner – (90%);
- Our auditor's communicated effectively – (85%);
- Our senior audit staff were appropriately involved in the audit – (82%);
- Our audit staff were responsive to their needs – (81%); and
- Our auditors responded promptly to requests and/or concerns raised by the client – (76%).

The performance audit client survey indicated that a percentage of clients were 'very satisfied' or 'satisfied' that:

- Our auditor's interaction with client organisation's staff during the audit was conducted in a professional manner – (89%);
- Our auditor's communicated effectively – (80%);
- Our senior audit staff were appropriately involved in the audit – (78%); and
- Our auditors responded promptly to requests and/or concerns raised by the client – (82%).

## Future Plans

Initiatives planned for 2008 include:

- Reviewing the results of surveys conducted following the completion of individual audits; and
- Finalisation of relevant measures to assess performance against this objective.

## Overall Summary

Our previous surveys of financial audit clients indicated that there is not enough contact with staff from our Office at the appropriate management level. It is pleasing to report that the recent survey indicated that the Office has significantly improved this aspect of client interaction.

Performance audit clients also indicated that the Office has engaged actively with our clients.



Pictured above (left to right): Mike Blake (Audit Office), Stuart Hatton (Aurora Energy), Peter Davis (Aurora Energy), Ric De Santi (Audit Office).

## Objective - Ensuring audit role and scope match current and emerging needs

### Strategy

The strategies for ensuring the achievement of this objective are to focus on having the correct structure and administrative arrangements in place; on ensuring appropriate strategic and operational balance; and on ensuring appropriate client management and communication procedures.

To ascertain whether this objective is achieved the following measures of progress and success are applied:

- Measuring the expectation gap;



- Client understanding of our role;
- Measuring perception, awareness, and timeliness; and
- Compliance with our Customer Service Charter.

## Key Performance Indicators

Measure	Business Unit	Target	Actual	Comment
Survey results with respect to: Expectations: Timeliness:	Financial Audit	75 75	75 88	Targets exceeded.
Annual client seminar and rating of usefulness	Financial Audit	Seminar conducted  75	Achieved  95	Client feedback was that the seminar was timely and its content was excellent.
Implement Quality Assurance recommendations	Financial Audit	100%	100%	The quality assurance review for 2005-06 audit cycle was completed. Recommendations have been addressed.
Implement Quality Assurance recommendations	Performance Audit	100%	100%	The quality assurance review was completed. Recommendations have been addressed.

## Future Plans

Initiatives for 2008 are:

- Consolidate experiences gained from past client seminars and bring forward the timing of this event; and
- As noted previously, enhance the Office's quality assurance programs.

## Overall Summary

Our clients indicated a high level of satisfaction with this year's client seminar and that the seminar content has improved and was timely.

Also, with respect to timeliness in reporting to clients and responding to their requests, the financial audit services unit exceeded the target comfortably and achieved a high rating for expectations which indicates strong communication between the staff and our clients. These results are reflective of good results from the entire survey.

## **Rigorous methodology and processes relevant to context**

For the Office to meet its strategic objectives of a 'highly satisfied Parliament' and 'providing value for money', it needs to have processes and methodologies that are rigorous and proven. These processes must be appropriate, effective and efficient.

The Office has three objectives for the critical success factor of 'rigorous methodology and processes relevant to context':

- Appropriate delivery, methodology and processes;
- Optimal resource planning and allocation; and
- High quality business decisions and processes.

### **Objective - Ensure appropriate delivery of services, methodology and processes**

#### **Strategy**

The strategy for ensuring the achievement of this objective is to focus:

- on ensuring we understand our client's business, in particular from a strategic and operational context, and their risk profile;
- on continuous improvement; and
- on reviews and implementing change where necessary.

To ascertain whether this objective is achieved the following measures of progress and success are applied:

- Ensuring our processes are fit to purpose;
- Undertaking quality assurance reviews to ensure quality control compliance;
- Ensuring auditing standards compliance; and
- Achieving a reputation of best practice.

## Key Performance Indicators

Measure	Business Unit	Target	Actual	Comment
Survey results with respect to: Business Understanding: Audit process:	Financial Audit	75 75	78 73	Targets achieved.
Implement Quality Assurance recommendations	Financial Audit	100%	100%	The quality assurance review for 2005-06 audit cycle was completed. Recommendations have been addressed.
Implement Quality Assurance recommendations	Performance Audit	100%	100%	The quality assurance review was completed. Recommendations have been addressed.
Peer review of business unit every three years	Financial Audit	Satisfactory	Next review due in 2008-09	2005-06 review indicated satisfactory performance.
Peer review of business unit every three years	Performance Audit	Satisfactory	Next review due in 2008-09	2005-06 review indicated satisfactory performance.

## Future Plans

Initiatives for 2008 are:

- Consolidate implementation of IPSAM and capturing the reporting and other benefits it provides;
- Continuing enhancements to the quality assurance program including leveraging from ACAG developments in this area;
- Implementing recommendations from the Advisory, Audit and Review Committee; and
- Ensuring training needs identified are addressed.

## Overall Summary

During the year the Office ensured that recommendations from the previous reviews of financial and performance audit services continued to be implemented.

Mr Len Scanlan, the independent peer reviewer who reviewed the Office during 2005-06 noted a high level of satisfaction by Members and Clients with the services provided by the Office. His recommendations have been addressed.

## Objective - Optimal resource planning and allocation

### Strategy

The strategy for ensuring the achievement of this objective is to focus on achieving best use of internal resources and on the optimal mix of internal and external resources.

To ascertain whether this objective is achieved the following measures of progress and success are applied:

- Measuring project completion;
- Measuring project financial outcomes; and
- Measuring project resource allocation.

### Key Performance Indicators

Measure	Business Unit	Target	Actual	Comment
All financial statement audits to be completed within 30 days of receipt of signed financial statements	Financial Audit	90%	93%	Target achieved.
Financial statement audits for Agencies, GBEs and SOCs to be completed by 15 October or 3 ½ months from year end (106 days)	Financial Audit	85%	80%	While not achieved, performance improved compared with 65% in 2005-06.
Financial statement audits (except for Agencies, GBEs and SOCs) to be completed by 31 October or 4 months from year end (122 days)	Financial Audit	85%	74%	While not achieved, performance improved compared with 65% in 2005-06.
Financial statement audits to be planned by approved deadlines: Key accounts Large accounts Other accounts	Financial Audit	By 28 Feb By 31 Mar By 30 Apr	13% 13% 8%	Clearly performance is not satisfactory. Staff shortages and implementation of IPSAM contributed to this result.

Measure	Business Unit	Target	Actual	Comment
Interim audits to be completed by 30 June	Financial Audit	100%	41%	See previous comment.
Performance audits to be completed within eight months from approval	Performance Audit	100%	56%	The agreed program was interrupted by unplanned projects. The target of 8 reports was exceeded by 1.
Completion of performance audit program within the financial year	Performance Audit	80%	41%	Achievement of this target was impacted by staff shortages and corresponding delays in completing audits.
Performance audit program for the following year finalised by 31 May	Performance Audit	31 May	Achieved	Target met.

## Future Plans

Initiatives for 2008 are:

- Additional internal and external resources allocated to the financial audit services unit to enable it to complete by 30 November 2007 a higher percentage of 2007 audits. The objective of this is to facilitate earlier planning of 2008 audits;
- Consolidate implementation of IPSAM and capturing the reporting and other benefits it provides including application of milestone databases available in IPSAM;
- Consolidate benefits flowing from a full complement of staff in the performance audit services unit; and
- Greater rigour in responding to requests to conduct special investigations.

## Overall Summary

For the 2005-06 audit cycle the financial audit unit achieved better results than the previous 2004-05 audit cycle nearly reaching its targets. However, the lead performance measures for the 2006-07 audit cycle on face value indicate that the performance measures for audit completion for 2006-07 will be hard to achieve.

The performance audit unit did not achieve its targets for completion of audits within eight months and completing the approved 2006-07 audit program. This

again was in part due to staff shortages and unplanned special investigations. Despite this it exceeded its reports number target.



Ric De Santi, Fabiola Solis and Jara Dean preparing for departure to King Island for the final audit.

## Objective - High quality business decisions and processes

### Strategy

The strategy for ensuring the achievement of this objective is to focus on achieving continuous improvement in information technology, business systems and processes.

To ascertain whether this objective is achieved the following measures of progress and success are applied:

- Timely and quality information and decisions;
- Delivery support; and
- Compliance with standards and performance benchmarks.

## Key Performance Indicators

Measure	Business Unit	Target	Actual	Comment
Unqualified audit opinion	Support Services	Achieved	Achieved	Nil
Staff participation in relevant committees/working parties	Office	All business units are represented on committees/working parties	Achieved	Nil

## Future Plans

Initiatives for 2008 are:

- Seek continuous improvement in our internal processes;
- Complete the revision/rewrite of all policies in accordance with the policy development framework; and
- Investigate the requirements to achieve ISO 9001 certification.

## Overall Summary

McLean Delmo Hall Chadwick conducted the audit of the Office's financial statements for the year ended 30 June 2007 and they issued an unqualified audit opinion.

In their audit management letter they made three recommendations to which we have agreed. They also noted that there has been a significant improvement in the accounting function and related internal control activities since the previous two audits.

We have ensured that membership of our internal committee's include representatives of all business units and where appropriate are representative of the diversity of our staff. The membership of the committees is reviewed annually.

Staff who have legislative responsibilities were given training to ensure they are able to fulfil these responsibilities.

## Strongly performing teams

The Office, like most organisations, relies on its staff to achieve corporate objectives and staff must work co-operatively for this to occur.

The Office has two objectives for the critical success factor of 'strongly performing teams':

- Having a skills profile that matches our business needs; and
- Having people who are engaged with our objectives and values and motivated to perform.

## Objective - Skills profile matches our business needs

### Strategy

The strategy for ensuring the achievement of this objective is to focus on measuring employee performance and reducing the gap between our employees' skills and the identified skills the Office requires.

To ascertain whether this objective is achieved the following measures of progress and success are applied:

- Narrowing the skills gap; and
- Identifying skills training needs and ensure staff have access to the necessary training.



## Key Performance Indicators

Measure	Business Unit	Target	Actual	Comment
Maintain a high level of technical expertise in the Quality Assurance role	Office	75%	Improving	This measure is assessed by the Auditor-General - I have initiated internal "hot reviews" and independent reviews of audit files by ACTAO. These reviews indicate improvements since completion of the peer review.
Conduct at least one technical session for Staff	Office	Achieved	Achieved	Nil
Clients		Achieved	Achieved	
Training budget spent on developing competencies	Financial Audit	100%	100%	Training budget was over spent in 2006-07.
Training budget spent on developing competencies	Performance Audit	100%	100%	As above.
Training budget spent on developing competencies	Support Services	100%	100%	As above.
Ensure staff receive the minimum of 10 days training per annum	Financial Audit	On average 10 days	13.27 days	As above.
Ensure staff receive the minimum of 10 days training per annum	Performance Audit	On average 10 days	7.92 days	As above.
Ensure staff receive the minimum of 10 days training per annum	Support Services	On average 10 days	12.42 days	As above.
Completion of bi-annual performance appraisals by agreed timeframes	Financial Audit	Achieved	Achieved	All performance appraisals were completed but were not timely.
Completion of bi-annual performance appraisals by agreed timeframes	Performance Audit	Achieved	Achieved	All performance appraisals were effected and timely.
Completion of bi-annual performance appraisals by agreed timeframes	Support Services	Achieved	Achieved	All performance appraisals were effected and timely.

## Future Plans

Initiatives for 2008 are:

- Consolidate the implementation of the competency framework and associated processes such as a revised performance management system;
- Develop and implement a Human Resources Management plan including revising policies and procedures; and
- Developing a professional development and leadership program.

## Overall Summary

There was an improvement in the timeframe in which management conducted staff performance appraisals. With the implementation of a competency framework the Office's performance management system is currently being revised to incorporate that framework. An area of improvement for all staff is the identification of competency development needs which is being addressed in the revised system.

During the year the budget for professional development was exceeded by 21%. The Office undertook training in relation to:

- The implementation of IPSAM;
- COBIT and ITIL for the members of the Information Management Committee;
- Attendance at conferences overseas;
- Workplace training;
- Leadership Coaching;
- First Aid; and
- Courses relating accounting and auditing standards.

## Objective - People engaged with our objectives and values

### Strategy

The strategy for ensuring the achievement of this objective is to focus on staff involvement in decisions, rewarding outstanding achievements, providing support, and open communication.

To ascertain whether this objective is achieved the following measures of progress and success are applied:

- Improved staff satisfaction;
- Assessing engagement with our values;
- Addressing retention and recruitment policies; and
- Minimise the level of unplanned absences.

### Key Performance Indicators

Measure	Business Unit	Target	Actual	Comment
Staff Satisfaction Survey	Office	75	N/a	The staff survey is conducted bi-annually. The 2005-06 survey result was 65%
Well being index	Office	80	N/a	The staff survey is conducted bi-annually. The 2005-06 survey result was 69%

While no survey was conducted in 2006-07, three initiatives in this financial year, aimed at improving staff satisfaction and well-being, were:

- Offering paid flu vaccinations to all staff;
- Implementation of a Health and Well-being program; and
- Participation in the Global Corporate Challenge.

## Future Plans

Initiatives for 2008 are:

- Finalising human resources policies and related procedures; and
- Conduct the staff survey.

## Overall Summary

While a staff survey was not conducted during 2006-07, the Office of the State Service Commissioner conducted a whole of State Service survey, the results of which will be forwarded to the Office in mid 2007-08. The next Office staff survey will be conducted in May 2008.

The responses from the last survey conducted in 2005-06 are being actioned.

The well-being index is dependent upon responses to some of the questions in the staff survey so cannot be rated this year. However, during the year the Office initiated a flu vaccination program, a health and well-being program and encouraged staff to walk 10 000 steps per day. These initiatives are explained in more detail in the Our Workplace section of this report.

## **Our Business and Support Units**

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## Financial Audit Services

The Auditor-General has a statutory responsibility to examine the annual financial statements of government agencies and public bodies, and to express an audit opinion on the fair presentation of those financial statements.

The responsibility for undertaking this task lies with the staff of the Financial Audit Services (FAS) Business Unit. The General Manager Ric De Santi manages the unit.

The FTE in the business unit at the commencement and conclusion of the financial year was as follows:

Position	FTE	FTE
	1 July 2006	30 June 2007
Auditors	14.00	19.00
Cadets	2.10	2.70
IT Auditors	0.75	0.00
	<b>16.85</b>	<b>21.70</b>

During the year the FAS business unit recruited two cadets under the Office's cadetship program which increased the number of cadets to five. During the year two of the cadets, Jesse Penfold and Karen Strikis, having successfully completed the requirements of the cadetship, were promoted to financial auditors. Since 30 June 2007 two other cadets, Sashi Ram and Suzanne Xue, have also completed the requirements of the cadetship and were promoted to financial auditors on 10 September 2007. Rebecca Clarke the other cadet has elected to work part-time at 0.7 FTE.

During the year several employees have been acting in higher classified positions while the Office's industrial agreement was being drafted (see Industrial Relations). The Director, Quality Assurance has been relocated to the FAS business unit and one auditor has been reassigned to FAS from PAS on her return from maternity leave. The three cadets, the transfer of the Director, Quality Assurance and of the financial auditor and the reduction in hours for the cadet represent the movement in FTE for the year.

During the year an independent review of the FAS business unit was undertaken by Wise, Lord and Ferguson. The recommendations from this review pertaining to the structure of the FAS business unit have been reviewed and implemented (refer to the section FAS Structural Review later in this report).

The FAS unit's business plan indicated that it would generate revenue from the following sources during 2006-07:

Source of Revenue	Budget \$'000	Actual \$'000	Variance \$'000
Financial Audit - Internal	2 807	2 280	(527)
Financial Audit – External Contractors	582	706	124
Reports to Parliament	220	318	98
	<b>3 609</b>	<b>3 304</b>	<b>(305)</b>

While the financial result is 8.5% below budget the FAS business unit achieved its statutory obligation of completing all financial audits for the 2005-06 audit cycle and tabled in Parliament two reports on the outcomes of those audits (see Parliamentary Reports on State Finances). The revenue shortfall resulted primarily from the late completion of the 2005-06 audits and the implementation of the financial audit methodology that delayed the start of audit planning for the 2006-07 audit cycle. The financial result did not have a negative impact on the overall financial result for the Office (see Financial Overview).

## Range of Audit Responsibilities

At 30 June 2007, the Auditor-General was responsible for the audit of the Budget Outcomes Statements and Public Account Statements that are chapters in the Treasurer's Annual Financial Report, the Consolidated Financial Statements of the State of Tasmania and audits of 158 public sector bodies including government agencies and local government.

Type of and number of public sector bodies audited are:

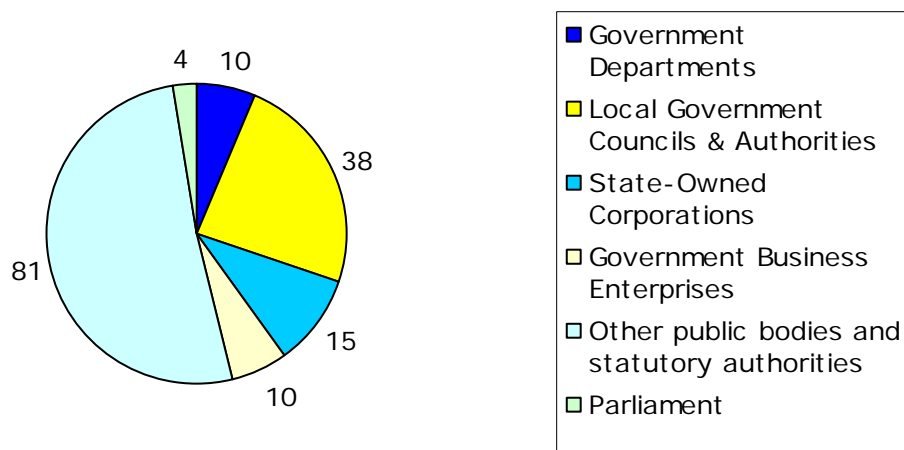


Figure 2 – Financial audit clients by segment

A complete listing of the clients as at 30 June 2007 appears in the appendices of this report.



## Parliamentary Reports on State Finances

In accordance with the statutory requirements of the *Financial Management and Audit Act 1990 (FMAA 1990)* the Office tabled two reports in Parliament dealing with our financial audit mandate.

### **Government Departments and Public Bodies 2005-06 – November 2006**

The *FMAA 1990* requires the Auditor-General to table in Parliament a report on the audit of Government departments and public bodies for the financial year. A report for the 2005-06 audit cycle was tabled on 21 November 2006. This report is a three volume set and provides a detailed financial analysis of the financial statements of Government departments and public sector bodies.

The report details significant items identified during the conduct of financial audits and provides Members of Parliament with a comprehensive financial summary.

In addition, the report provided Parliament with an assessment of the Budget Outcomes Statements and of the Public Account Statements and it summarised issues about Australian Equivalents to International Financial Reporting Standards (AEIFRS) readiness and impact and the timeliness and quality of financial statements.

### **Local Government Authorities and Public Bodies 2005-06 and December 2006 Audits– April 2007**

On 18 April 2007 a second report was tabled. It dealt with Local Government authorities and public bodies relating to 2005-06 and December 2006. This report covered those audits not completed at the time of tabling the report in November 2006 and outcomes of audits with a 31 December 2006 balance date. Also included in this report:

- Analysis of the Consolidated Financial Statements for the State of Tasmania for the year ended 30 June 2006;
- Matters of significance and follow-up of matters previously reported;
- Audits Dispensed with;
- Timeliness and Quality of Financial Statements; and
- Accounting for long-lived property, plant and equipment.

The above reports can be downloaded from the Office's website [www.audit.tas.gov.au](http://www.audit.tas.gov.au).

## Audit Reports Issued

The graph below shows the number of audit reports issued and the extent of qualified reports as a percentage of the total number of audit reports.

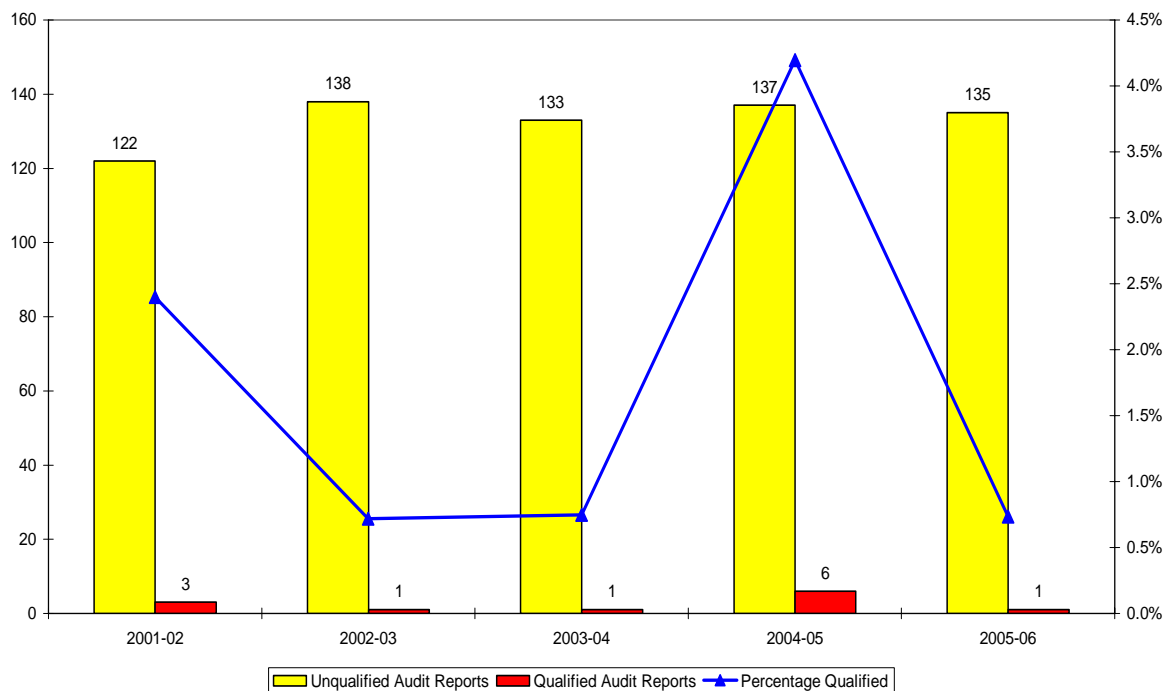


Figure 3 – Audit reports issued and ratio of qualified audit reports

The number of audit opinions issued each year varies from the number of clients because some clients have multiple opinions issued for financial statements. This matter is illustrated below:

	2001-02	2002-03	2003-04	2004-05	2005-06
Total Number of Clients	127	137	145	154	158
Less Dispensed Audit Clients	17	17	11	32	32
Total Number of Clients Audited	110	120	134	122	126
Financial audit reports issued during the year	122	138	133	137	135

## Audit Reports Issued Within Statutory Deadlines

The *FMAA 1990* sets out the annual reporting and audit requirements for government agencies and public sector bodies. Under section 28 of the *FMAA 1990* each government agency and public sector body must submit its annual financial statements to the Auditor-General by 15 August each year (within 45 days of the end of the financial year from 30 June 2004). The *Local Government Act 1993*, the *Government Business Enterprises Act 1995* and the *Corporations Law* govern the reporting obligations of other public sector entities.

Under section 58(2) of the *FMAA 1990* the Auditor-General must express an opinion on the financial statements so as to allow the government agency or public body to table its annual report in Parliament by 31 October.

While these are the statutory requirements the Office measures its performance using the following measures:

	ACTUAL 2001-02 AUDIT CYCLE	ACTUAL 2002-03 AUDIT CYCLE	ACTUAL 2003-04 AUDIT CYCLE	ACTUAL 2004-05 AUDIT CYCLE	ACTUAL 2005-06 AUDIT CYCLE	TARGET 2006-07 AUDIT CYCLE
Number of financial statement audits completed within three and half months of financial statement date for government departments and government business enterprises (for audits prior to 2003-04 audit cycle 4 mths)	62%	71%	79%	65%	50%	85%
Number of financial statement audits completed within 30 days of receiving final signed financial statements	94%	92%	78%	53%	93%	85%

The changes to the *FMAA 1990* to have financial statements submitted to the Auditor-General by the 15 August for those entities covered by this Act and the earlier tabling of annual reports in Parliament introduced tighter timeframes for client and auditor alike. For the 2005-06 financial year we did not meet our performance target for completing our audits by 15 October for the following reasons:

- Amendments to statements due to the implementation of AIFRS;
- Internal resourcing shortages; and
- Late submission to the Office of statements.

The Office met the target for completing audits within 30 days of receiving final signed statements. This was an improvement over previous year.

To turn this performance around the Office has engaged with our clients to clarify the expectations of all parties so most of the auditing effort is completed by 30 June each year and the post 30 June effort is concentrated on verifying the financial statements. Despite not meeting these targets, audits were completed in sufficient time to enable clients to meet their statutory financial reporting requirements.

## Financial Statement Working Paper Awards

The Office presents an award for the best set of financial statement working papers.

Effective financial statement working papers are a fundamental tool enabling the preparation of reliable financial statements by preparers and are a valuable resource for auditors to use to verify the transactions and balances presented in the financial statements.

The purpose of financial statement working papers is:

- To provide a framework for the compilation of financial statements by current and future preparers;
- To provide a central reference to the evidence required to support transactions, balances and estimates disclosed in the financial statements;
- To provide a trail between the entity's financial records and the financial statements, which can be followed by persons having a quality assurance function; and
- To provide a record of the quality control processes employed in the preparation of the financial statements.

There are four award categories:

- Government Departments;
- Local Government Authorities;
- Businesses and Companies; and
- Other Statutory Authorities.

The Awards for 2005-06 were awarded to:

Category	Winner	Highly Commended
Government Departments	Department of Primary Industries and Water	Department of Police and Emergency Management
Local Government	Hobart City Council	Launceston City Council
Businesses and Companies	Motor Accidents Insurance Board	Aurora Energy Pty Ltd
Statutory Authorities	Retirement Benefits Fund Board	Esk Water Authority

## Resources for Financial Statements Audits

### Management of Financial Audits

While the Auditor-General is responsible for auditing all public sector bodies under the *FMAA 1990*, there is discretionary power as to who will conduct the audits. Under Section 46 of the *FMAA 1990* the Auditor-General discharges his responsibility by appointing officers within the Office, or some other suitably qualified persons to carry out the whole or a part of an audit or investigation. The Office outsourced twelve financial audits to the private sector under the supervision of the Auditor-General.

Under Section 41 of the *FMAA 1990* the Auditor-General can dispense with audits after consideration of alternative accountability arrangements for the public bodies concerned. Two of the aspects considered were the materiality of the financial transactions involved and the most cost effective means of conducting audits.

The following auditing firms are included in the Register of External Audit Services Providers applied by the Office:

Name of Firm	Ranking
Deloitte Touche Tohmatsu – Hobart	Large and Medium
Deloitte Touche Tohmatsu – Launceston	Medium and Small
Garrott and Garrott	Medium and Small
BDO Kendalls (formerly Howarths)	Medium and Small
KPMG – Hobart	Large, Medium and Small
KPMG – Launceston	Medium and Small
RSM Bird Cameron – Melbourne	Large and Medium
R J Ruddick – Launceston	Medium and Small
WHK Denison	Medium and Small
Wise Lord and Ferguson	Large, Medium and Small

### Current Resource Mix for Financial Statement Audits

The table below indicates the mix of audit service providers for the Office's financial audit portfolio:

	2002-03	2003-04	2004-05	2005-06	2006-07
Non local government financial statement audits contracted to private sector audit firms by the Auditor-General	9	9	13	13	28
Local government audits conducted by private sector audit firms	5	5	4	6	7
Audits conducted by the Tasmanian Audit Office	96	106	117	103	91
Audits of public bodies dispensed with	17	17	11	32	32
<b>Total number of audits in portfolio</b>	<b>127</b>	<b>137</b>	<b>145</b>	<b>154</b>	<b>158</b>

## Use of External Audit Service Providers for the 2006-07 Audit Cycle

The following table sets out the commitments to external audit service providers for the 2006-07 financial statement audits.

### *Contracted Financial Statement Audits for 2006-07*

<b>Client</b>	<b>Contractor</b>	<b>Fee(\$'000) (excl GST)</b>
Glenorchy City Council	Deloitte Touche Tohmatsu – Hobart	32
Kingborough Council	Wise Lord and Ferguson	21
Transend Networks Pty Ltd	Deloitte Touche Tohmatsu – Hobart	71
Tasmanian Public Finance Corporation	Wise Lord and Ferguson	83
Port of Devonport Corporation	Garrott and Garrott	16
Department of Justice	KPMG – Hobart	42
TT-Line Pty Ltd	Deloitte Touche Tohmatsu – Launceston	43
Hobart Water	KPMG – Hobart	26
Royal Tasmanian Botanical Gardens	BDO Kendalls	7
Marine and Safety Tasmania	WHK Denison	11
Southern Regional Cemetery Trust	WHK Denison	7
TOTE Tasmania	KPMG – Hobart	46
Brighton Council	Wise Lord and Ferguson	15
Southern Waste Strategy Authority	BDO Kendalls	3
Northern Midlands Council	Garrott and Garrott	13
George Town Council	Garrott and Garrott	11
Clarence City Council	WHK Denison	22
Cradle Coast Water	Garrott and Garrott	10
Hydro-Electric Corporation	Wise Lord and Ferguson	156
Workcover Tasmania Board	KPMG – Hobart	3
Council of Law Reporting	KPMG – Hobart	1
Travel Agents Licensing Board	KPMG – Hobart	1
Workers Rehabilitation and Compensation Tribunal	KPMG – Hobart	3
Aboriginal Land Council	Ruddick	2
Tasmanian Dairy Industry Association	Ruddick	3
Tasmanian Beef Industry	Ruddick	1
Tasmanian Community Fund	BDO Kendalls	2
Office of the Energy Regulator	BDO Kendalls	3
Government Prices Oversight Commission	BDO Kendalls	3
Forest Practices Authority	BDO Kendalls	2
Teachers Registration Board	BDO Kendalls	2
Wellington Park Management Trust	BDO Kendalls	3
Sullivans Cove Waterfront Authority	Wise Lord and Ferguson	6
Tasmanian Museum and Art Gallery	Wise Lord and Ferguson	3
Tasmanian Building and Construction Industry Training Board	Wise Lord and Ferguson	9
Glamorgan-Spring Bay Council	Garrott and Garrott	15
	<b>Total</b>	<b>697</b>

## FAS Structural Review

In October 2006 an accounting firm was engaged to undertake a review of structural and staffing requirements to deliver financial audit services in the Office.

The findings of the review were as follows:

- the staffing levels of the Office are slightly high based on a simple deliverable hours calculation, particularly in the senior ranks;
- the Office restructure the financial audit group to a single pooled staffing arrangement;
- the Launceston staff are included in the single pooled staff structure;
- the current designated roles in the Office are comparable, if not slightly above industry, particularly for junior staff. The classifications of the senior roles need to be relevant and comparable for staff to be perceived to be sufficiently senior to challenge the Chief Financial Officers, Finance Managers and Departmental Heads;
- senior personnel be provided with an agreed suite of reports at agreed timeframes by support services unit;
- consideration should be given to providing a career path which includes a period in an inner agency senior finance role, or a similar role in a SOC or GBE as a means to progress staff in the Office;
- in order to deliver outcomes in relation to staff development, the performance management system needs to be linked to career development, salary reviews and detailed statements of duties;
- in relation to specialist audit skills due to its scale it is not practical to attempt to maintain the required level of specialised IT audit skills; and
- the communication structures within the Office have interaction between the executive group and the middle level of management.

An internal review is planned for November 2007 when we will ascertain the effectiveness of the changes made and any issues arising. The career progression recommendation is being considered in a broader human resources management plan. The performance management system is currently being reviewed with a revised system to be operational in December 2007. The specialist IT audit unit has been merged into the financial audit services section and there is no longer a dedicated IT specialist sub-unit. The communication pathway between the Executive Management Team (EMT) and middle management is being considered by the EMT.

## Satisfaction with Reports on the Results of Financial Audits

During the year the Office conducted a survey of Parliamentarians on the reports detailing the results of financial audits tabled in Parliament. The results of the survey are:

### Parliamentarians

A total of 17 Parliamentarians participated in the survey from a possible 40, in the previous survey 18 participated. The representation is detailed in the following table.

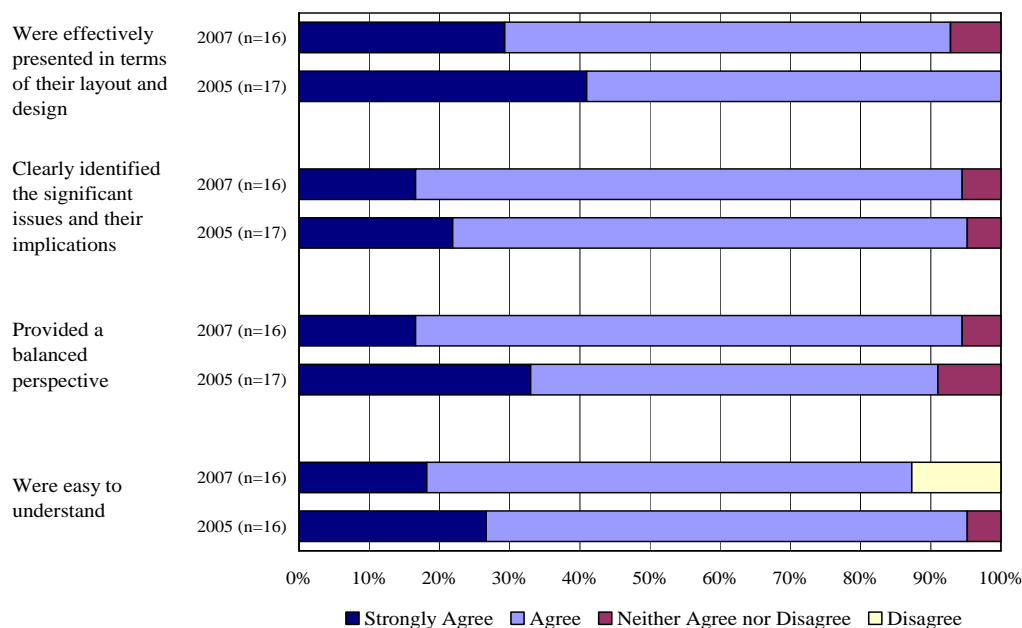
Member of:	Nos.
House of Assembly	12
Legislative Council	5
	<hr/> <b>17</b>
Government	7
Opposition Party	4
Minor Party or Independent	6
	<hr/> <b>17</b>

The survey indicated that 95% of Parliamentarians agreed that financial audits provide valuable assurance to Parliament on the quality of public sector financial reports (down from 100% in 2005). Over 50% of Parliamentarians referred to the reports on financial audits tabled 'often' or 'very often' in the previous twelve months and 43% did 'occasionally'. Most aspects of the reports were rated positively. The graph below shows that over 85% of the Parliamentarians considered that the reports:

- o clearly identified significant issues and their implications (94%);
- o were easy to understand (87%);
- o were effectively presented in terms of their layout and design (93%); and
- o provided a balanced perspective (94%).



Figure 4 – The Auditor-General's financial audit reports .....



With respect to other dealings with the Office just under two-thirds (61%) of Parliamentarians reported having dealings with the Audit Office in the past twelve months, other than reading the Reports on the outcomes of financial audits. Of the respondents:

- 89% attended a briefing by the Audit Office after a report had been released;
- 46% stated that a representative from the Audit Office appeared before their Parliamentary Committee; and
- 35% had sought information after reading a Special Report.

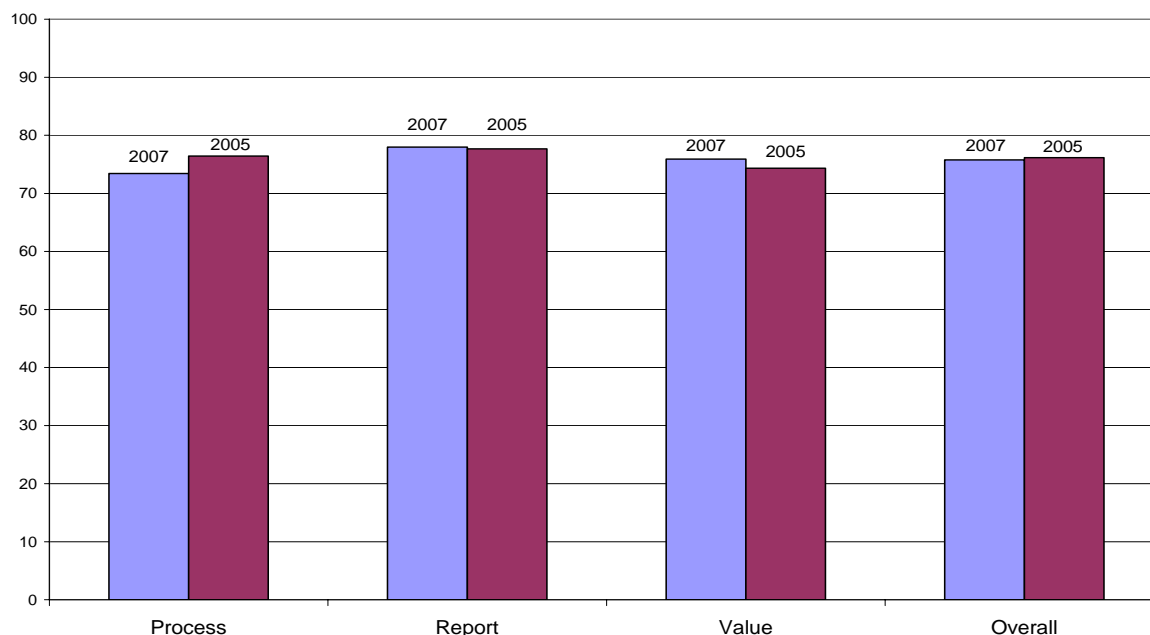
As in 2005, the 2007 survey found that all Parliamentarians who had dealings with the Audit Office other than reading the Reports on the outcomes of financial audits provided a positive assessment of:

- the Audit Office's responsiveness (2007 - 19% 'good', 81% 'very good' / 2005 – 26% 'good', 74% 'very good')
- the extent to which advice and information provided by the Audit Office addressed their needs (2007 – 46% 'good', 54% 'very good' / 2005 – 43% 'good', 57% 'very good').

## Financial Audit Clients

Sixty seven of the Office's financial audit client base completed the survey. The breakdown of clients expressed as percentages was government departments (15%), local government (37%), and GBEs, SOCs and statutory authorities (48%). The financial audit client survey covered three main groups of questions covering different areas: audit process quality, audit reporting quality; and the value of the financial audits services. The graph below summarises the results.

Figure 5 – Financial Audit Client Survey – Aggregate Performance Indices (expressed as % satisfaction)



An overall performance index (satisfaction) has also been calculated. This index is the average of the aggregate indices for each area of performance. The above figure shows the index scores for each of the three aggregate performance indices and for the overall performance index. It indicates that, on average, financial audit clients continued to view the performance of the Audit Office favourably in 2007, in terms of the quality of the financial audit process, the quality of audit reporting, and audit value. However, between 2005 and 2007 the average rating of the audit process decreased slightly, while the average ratings of audit reporting and audit value increased slightly. There was virtually no change in the overall performance index between 2005 and 2007.

## Audit process

A high proportion of respondents rated most aspects relating to audit process positively. For the following statements more than 80% of the respondents agreed or strongly agreed that:

- the auditors interacted with the organisation's staff in a professional manner (90% in 2007, down from 93% in 2005);

- the auditors demonstrated the professional skills and knowledge required (89%, up from 83%);
- the auditors communicated effectively with the organisation (85%, down from 96%);
- senior audit staff were appropriately involved in the audit (82%); and
- audit staff were responsive to the organisation's needs (81%).

For the following statements the respondents agreed or strongly agreed that:

- the auditors met agreed deadlines(80% in 2007, up from 75% in 2005);
- our organisation was promptly informed of significant issues identified during the audit (78%, down from 79%);
- the auditors demonstrated an adequate understanding of our organisation (77%, down from 85%);
- our organisation was provided with an opportunity to comment on the audit plan (87%, down from 77%);
- the auditors responded promptly to requests and/or concerns raised by our organisation (76%, down from 81%);
- the audit program was undertaken in a timely manner (76%);
- the auditors clearly explained the audit approach (75%, down from 87%);
- there was adequate staff continuity of audit staff on our audit (75%); and
- the Office's audit fees are reasonable relative to the level of audit activity undertaken (60%).

Apart from the last statement all statements were rated better than 70% and this is a strong result for the financial audit services business unit.

## Audit reporting

With regard to the reporting process over 89% of respondents provided positive ratings. There were large increases in the proportion of respondents who felt that the Office's management letters:

- were issued in a timely manner (95%); and
- clearly communicated the audit findings and issues (92%).

Between 2005 and 2007 there was a large increase in the proportion of respondents that strongly agreed that they were provided with an adequate

opportunity to comment on the audit findings and issues (up from 23% to 37%).

Respondents rated the following statements regarding audit reporting that were agreed or strongly agreed with by a relatively low proportion of respondents. Nonetheless, a still high proportion of respondents felt that:

- the Auditor-General's audit opinion was issued in a timely manner (88% in 2007);
- reports in Parliament were accurate (87%);
- management letters contained 'no surprises' (86% in 2007, down from 93% in 2005); and
- reports to Parliament were balanced/fair (84%, up from 83%).

Once again these are strong ratings.

### Audit value

One true measure of the success of a financial audit is if the entity under review sees value in the outcome. Our current target is a 70% acceptance level. It is pleasing to report that over 70% of the respondents agreed or strongly agreed that:

- the advice provided by the Audit Office is valued by our organisation (86% in 2007, up from 85% in 2005);
- financial audit services made a valuable contribution by providing the organisation with a sense of assurance (85%, up from 82%); and
- observations and/or recommendations had the potential to improve the financial management of the organisation (77%, up from 72%).

### Feedback from financial audit clients

The following comments are representative of the feedback received from clients:

"The auditors perform the task very professionally. More importantly they use the process to educate our staff and this is greatly appreciated."

"Overall a good performance."

"They provide a good service and leave the organisation all the better for their visit."

"Have always found the TAO staff extremely helpful and very pleasant to deal with."

"Overall the Tasmanian Audit Office provide an essential service and their work is valued and respected."

"The reports tend to focus on the negative without reference to the positive."

"I found our audit to be very frustrating due to the auditors allocated to us being either new and/or not really familiar with our organisation .... This was unsatisfactory and created a lot of extra work for our staff."

"The only issue was completion of the audit on a timely basis."

## Response to survey results

The overall survey results for financial audit services indicated that the FAS business unit is achieving it's objectives with strong results. Any suggestions or negative commentary in the survey has been reviewed and where necessary amendments have been made to our approach. As a result of this survey the following will be implemented where feasible to do so:

- devise a process to advise Parliamentarians of planned tabling dates for audit reports;
- be involved in an induction process for new Parliamentarians;
- continue to improve our interaction with clients by attending audit committee meetings, management meetings and involved the client in the audit planning phase of the audit; and
- use the functionality contained with IPSAM to record our knowledge of clients.

## Australasian Council of Auditors-General (ACAG) Benchmarking

During 2006-07 the Office participated in ACAG's benchmarking exercise for Parliamentary and Audit Client Surveys. Offices from New South Wales, Western Australia, Queensland and Victoria participated. The ACAG participants agreed that results from the benchmarking exercise could be published but only where the Office was rated in comparison to others for each criteria. The financial audit activity rated well in comparison to other Audit Offices. The following table indicates the rating for each criterion for our Office where we rated in comparison to the other Offices.

Criteria	Where TAO Rated
<b>Parliamentarians</b>	
Overall satisfaction with the Auditor-General's reports and services	1 <sup>st</sup> with 95%
The Office's reports and services provide valuable information on public sector performance	2 <sup>nd</sup> with 95%
The Office's reports and services help improve public sector administration	3 <sup>rd</sup> with 75%
In general, the Office provides high quality reports and services	2 <sup>nd</sup> with 93%
In general, the Office's reports communicate issues clearly	2 <sup>nd</sup> with 95%
<b>Audit Clients</b>	
<b>Process</b>	
Communications between the auditors and our organisation was effective	2 <sup>nd</sup> with 85%
The auditors demonstrated an adequate understanding of our organisation and our operating environment	3 <sup>rd</sup> with 78%
The auditors demonstrated that they had the professional skills and knowledge required to conduct the audit	3 <sup>rd</sup> with 89%
The auditor's interaction with our organisation's staff during the audit was conducted in a professional manner	4 <sup>th</sup> with 89%
The Office's audit fees are reasonable relative to the level of audit activity undertaken	2 <sup>nd</sup> with 60%
The Office's audit program was undertaken in a timely manner	1 <sup>st</sup> with 76%
Audit staff were responsive to our needs	2 <sup>nd</sup> with 81%
Senior audit staff were appropriately involved in the audit	2 <sup>nd</sup> with 82%
There was adequate continuity of audit staff on our audit	4 <sup>th</sup> with 74%
<b>Reporting</b>	
Our organisation was provided with an adequate opportunity to comment on the audit findings and issues before finalisation of the audit report	1 <sup>st</sup> with 89%
The management letters clearly communicated the audit findings and issues	1 <sup>st</sup> with 92%
The management letters presented the audit findings and issues in an balanced/fair accurate manner	1 <sup>st</sup> with 89%
The management letters were issued in a timely manner	1 <sup>st</sup> with 95%
The Auditor-General's audit opinion was issued in a timely manner	1 <sup>st</sup> with 88%
The Office's reports to Parliament that related to our organisation presented the audits findings and issues in an accurate manner	3 <sup>rd</sup> with 85%
The Office's reports to Parliament that related to our organisation presented the audit findings and issues in a balanced/fair manner	3 <sup>rd</sup> with 83%
<b>Value</b>	
The Office's financial audit services make a valuable contribution by providing our organisation with a sense of assurance	2 <sup>nd</sup> with 85%
The Office's observations and/or recommendations have the potential to improve the financial management of our organisation	1 <sup>st</sup> with 77%

The Office also participates in an annual corporate benchmarking exercise with ACAG members. During 2006-07 data was collected for the financial year 2005-06 and in relation to financial audit activity the following table summaries some of the benchmarking data in comparison to other Australian States and Territories:

Reports tabled relating to financial audits	Ranked 3 <sup>rd</sup> with two reports	Within a range of 1 audit to 5 reports
Extent of financial audits fully contracted out as a percentage of total audits	Ranked 6 <sup>th</sup> with 13%	Within a range of 5% audit to 100%
Extent of financial audits fully contracted out as a percentage of total fee base	Ranked 6 <sup>th</sup> with 19%	Within a range of 9% audit to 100%
Total costs as a proportion of Public Sector transactions	Ranked 3 <sup>rd</sup> with 29 cents per \$'000 of transaction	Within a range of 21 cents to 54 cents

Total costs as a proportion of public sector assets	Ranked 3 <sup>rd</sup> with 12 cents per \$'000 of transaction	Within a range of 10 cents to 31 cents
Percentage of total (whole of office) paid hours charged to attest audit activities	Ranked 6 <sup>th</sup> with 35%	Within a range of 31% and 47% with the average being 39%.
Percentage of total paid hours of non-attest audit staff charged to non-attest audit activities	Ranked 7 <sup>th</sup> with 50%	Within a range of 50% to 71%
Cost per audit hour charged to audit	Ranked 2 <sup>nd</sup> for lowest cost	Within a range of \$96 to \$242 per hour
Cost per audit	Ranked 2 <sup>nd</sup> for lowest cost	Within a range of \$26 795 to \$61 289
Timeframes for Issuing Financial Opinions with 3-4 months of balance date	Ranked 6 <sup>th</sup> with 81% issued within the timeframe	Within a range of 3% to 96% of financial opinions issued

## Other Internal and External Services relating to financial audit

### Enhancing Accountability in Public Sector Performance

In any one year the Office advises central agencies and individual agencies in such areas as draft legislation, Treasurer's Instructions, accounting standards, new proposals for financial management and on the Department of Treasury and Finance's model financial statements.

The Office also conducted client seminars to discuss the implications of the new standards framework.

### Interstate Organisations and International Delegations

#### Contributions to professional bodies

During 2006-07, a number of our senior financial audit staff held positions in a variety of professional bodies, committees and societies. These include the Australian Auditing and Assurance Standards Board, Centres of Excellence of CPA Australia, the Public Sector Accountants Committee of CPA Australia, the Tasmanian Divisional Council of CPA Australia and the Tasmanian Branch of the Institute of Chartered Accountants.

### Interaction with the Australasian Council of Auditors-General

Our Office is a member of the Australasian Council of Auditors-General (ACAG) that promotes the development of public sector accounting and auditing through a variety of committees, responses to exposure drafts and quality assurance programs.

## Performance Audit Services

The Auditor-General under his legislative mandate can undertake performance audits, compliance audits and special investigations and report the findings of such audits and investigations to the Parliament.

The responsibility for undertaking this task lies with the staff of the Performance Audit Services (PAS) Business Unit. The Acting General Manager, Geoff Driscoll, manages this unit.

The FTE of the business unit at the commencement and conclusion of the financial year was as follows:

Position	FTE	FTE
	1 July 2006	30 June 2007
Auditors	8.00	9.00
Cadets	0.25	0.25
IT Auditors	0.25	0.25
	<b>8.50</b>	<b>9.50</b>

However, the average FTE over the entire year was 8.26 due to vacancies within the unit during the year.

While the FTE at the beginning and end of the financial year are comparable, during the middle half of the year FTE decreased by five. This decrease was due to one employee retiring, one resigning, one on leave without pay and two employees on secondment to the FAS business unit to assist with financial audits. To redress this one new employee was recruited in December and one employee from the FAS business unit was seconded to the PAS business unit for four months when the other two PAS employees on secondment returned. At the beginning of the last quarter of the year three new employees commenced in the PAS business unit while one employee commenced maternity leave. It was also at this time that the decision to contract out two compliance audits was made (see below).

The PAS unit's business plan indicated that it would generate revenue from the following sources during 2006-07:

Source of Revenue	Budget \$'000	Actual \$'000	Variance \$'000
Reports to Parliament	1,177	1,079	98
	<b>1,177</b>	<b>1,079</b>	<b>98</b>

The non-achievement of the revenue target was caused by staff shortages. Despite this, the PAS tabled eight reports in Parliament containing a total of nine audits, one greater than target, which was a great effort. The shortfall in revenue was used by the FAS business unit to fund the statutory reports on financial audits.



## Performance Audit and Compliance Audit Program

The Auditor-General's Special Reports focus on areas that offer the potential for improved resource management and strengthened accountability and transparency. Special Reports result from performance audits and compliance audits that are completed in line with the annual business plan of the performance audit section. During 2006-07 the Office tabled eight reports in Parliament containing a total of nine audits.

The following table represents the audits to be completed or commenced during the 2006-07 financial year as at 1 July 2006. Due to other requests and staff shortages parts of the program were not completed or commenced.

Topic	Est. Hours	Total Hrs for audits tabled	Est. Hours in 2006-07	Hours costed in 2006-07	Comment
Elective surgery	1 700	2 546	100	424	Completed
Business case for Risdon prison	700	752	200	431	Completed
Training and Development	800	970	200	397	Completed
Follow-up audits Part 1	600	626	600	630	Completed
Follow-up audits Part 2	600		600		
Key performance indicators in Departmental annual reports	700		700	126	Underway
Court waiting times	700		700		
Motor vehicle registry	700		100		
Saving native animals	700		350		
Child protection	700		700		
Car fleet management	800		0		
Project management of IT (Police, Motor registry, Fines enforcement)	700		700		
IT Audit based on COBIT	700		0		
Vocational Education and Training	800		0		
Fines enforcement	700		0		
Special events	600		0		
Mental health	800		0		
Building security – schools, hospitals and libraries	750		550	974	Underway
Special allowances and nurses overtime	500	578	300	337	Completed
Credit cards	600	665	600	661	Completed
Management by Police of confiscated property	600		600	579	Underway
Disposal of non-valued assets	700		700	305	Underway
Management of EMPCA Level 1 Activities by local government	700	857	700	716	Completed
Procurement				69	Underway
Creditors				38	Underway
Maintenance of water infrastructure	600		0		
Maintenance and control of radiation machinery	500		0		
Disposal of assets	700		0		
Fire inspections	700		0		
General planning & topic summaries & administration	2 000		2 000	2 738	
<b>Total approved program 1 July 2006</b>			<b>10 400</b>	<b>8 425</b>	
<b>Other audits &amp; investigations undertaken during the year</b>					
Assistance to Auditor-General with respect to special investigations				2 037	
				<b>10 462</b>	

During the year the Auditor-General undertook three investigations:

- Implementation of aspects of the *Building Act 2000* (Special Report No. 64);
- Management of an award breach (Special Report No. 65); and
- A review of contractual procedures with respect to a softwood contract awarded by Forestry Tasmania's joint venture – Taswood Growers.

There were other requests from Parliamentarians and the public resulting in 2 037 hours of activity being diverted from agreed programs within the PAS and FAS business units.

To assist with the program the Office contracted two compliance audits to the private sector. The audits were:

Compliance Audit	Contractor	Fee (\$'000)
Creditor Payments	WHK Denison	24
Procurement	Wise Lord and Ferguson	26

The following measures indicated effectiveness and efficiency and detail the trend over the last three financial years.

Measure	Target	2004-05	2005-06	2006-07
Number of audits completed within approved hours	+/- 10% of budget		57.1%	28.5%
Completion of approved audit program	80%		68%	41.2%
Achievement of prescribed productivity levels of PAS staff	100%	100%	100%	83%
Number of reports tabled in Parliament each year	8	7	9	9
Complete audits within eight months	80%	37.5%	33.0%	55.5%

From the program detailed above it indicates that most audits were not completed within the approved budget, 28.5% compared to 57.1% in the previous year. This occurred due to staff turnover and having to revisit the planning and field work undertaken by staff who left the unit and the need to provide on the job training to new staff. Due to staff shortages and unplanned investigations the unit did not reach its productive hours target or program completion target of 80% and as a result did not reach its revenue budget target. While the unit did reach its target for tabling reports this was in part due to the special investigations undertaken. Also as a result of staff shortages and unplanned investigations, audits that were commenced were delayed as resources were allocated to those special investigations. This partly influenced

the non-achievement of completing audits within eight months and the details are provided in the following table:

<b>Report topic</b>	<b>Month Commenced</b>	<b>Month Completed</b>	<b>Months to Complete</b>	<b>Month Tabled</b>
Elective surgery in public hospitals	September 2005	June 2006	9	August 2006
Training and development	August 2005	November 2006	14	November 2006
Environmental management and pollution control by local government	May 2006	November 2006	6	November 2006
Implementation of aspects of the <i>Building Act 2000</i>	July 2006	November 2006	5	November 2006
Management of an award breach	September 2006	January 2007	5	April 2007
Selected allowances and nurses' overtime	November 2005	April 2007	6	April 2007
Follow up audits	August 2006	June 2007	11	June 2007
Corporate credit cards	December 2006	April 2007	5	June 2007
Risdon Prison: business case	July 2005	December 2006	18	June 2007

All of the above reports can be downloaded from the Office's website [www.audit.tas.gov.au](http://www.audit.tas.gov.au).

## Performance Audit and Compliance Audit Reports

Our audit	Client Response
<p><b>Elective surgery in public hospitals</b></p> <p><b>Special Report No 61 – August 2006</b></p>	
<p>The audit examined elective surgery data on a state-wide, hospital and speciality basis. We also considered potential resource-related bottle necks such as operating theatres, theatre nurses, specialists, anaesthetists etc ...</p> <p>We found that expected waiting times for people on public waiting lists had changed little since 2002. On average, hospitals were meeting national benchmarks but waiting times for more urgent patients were excessive.</p> <p>State-wide, hospital theatres were operating well below their practical capacity but information was not routinely available to determine the reasons for under-utilisation. As a consequence, it was difficult to determine the extent to which particular resource shortages may have held back elective surgery.</p> <p>On the limited information available, we found little evidence of a shortage of specialists, although individual areas may have been affected. Similarly, there was no persuasive evidence of bottlenecks with general nurses, anaesthetists or equipment.</p> <p>Publicly reported information about elective surgery was unsatisfactory, with the Department of Health and Human Services' website and annual report not including information readily available interstate such as expected waiting times for elective surgery.</p>	<p>The Department of Health and Human Services indicated that it had a range of strategies including the following:</p> <ul style="list-style-type: none"> <li>○ develop an elective surgery action plan</li> <li>○ establish targets to reduce waiting times and the number of patients with extended waiting times</li> <li>○ provide additional theatre sessions at the Launceston General Hospital.</li> </ul> <p>The department will consider the findings and recommendations in detail to assist in further service improvements.</p>

Our audit	Client Response
<b>Training and development</b>  <b>Special Report No 62 – November 2006</b>	
<p>The audit examined how five government departments managed training and development (T&amp;D): how needs were identified; how well the T&amp;D was carried out and how the overall process was managed.</p> <p>We found at most departments that systems for identifying skill requirements were unsatisfactory. Also, even where employees had been through a systematic process to identify their training needs the majority of training received was not related to that process.</p> <p>The report noted deficiencies in policies and procedures at some departments and a lack of information recording, monitoring and internal reporting that would assist in management of training. Notwithstanding the above findings, we found that training was delivering benefits to employees such as greater skills, knowledge and increased motivation.</p>	<p>The departments advised us that they would pursue some of our recommendations, subject to their particular strategic focus.</p> <p>Some departments acknowledged that their performance measurement systems were maturing and that more progress would be needed to work with the recommendations.</p>

Our audit	Client Response
<b>Environment management &amp; pollution control by local govt</b>  <b>Special Report No 63– November 2006</b>	
<p>Tasmania's <i>Environmental Management and Pollution Control Act 1994</i> imposes a range of responsibilities on local government. In this compliance audit, the testing at six councils was based on our interpretation of what the Act required of councils and how they performed in relation to that interpretation.</p> <p>Just one council had a program of annual environment inspections covering Level 1 activities, i.e. businesses such as petrol stations, quarries and workshops — most councils could not identify such activities from a centralised record.</p> <p>We recommended that registers of potentially polluting businesses would be a useful foundation for better oversight by councils. Councils reliably reviewed development applications to assess environmental impacts. However, the guidelines issued to councils by the state government's Environment Division were out of date and incomplete.</p>	<p>Generally, councils supported our recommendations and welcomed the audit as a way of highlighting difficulties that local government faced with the Act.</p> <p>The Department of Tourism, Arts, and the Environment indicated that the audit provided valuable information in respect of Level 1 activities.</p>

Our audit	Client Response
<p><b>Implementation of aspects of the <i>Building Act 2000</i></b></p> <p><b>Special Report No 64 – November 2006</b></p>	
<p>This audit examined aspects of the <i>Building Act 2000</i> — in force from mid-2004 — that required accreditation of participants in the building industry. That accreditation was outsourced by Workplace Standards Tasmania (WST) to 'an authorised body'.</p> <p>WST worked hard to prepare for the <i>Building Act</i> and it continued to do so after its implementation. However, clear processes and arrangements were needed to ensure the accrediting services being provided to building practitioners met agreed objectives in a timely manner. There should also have been contingency arrangements and protection of respective assets including intellectual property.</p> <p>A formal agreement between the parties should have specified expectations, how performance was to be measured and specified actions required in the event performance did not meet expectations.</p>	<p>The Department of Justice disagreed that it should have applied Treasury procurement guidelines to the outsourcing. It also noted that contract procurement and probity requirements did not reside at WST at that time.</p>

Our audit	Client Response
<p><b>Management of an award breach</b></p> <p><b>Special Report No 65 – April 2007</b></p>	
<p>This audit examined handling by Workplace Standards Tasmania (WST) of a breach of the Restaurant Keeper's Award by a business trading as the 'Officers Mess'.</p> <p>We found that the Minister at the time (Hon Bryan Green) did instruct WST to withdraw the matter before the Tasmanian Industrial Commission. That action was taken on the grounds that an offer had been made to resolve the breach by the former owners of the business.</p> <p>While the Minister's action did not constitute a legal breach it had the potential to set a damaging precedent by not following an established process to its conclusion.</p>	<p>The Department of Justice accepted the report as a fair assessment of WST's involvement in the breach.</p>

Our audit	Client Response
<p><b>Selected allowances and nurses' overtime</b></p> <p><b>Special Report No 65 – April 2007</b></p>	
<p>This audit examined salary allowances paid to Ambulance Officers, Visiting Medical Officers and Correctional Officers as well reviewing patterns of overtime paid to nurses at the Royal Hobart Hospital (RHH).</p> <p>The salary allowances that we tested were paid in accordance with relevant awards, agreements, contracts and policy requirements.</p> <p>We found that nurses at the RHH had not worked excessive levels of overtime when considered against the increased levels of care being provided.</p>	<p>The Department of Health and Human Services acknowledged the positive findings of the audit.</p> <p>The Department of Justice made no formal response to the audit.</p>

Our audit	Client Response
<p><b>Follow up audits</b></p> <p><b>Special Report No 66 – June 2007</b></p>	
<p>In this audit we assessed the extent to which agencies had actioned recommendations made in seven previous audits.</p> <p>We found that the rate of implementation of recommendations met or exceeded our benchmark of 70% in four of the original reports, and was over 60% for all seven reports.</p> <p>Nevertheless, there were still some areas where improvements to performance were needed. As an example, while over half of the recommendations contained in the Oral Health Services report had been accepted, a number of recommendations that targeted reduced waiting times had not been implemented.</p>	<p>Agencies indicated that they:</p> <ul style="list-style-type: none"> <li>o had made considerable progress in implementing recommendations</li> <li>o were continuing to implement or review some recommendations.</li> </ul>

Our audit	Client Response
<p><b>Corporate credit cards</b></p> <p><b>Special Report No 67 – June 2007</b></p>	
<p>In this audit we examined the operation of corporate credit cards across a range of agencies. Findings of the audit were compared to the results of a similar audit reported in April 2005 (Special Report No. 54).</p> <p>We found improved performance with the use of corporate credit cards by some agencies audited at that earlier time. As an example, error rates in card transactions had fallen as was the case at the Department of Health and Human Services.</p> <p>Current shortcomings cited in the report included transactions lacking adequate records, card limits being exceeded, and delays in reconciling and processing transactions. It is important to note that the errors found were procedural in nature and transactions sampled were <i>bona fide</i> business dealings.</p> <p>At Aurora Energy there was an example of better practice in educating cardholders to their responsibilities.</p>	<p>Agencies indicated their support for the recommendations that we made.</p> <p>Some also noted that the report would add impetus to their ongoing management of corporate credit cards.</p>

Our audit	Client Response
<p><b>Risdon Prison: business case</b></p> <p><b>Special Report No 68 – June 2007</b></p>	
<p>This audit examined the economy, effectiveness and risk management inherent in the business case for the redevelopment of Risdon Prison.</p> <p>There was due regard for economy, consideration of reasonable options, thorough financial analysis and the process met the government's requirements for project planning. On the other hand, there were a number of departures from best practice, including insufficient use of sensitivity analysis and a risk analysis that was superficial and incomplete.</p> <p>The audit report also argued that project evaluation should include all costs and benefits, both capital and recurrent, including those not easily quantified and that the option of 'doing nothing' should have been formally evaluated.</p>	<p>The Department of Justice was satisfied with the report.</p> <p>Treasury noted the recommendations made and considered that their implementation would further assist evaluation of future capital projects.</p>



## Satisfaction with Special Reports

During the year the Office conducted a survey of Parliamentarians and agencies covering Special Reports tabled in Parliament. The results from the survey are:

### Parliamentarians

A total of 17 Parliamentarians participated in the survey from a possible 40, in the previous survey 18 participated. The representation is detailed in the following table.

<b>Member of:</b>	<b>Nos.</b>
House of Assembly	12
Legislative Council	5
	<b>17</b>
Government	7
Opposition Party	4
Minor Party or Independent	6
	<b>17</b>

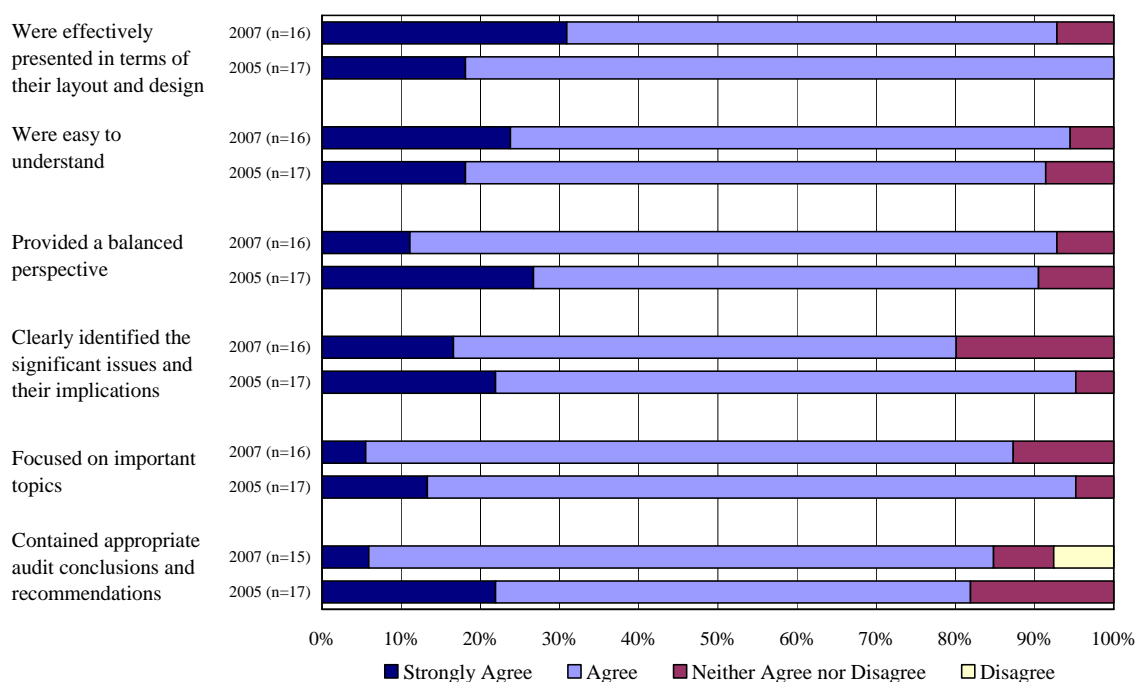
The survey indicated that only 56% of Parliamentarians referred to Special Reports tabled 'often' or 'very often' in the previous twelve months and 39% did 'occasionally'. Also most aspects of the Special Reports were rated positively. The graph below shows that over 90% of the Parliamentarians considered that the reports:

- were easy to understand (95%);
- were effectively presented in terms of their layout and design (93%); and
- provided a balanced perspective (93%).

Some findings, however, were less positive. There were statistically significant decreases between 2005 and 2007 in the proportions of respondents who:

- strongly agreed that the audit conclusions and recommendations were appropriate (6% in 2007, compared to 22% in 2005);
- agreed that the reports were effectively presented in terms of their layout and design (62%, compared to 82%); and
- agreed or strongly agreed that the reports clearly identified the significant issues and their implications (80%, compared to 95%).

Figure 6 – The Auditor-General's performance and compliance audit reports



With respect to other dealings with the Office just under two-thirds (61%) of Parliamentarians reported having dealings with the Audit Office in the past twelve months, other than reading the Special Reports. Of the respondents:

- 89% attended a briefing by the Audit Office after a report had been released;
- 46% stated that a representative from the Audit Office appeared before their Parliamentary Committee; and
- 35% had sought information after reading a Special Report.

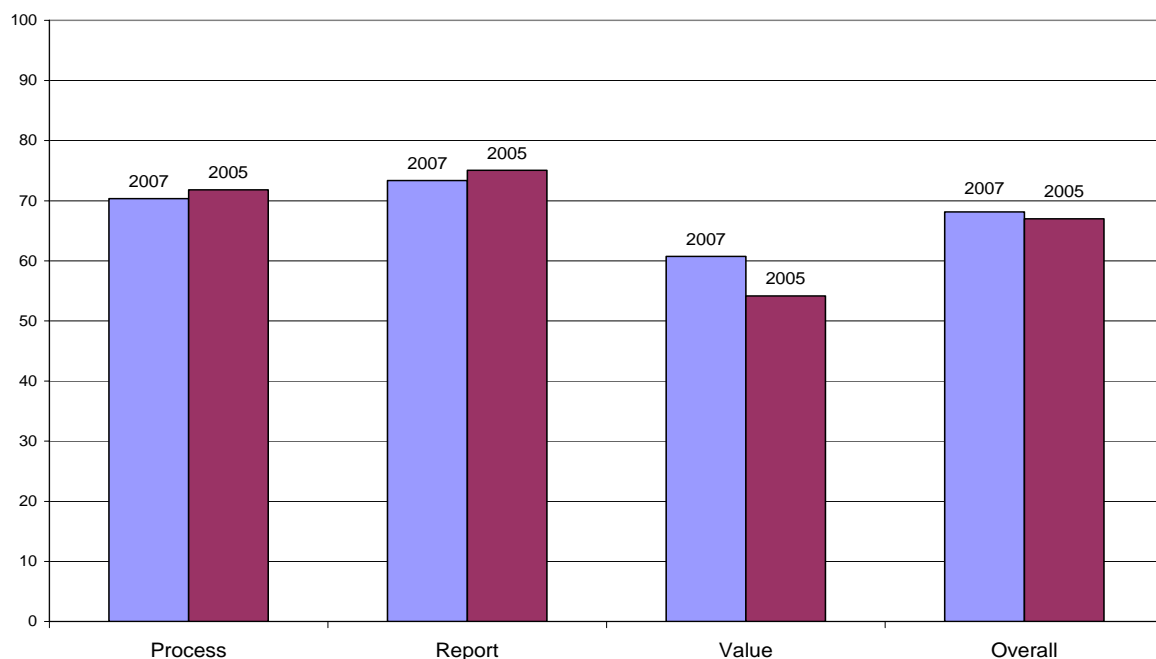
As in 2005, the 2007 survey found that all Parliamentarians who had dealings with the Audit Office other than reading the Special Reports provided a positive assessment of:

- the Audit Office's responsiveness (2007 - 19% 'good', 81% 'very good' / 2005 - 26% 'good', 74% 'very good')
- the extent to which advice and information provided by the Audit Office addressed their needs (2007 - 46% 'good', 54% 'very good' / 2005 - 43% 'good', 57% 'very good').

## Performance Audit Clients

Those clients who had performance or compliance audits undertaken on their activities were invited to participate in a survey. There were thirty-five respondents to the survey (compared to twelve in 2005), with the representation being 66% from Government departments, 23 % from local government and 11% from GBEs, SOCs and statutory authorities. The performance and compliance audit client survey covered three main groups of questions covering different areas: audit process quality, audit reporting quality; and the value of the performance/compliance audit. The graph below summarises the results.

Figure 7 – Performance and Compliance Audit Client Survey – Aggregate Performance Indices (expressed as % satisfaction)



An overall performance index (satisfaction) has also been calculated. This index is the average of the aggregate indices for each area of performance. The above figure shows the index scores for each of the three aggregate performance indices and for the overall performance index. It indicates that, on average, performance and compliance audit clients continued to view the performance of the Audit Office favourably in 2007, in terms of the quality of the performance audit process, the quality of audit reporting, and audit value. However, between 2005 and 2007 there was a marked increase in the average rating of audit value, while there were slight decreases in average ratings of the audit process and reporting quality. There was a small improvement in the overall performance index from 2005 to 2007.

## Audit process

More than 70% of respondents rated most aspects relating to audit process positively. For the following statements more than 70% of the respondents agreed or strongly agreed that auditors or the Office:

- interacted with the organisation's staff in a professional manner (89% in 2007, down from 100% in 2005);
- clearly explained the audit approach (83%, down from 92%);
- communicated effectively with organisation (80%, down from 92%);
- our organisation was promptly informed of significant issues identified (88%, up from 75%);
- met agreed deadlines (74%, up from 56%);
- sought input from the organisation being considered in the development of the audit (71%, up from 67%); and
- demonstrated they had the professional skills and knowledge to conduct the audit (74%, down from 82%).

For the following statements less than 70% of the respondents agreed or strongly agreed that the auditors:

- conducted analysis and research of high quality (53% in 2007, down from 56% in 2005);
- demonstrated an adequate understanding of the organisation and its operating environment (60%, down from 67%); and
- demonstrated an adequate understanding of the specific subject matter addressed by the audit (63%, up from 58%).

## Audit reporting

With regard to the reporting process aspects over 85% of respondents provided positive ratings. There were large increases in the proportion of respondents who felt that:

- they were aware of when the final report was to be tabled in Parliament (up from 58% in 2005 to 89% in 2007); and
- the final audit report clearly communicated the audit findings and issues (up from 73% to 88%).

Positive ratings of the final report containing 'no surprises' were unchanged between 2005 and 2007 (91%), however the level of strong agreement decreased from 46% to 36%.

Positive ratings of the organisation being provided with adequate opportunity to comment on the audit findings decreased (100% to 94%). However, the level of strong agreement increased (25% to 31%).

The respondents rated the following statements lower:

- the benefits of the recommendations in the final audit report were clear (58%, down from 64%) – disagreement with this statement rose from 0% in 2005 to 15% in 2007; and
- the recommendations in the final audit report were practical (64%, down from 82%) - disagreement with this statement rose from 0% in 2005 to 15% in 2007.

## Audit value

One true measure of the success of a performance or compliance audit is if the entity under review sees value in the outcomes. Our current target is a 70% acceptance level. It is pleasing to report that over half of the respondents agreed or strongly agreed that:

- the audit made a valuable contribution by providing the organisation with a sense of assurance regarding the administration of the auditee activity (56% in 2007, up from 50% in 2005); and
- the audit will help the organisation to improve administration of the audited activity (55%, up from 42%).

## Feedback from performance audit clients

The following comments are representative of the feedback received from clients:

"The audit was well conducted and the officers gained a good understanding of the processes involved and the outcomes showed this understanding."

"..... we had few issues with the audit team. They acted professionally throughout. We would recommend further training of staff before specific audits are carried out."

"Adequate time for providing comments was not provided."

"The audit provided little information we didn't already know. The effort would have been better spent in identifying the solutions to problems."

"The audit raised some issues but we considered our approach and future strategy is appropriate."

## Response to survey results

The overall survey results for performance and compliance audits indicated that the PAS business unit is achieving its objectives with strong results. Any suggestions or negative commentary in the survey have been reviewed and where necessary amendments made to our approach. As a result of this survey the following will be implemented where feasible to do so:

- any audits of a technical nature will have a specialist assigned to the audit;
- the time provided to Heads of entities to respond will be increased from five to ten days;
- we will ensure the staff mix for all audits is balanced with appropriately skilled staff;
- we will improve our audit planning and project management to ensure all audits are completed within the eight month timeframe;
- we will ensure our recommendations are achievable;
- we will stress to clients that we are not a quality control function;
- we will develop a brochure defining the role of members of performance and compliance audit advisory committees; and
- compliance audits will have audit advisory committees.

The results of the survey will be discussed with the Public Accounts Committee during 2007-08 to seek further input.

## Australasian Council Auditors-General (ACAG) Benchmarking

During 2006-07 the Office participated in ACAG's benchmarking exercise for Parliamentary and Audit Client Surveys. Offices from New South Wales, Western Australia, Queensland and Victoria participated. These ACAG participants agreed that results from the benchmarking exercise could be published but only where the Office was rated in comparison to the average of the others for each criteria. The performance and compliance audit activity rated well in comparison to these other Audit Offices. The following table indicates the rating for each criterion for our Office where we rated in comparison to the other Offices.

Criteria	Where TAO Rated
<b>Parliamentarians</b>	
Overall satisfaction with the Auditor-General's reports and services	1 <sup>st</sup> with 95%
The Office's reports and services provide valuable information on public sector performance	2 <sup>nd</sup> with 95%
The Office's reports and services help improve public sector administration	3 <sup>rd</sup> with 75%
In general, the Office provides high quality reports and services	2 <sup>nd</sup> with 93%
In general, the Office's reports communicate issues clearly	2 <sup>nd</sup> with 95%

Criteria	Where TAO Rated
<b>Audit Clients</b>	
<b>Process</b>	
Communications between the auditors and our organisation was effective	4 <sup>th</sup> with 70%
Our organisation was promptly informed of significant issues identified during the audit	2 <sup>nd</sup> with 88%
The auditors demonstrated an adequate understanding of our organisation and our operating environment	2 <sup>nd</sup> with 60%
The auditors demonstrated that they had the professional skills and knowledge required to conduct the audit	3 <sup>rd</sup> with 73%
The auditor's interaction with our organisation's staff during the audit was conducted in a professional manner	4 <sup>th</sup> with 88%
Senior audit staff were appropriately involved in the audit	3 <sup>rd</sup> with 78%
<b>Reporting</b>	
Our organisation was provided with an adequate opportunity to comment on the audit findings and issues before finalisation of the audit report	2 <sup>nd</sup> with 94%
The final audit report clearly communicated the audit findings and issues	2 <sup>nd</sup> with 88%
The final audit report presented the audit findings and issues in an accurate manner	4 <sup>th</sup> with 78%
The final audit report presented the audit findings and issues in a balanced/fair manner	2 <sup>nd</sup> with 84%
<b>Value</b>	
The audit made a valuable contribution by providing our organisation with a sense of assurance regarding the administration of the audited activity	4 <sup>th</sup> with 55%
The audit will help our organisation to improve administration of the audited activity	5 <sup>th</sup> with 55%

The Office also participates in an annual corporate benchmarking exercise with ACAG members. During 2006-07 data was collected for the financial year 2005-06 and in relation to performance and compliance audit activity the following table summaries some of the benchmarking data in comparison to other Australian State and Territory Audit Offices:

Performance and Compliance audits tabled	Ranked 3 <sup>rd</sup> with nine audits	Within a range of 1 audit to 23 audits
Percentage of total (whole of office) paid hours charged to non-attest audit activities	Ranked 3 <sup>rd</sup> with 15%	Within a range of 3% and 22% with the average being 11%.
Percentage of total paid hours of non-attest audit staff charged to non-attest audit activities	Ranked 2 <sup>nd</sup> with 72%	Within a range of 20% to 91%
Cost per report	Ranked 1 <sup>st</sup> for lowest cost	Within a range of \$84 189 to \$523 710
Cost per project	Ranked 1 <sup>st</sup> for lowest cost	Within a range of \$84 189 to \$446 476
Averaged elapsed time	Ranked 3 <sup>rd</sup> by shortest time with 8.7 months	Within a range of 6.3 months to 9.2 months

## Future Plans

The program for 2007-08 and onwards approved by the Auditor-General and presented to the Public Accounts Committee is detailed below:

Topic	Est. Total Hours	Hours in 2007-08	Themes	Clients
Key performance indicators in Departmental annual reports	800	555	Reporting performance	Multi agency
Court waiting times	800	800	Service delivery	Justice
Management by Police of confiscated property	800	440	Controls / compliance	DPEM
Portable and attractive items	700	350	Controls / compliance asset management	Multi agency
Procurement	300	150	Procurement, controls / compliance, probity	Multi agency
Creditors	300	150	Controls / compliance, probity	Multi agency
Car fleet management	800	800	Whole of Govt, service delivery, controls / compliance, asset management	Multi agency
Endangered species / biodiversity	800	800	Environmental audit, service delivery, Tasmania Together	DPIW
School planning	800	800	Service delivery	DoE
Follow-up audit of Infrastructure Funds, Gun Control, Public Housing, Bridge Maintenance, FBT Compliance & TT-Line governance	700	700	Follow-up of recommendations	Multi agency
Speed cameras	700	700	Service provision, revenue management	DPEM
Metro	700	700	Service provision, reporting performance, compliance	Metro
TI 1214 Agency Procurement Audit Requirements	300	300	Compliance	Multi agency
Termination / exit payments to senior executives	500	200	Controls / compliance	Multi agency
Maintenance and control of radiation machinery	500	0*	Controls / compliance	DHHS
Management of roads (excluding national highways) & integration with Rail Network	800	0*	Asset management / service delivery	DIER
Vocational Education and Training	700	400	Service delivery	TAFE
Complaints management	800	0*	Service delivery	Local govt



Topic	Est. Total Hours	Hours in 2007-08	Themes	Clients
Fire Inspections	600	0*	Service provision	SFC
Child protection and support services	800	0*	Service provision	DHHS
Tourism – generating repeat business	700	0*	Service provision	DTAE
Stress leave and/or workers' compensation	700	0*	Whole of govt, liability mgmt	Multi agency
Assistance to the Auditor-General	1 400	1 400	Special reviews	
General planning & topic summaries & administration	2 000	2 000		
<b>Total approved program 2007-08</b>		<b>10 245</b>		

\* - where no hours are scheduled, the work is planned for post 2008.

The above program could be influenced by resource allocation, such as staff attrition, and other projects as a result of requests by Parliamentarians and the public (refer to comments below).

## Assistance to Parliament

Office staff brief Members of Parliament on the day we table reports in Parliament and there has been encouraging attendance at these sessions. Staff have also attended Parliamentary Committees, such as the Public Accounts Committee (PAC) either at the invitation of the Committees or on their own accord.

## Inquiries from Members of Parliament and the Public

Each year the Office receives inquiries from Members of Parliament and the public about the actions of public sector agencies and employees. While we cannot always fully satisfy their concerns we aim to respond to their inquiries promptly. Sometimes these inquiries lead to specific audits or investigations that can result in the preparation of individual reports or form part of issues raised in the report on Government departments and public bodies.

The volume of inquiries from Parliamentarians and the public has increased to the extent that the Office now needs to employ dedicated resources to undertake the necessary research into issues raised. Currently this research is undertaken by staff from either the PAS or FAS business units. This has a direct impact on the programs of both these business units.

I have requested that the Government fund the Office for two full-time equivalents from 2008-09 onwards and the request will be considered during the 2008-09 budget process.

## Support Services

As reported in last year's annual report the Auditor-General endorsed a recommendation to restructure the Corporate Services unit. The unit now known as Support Services (SS) reflects the role of the unit within the Office to provide support to the Auditor-General and the business units, Financial Audit and Performance Audit.

The Support Services unit undertakes the following functions:

- Strategy and Governance;
- Financial Management and Administrative Services;
- Human Resources Management;
- Information and Communications Technology; and
- Information Management.

The role of the Support Services unit is to:

- provide the Office with services and strategies to ensure effective communication with Parliament, the public and clients, and generate high productivity and peak performance in all Office operations; and
- ensure the strategic management, human, information, financial and other resources of the Office are used efficiently and effectively to provide a service responsive to the needs of the Auditor-General and Office staff.

David Strong manages the Support Services unit.

The FTE in the unit remain constant during the year with one staff member undertaking a secondment to another government department for the entire year.

Position	FTE 30 June 2007
Director	1.00
Managers	2.00
Staff	3.60
	<hr/> <b>6.60</b> <hr/>

The major initiative of the restructure of the unit was to reassign roles and responsibilities to staff and modify the managerial arrangements to improve firstly the internal processes within the unit and ultimately the unit's interactions within the Office. It is pleasing to report that the SS staff have embraced the changes and challenges, is making progress and are on target to complete all the unit's objectives by the end of the 2007-08 financial year. Next year the unit's performance will be measured by its primary client, the staff of

the Office which will be used as a measure for continuous improvement. The Office's external auditors, McLean Delmo Hall Chadwick, in their management letter for this year's audit commended the staff on their efforts and the improvements made this year.

The unit has been involved in several reviews during the past two years that have resulted in recommendations for improvement and these include:

- o a review into its own structure and these recommendations have been implemented;
- o a review of the Office's information technology infrastructure and those recommendations have been accepted and are close to being fully implemented (refer to the section on Information and Communications Technology Services later in this report);
- o a review of the Office's human resource management policies. Recommendations have been accepted and will be fully implemented during 2007-08 (refer to the section Human Resource Management later in this report); and
- o an internal audit (refer to the section Internal Audit later in this report).

The unit also has representation on the information management and human resources management committees which are core functions of the unit.

The SS unit does not generate revenue for the Office but has a responsibility for ensuring that overhead expenditure items remain within budget.

<b>Source of Expenditure</b>	<b>Budget \$'000</b>	<b>Actual \$'000</b>	<b>Variance \$'000</b>
Depreciation	167	140	27
Accommodation	192	201	(9)
Materials and Supplies	155	192	(37)
Information Technology	130	125	5
Insurance	12	9	3
Contractors and Consultants	105	127	(22)
Other	2	8	(6)
<b>Total</b>	<b>763</b>	<b>802</b>	<b>(39)</b>

The total actual expenditure on overhead was over budget by 5.1%. The items that were over-budget were materials and supplies due to additional printing costs associated with the production of the Office's history book \$40k that was not included in the budget, car parking costs by \$4k, electricity charges by \$5k and consultants by \$22k who were engaged for human resource management assistance.

## Strategy and Governance

The strategy and governance services function assists the EMT by co-ordinating the development of corporate plans; designing systems and processes for monitoring and reporting on the achievement of corporate outcomes; assisting with the implementation of corporate initiatives and maintaining an appropriate governance and risk management framework.

### Achievements

During the year the unit assisted the EMT and staff by:

- o assisting with the development of the Corporate Governance framework;
- o continuing to develop the balanced scorecard (BSC) reporting framework;
- o assisting with the development of the risk management framework;
- o assisting with the collation of information to report against the Office's BSC measures;
- o preparing a policy development and review framework that was approved by the EMT; and
- o providing support and services to the EMT.

### Future Plans

Initiatives for 2008 include ensuring that:

- o all Office policies and procedures are in accordance with the approved policy development and review framework;
- o all agreed recommendations from external and internal reviews and audits are implemented or are timetabled to be implemented;
- o the Office's corporate governance and risk management frameworks are implemented fully and functions effectively;
- o our Balanced Scorecard measures remain relevant and measurable; and
- o the Office's Corporate Governance timetable is adhered to and required actions are completed on time.

## Human Resources Management

The human resources function facilitates and co-ordinates the development and implementation of human resource strategies in partnership with the EMT and business units. The function revolves around the components of recruitment and selection; employee behaviour and well-being; health and safety; organisational effectiveness; employee relations; professional development and payroll processing.

### Achievements

The following outcomes occurred during the year:

- The Office's Competency Framework was developed and approved by the EMT and was incorporated into statements of duties for all positions;
- The draft industrial agreement for the Office was not accepted by the Government or unions and as a result the Office conducted a total review of the structure of the Office. This resulted in organisational redesign of all positions;
- An external human resources consultancy firm completed a review all our HR policies and procedures and conducted a survey our staff on the ease of access; ease of use and knowledge of these policies and procedures. Their report has been reviewed by the Human Resources Committee and is being actioned;
- The reassignment of responsibilities to staff in relation to human resources has been completed and staff are adapting to those changes;
- The internal working party commissioned to review our managing diversity plan submitted it to the EMT and was approved;
- A human resources consultant was engaged to assist with the development of three components of the Office's People Management Framework, Recruitment and Retention, Organisational Structure and Performance Management;
- Commenced reviewing policies and procedures and rewriting these in accordance with the Office's Policy Development Framework; and
- Purchased additional modules for the Office's Human Resource Management Information System (HRMIS) and commenced system testing as a precursor to implementing these modules and upgrading existing modules.

The review of human resource policies and procedures made several recommendations based on responses from a staff survey. The outcome was positive. The reviewers encouraged the Office to harness technology to distribute information to staff and implement a policy and procedure structure.

As reported earlier the Office has a new policy development framework and this will be used to develop human resource management policies and procedures. The primary recommendations and our response are detailed below:

- increase staff awareness of the employee assistance program (EAP)– our EAP providers attended a staff seminar and explained their role;
- publicise employee entitlements and policies on poor performance, privacy, access to employee files, occupational health and safety, travel and expenses – these policies and information on employee entitlements will be published on our redeveloped intranet during 2007-08;
- publicise grievance procedure – drafted in new policy format and published on our intranet during 2007-08 after completion of a review by the State Service Commissioner;
- explanation as to how the State Service and the Office Code of Conduct operate together – the Office's code of conduct is currently under review to remove duplication with the State Service code;
- publicise policy on managing diversity – the policy was reviewed during the year and will be published on our intranet;
- produce and publicise a policy on communication – to be completed during 2007-08;
- publicise policy on managing performance – the performance management system is currently being reviewed and when approved will be published on our intranet;
- develop a recruitment authorisation form – completed; and
- review induction process – completed.

## Future Plans

Initiatives for 2008 are:

- Reviewing and writing human resource policies in accordance with the new policy development and review framework;
- Implementing the recommendations of the HR policy review report;
- Implementing the new competency framework with respect to competency assessment and performance management systems;
- Reviewing our recruitment and selection processes with respect to the competency framework;

- Reviewing our cadetship program and investigating the implementation of a graduate program;
- Developing a structured professional development and leadership program;
- Developing of a Human Resources Strategy plan;
- Revisiting our employee assistance program; and
- Upgrading our HR system in accordance with our license agreement and implementing our HR functions.

## Financial Management and Administrative Services

The financial management and administrative services function has specific statutory and operating responsibilities for the Office. These responsibilities include financial transaction management, such as accounts receivable, accounts payable, and payroll; regulatory reporting, including reports to the Department of Treasury and Finance, managing relationships with internal and external auditors; and managerial internal reporting, such as monthly management accounts and budget variance reports.

Administrative services include accommodation management, leasing and contract management, materials and supplies management and other general administrative matters.

### Achievements

The following outcomes occurred during the year:

- Continued to liaise with the financial and performance audit services units with respect to improvements in account management;
- Agreed with the financial audit services unit an aged debtors follow-up policy where responsibility for follow-up after 30 days resides with the FAS business unit;
- Revisited reporting requirements for the units;
- Improved the monthly suite of reports provided to the EMT;
- Reassigned responsibilities to staff so the duties of financial management are shared and our internal controls are improved;
- Purchased additional modules for the Financial Management Information System (FMIS) to improve the job costing system and reporting from the FMIS;

- Developed policies and procedures in accordance with the Policy Development framework that have been approved and posted on the Office's intranet;
- Responded to the audit findings from internal audit (refer to the section Internal Audit later in this report) and provided status reports to the Advisory, Audit and Review Committee;
- Achieved an unqualified audit opinion on our financial statements; and
- Received an acknowledgement from external auditors that our financial management processes has significantly improved this year.

## Future Plans

Initiatives for 2008 are:

- Continuing to review our financial management policies in accordance with the new policy development and review framework;
- Implementing a new job costing module for our FMIS;
- Updating the Office's Five Year Asset Management Plan;
- Developing interfaces so data can be passed from our job costing system to the new proposed financial audit methodology and vice-versa;
- Continuing to liaise with the business units to improve the quality of reporting and identifying data that needs to be collated; and
- Implementing any recommendations from internal and external audits.

## Information & Communication Technology Services

The information and communication technology services function provides a support service to staff. The service includes:

- Ensuring the availability of suitable hardware and software;
- Ensuring adequate infrastructure capacity to meet and anticipate user and processing demands;
- Evaluating new hardware and software;
- Providing support to staff; and
- Ensuring the continuity, integrity and security of the Office's infrastructure, networks and data.



## Achievements

The following outcomes occurred during the year:

- An external information technology provider undertook a review of our infrastructure and provided the Office with recommendations to ensure our systems remain stable;
- Members of the information management committee undertook professional development in the implementation of COBIT and ITIL and successfully gained certification;
- Installed the new financial audit methodology software application IPSAM and implemented the hardware infrastructure to support its use;
- Implemented a web content management system (WCMS);
- Implemented the reassigned roles and responsibilities relating to ICT following restructure of the unit;
- Upgraded the infrastructure hardware for the Office's network replacing obsolescent equipment;
- Upgraded operating system software for the network and personal computers and portables; and
- Upgraded application software on personal computers and portables to ensure the capability with software match the needs of users.

The infrastructure review recommendations and our response are detailed below:

- Increase the capacity of the infrastructure, re-create policies and upgrade application software related to email management – the entire computer hardware infrastructure was replaced and the email management software upgraded;
- Reconfigure the installation of operating system and application software across the hardware infrastructure to gain capacity and efficiency – completed as part of hardware infrastructure replacement;
- Upgrade records management application to current version – timetabled to be completed by February 2008;
- Consider installing a patch management system to ensure operating system and virus definitions are updated regularly – a patch management system is being considered;
- A revised storage management and backup system needs to be installed to manage data requirements and disaster recovery processes – the new

infrastructure hardware installation has addressed this issue and the disaster recovery plan will be tested during 2007-08;

- o The ongoing management of the standard operating environment needs revising – a revised process is currently being developed; and
- o Upgrade the CITRIX environment to the current version to take advantage of speed and access improvements – timetabled to be completed by February 2008.

## Future Plans

Initiatives for 2008 are:

- o Reviewing and writing information and communications technology policies in accordance with the new policy development and review framework;
- o Providing a test system for testing modules within the financial and human resources management systems;
- o Developing interfaces so data can be passed from our job costing system to the new financial audit methodology and vice-versa;
- o Continuing to liaise with the business units to improve the quality of assistance provided to them;
- o Replacing all personal computers and portables within the Office in accordance with the Office's Asset Management Plan;
- o Developing and testing disaster recovery plans and business continuity plans;
- o Developing a strategic plan for information and communication technology; and
- o Implementing any recommendations from internal and external reviews.

## Information Management Services

The information management function provides reception and keyboarding services; records management; desktop publishing; web management and library management.

### Achievements

The following outcomes have occurred during the year:

- Assisted with the publication of reports to Parliament;
- Identified new methods of maintaining information on our internal and external websites;
- Installed a new web content management system and trained designated authors who will be responsible for maintaining the intranet pages for their units;
- Reviewed the requirements to published corporate reporting information on the intranet and purchased corporate software;
- Implemented the reassigned roles and responsibilities relating to ICT following restructure of the unit; and
- Reviewed the Office's records management and identified the need to upgrade the application.

### Future Plans

Initiatives for 2008 are:

- Reviewing and writing information management policies in accordance with the new policy development and review framework;
- Completing the implementation of the web content management system and assigning responsibility for maintaining content to business unit authors;
- Revisiting how we manage our information in our information management system;
- Involving staff in training with respect to our information management practices;
- Reviewing our report production processes to identify areas where improvements can be achieved and revisit the options for publishing in an electronic media thus reducing paper production;

- o Upgrading our information management system in accordance with our license agreement;
- o Reviewing the practices of staff with respect to internal printing with the objective of reducing our greenhouse impact;
- o Developing a strategic plan for information management; and
- o Implementing any recommendations from internal and external reviews.

## **Our Workplace and Our Community**

## Index – Our Workplace and Our Community

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## Our Workplace

### Our People

#### Staff Profile

As at 30 June 2007 the Office employed thirty-nine staff. The following table and additional tables and charts in Appendix 4 provided demographic information relating to our staff.

Staff by gender	
Male	20
Female	19
Staff by	
Full-time	37
Part-time	2
Permanent	34
Temporary	5
Movement	
Recruited	6
Retired	1
Resigned	0
Transferred	1
On Leave without pay	1
On secondment	1

During the year the Office gained and lost staff due to retirement, transfer and resignation as detailed in the above table and the chart below represents departures, commencements and turnover percentage.

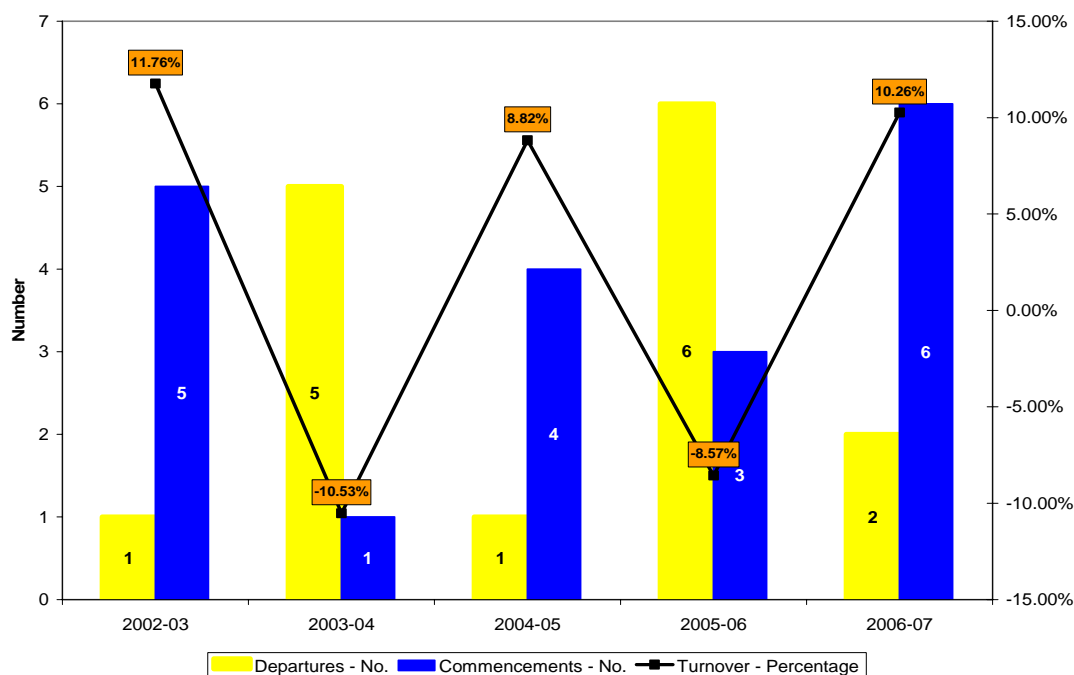


Figure 8 – Recruitment and Turnover Statistics

## Recruitment

During the year the Office developed a recruitment policy with the assistance of a human resources consultant and this policy was submitted to the Executive Management Team for approval in late June 2007.

The finalisation of the policy coincided with the completion of an organisational restructure of all “positions” within the Office. During the last quarter of the year all statements of duties were reviewed and where necessary revised and reclassified against the appropriate industrial award.

The result of this process meant that twenty six positions within the Office were advertised as vacancies on 20 June 2007. It is expected that the appointments to these positions will be completed by November 2007. The timing of the interview process will put stress on staff and on processes to meet our statutory obligations with respect to completing financial audits. The references made to positions and structure of the Office within this report referred to the status as at 19 June 2007. This has been done so as not to complicate the detail relating to the Office’s performance because the performance relates to the structure up-to 20 June 2007.

Effective from 20 June 2007 the Office has a new organisational structure but it will not be fully operational until the recruitment process is completed in 2007-08. Both structures are detailed later in the Corporate Governance section of this report.

## Professional Development

The Office is committed to achieving its aim of having a well-designed, annual learning and development program to help staff attain high standards of professional skills and performance.



Audit staff at the CPA National Public Sector Convention in Brisbane March 2007 seated with Allyson Warrington, Director – Tasmania, CPA Australia Ltd.



As part of the performance appraisal process training needs (technical skills and competencies) for all staff are identified and these training needs form the basis for the Office's annual learning and development program. This program will be delivered internally and by external providers. The Office's performance target is 10 days of training per employee and this was achieved as demonstrated in the chart below.

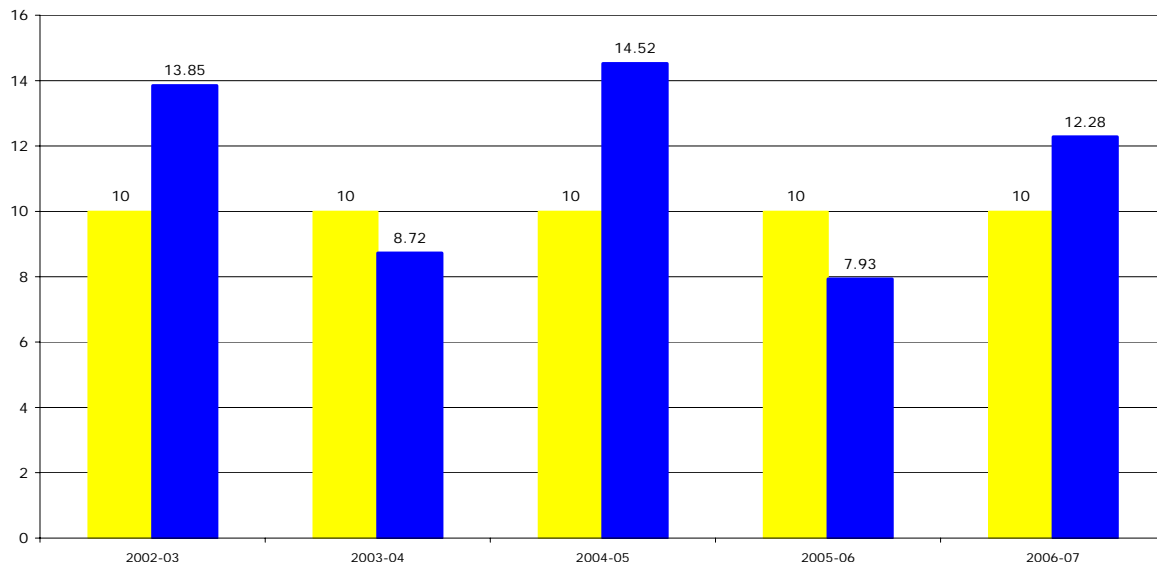


Figure 9 – Average Number of Training Days for staff

## Health and Safety

The Office has always had a strong focus on staff safety particularly in relation to providing appropriate ergonomic equipment to staff whether in the Office or in the field. The Office continues to utilise the professional skills of an external consultant to provide independent advice on safety issues.

In accordance with the *Workplace and Safety Act 1995* the Auditor-General is the appointed responsible officer.

During the year the Office initiated the following:

- A flu vaccination program in which over 50% of staff participated;
- Purchased a portable defibrillator and trained ten staff on how to use it in an emergency;
- Undertook ergonomic assessments;
- Undertook a workplace inspection;
- Provided training to all staff on workplace safety;

- o Developed a Health and Well-being program with a fitness organisation who run the program in-house; and
- o Two teams of seven competed in the Corporate Global Challenge 2007.

During the year there were:

- o Five reported safety incidents, three were minor in nature;
- o One workers compensation claim resulting from a safety incident; and
- o Two workers compensation claims closed from previous years, resulting in only one claim remaining open.

The Health and Well-being program commenced in March 2007 and is expected to conclude in December 2007 when it will be reviewed to ascertain whether it achieved its objectives. Those objectives are:

- o Increase awareness and understanding about health-promoting behaviours;
- o Understand the relationship between physical activity and food intake to body weight;
- o Provide individuals with lifestyle skills that can be sustained;
- o Stress reduction and management;
- o Improve aerobic fitness, muscular strength and body mass index; and
- o Enhance self esteem and team building relationships.

The Global Corporate Challenge is a team activity where teams of seven, over a period of 125 days wear pedometers to measure the number of steps taken. The goal for each team is to increase the number of steps taken over the period. Each team member recorded his/her steps daily on the [www.gcc2007.com](http://www.gcc2007.com) website. Teams compete against other teams by "walking around the world". The Office entered two teams with fifteen participants.

The following comments are from staff who participated in the health and well-being or the global corporate challenge or both.

"I have enjoyed participating in both the Health and Well-being Program and the Global Corporate Challenge. They have contributed to my overall fitness. My family and I have benefited from the nutritional advice shared in the information sessions. The most fun I have had is joining in with the boxing sessions and the stretch classes were good.

Counting steps in the Global Corporate Challenge has surprised me with how little exercise I do unless I make a conscious effort."

"I found the GCC particularly beneficial. Having a daily target of steps to be walked provided a focus I was determined to achieve. It also provided an internal challenge with colleagues and I did much of my walking with my wife which was an added bonus.

I personally found the GCC more rewarding than the Wellbeing program although I learnt much from it."

"Health assessment have been good and helpful is setting targets and seeing progress. I think this is something we should continue with periodically. Some of the information sessions have been good as well.

GCC has been really good and prompted me to walk more, without having to necessarily commit to specific times. Certainly worth doing again."

"I have gained from participation in the GCC. I found that is I set myself targets each day and achieved them, I would set higher targets. So all in all I improved my output and therefore my fitness. Thanks for organising this, hope we do it again next year."

While it is too early to measure the impact of these programs early results indicate that the number of sick leave days has reduced.

### Average Number of Sick Leave Days per Employee

The Office has a performance measure of five days sick leave per employee. Over the last five years this target has been exceeded but there was an improvement in 2006-07.

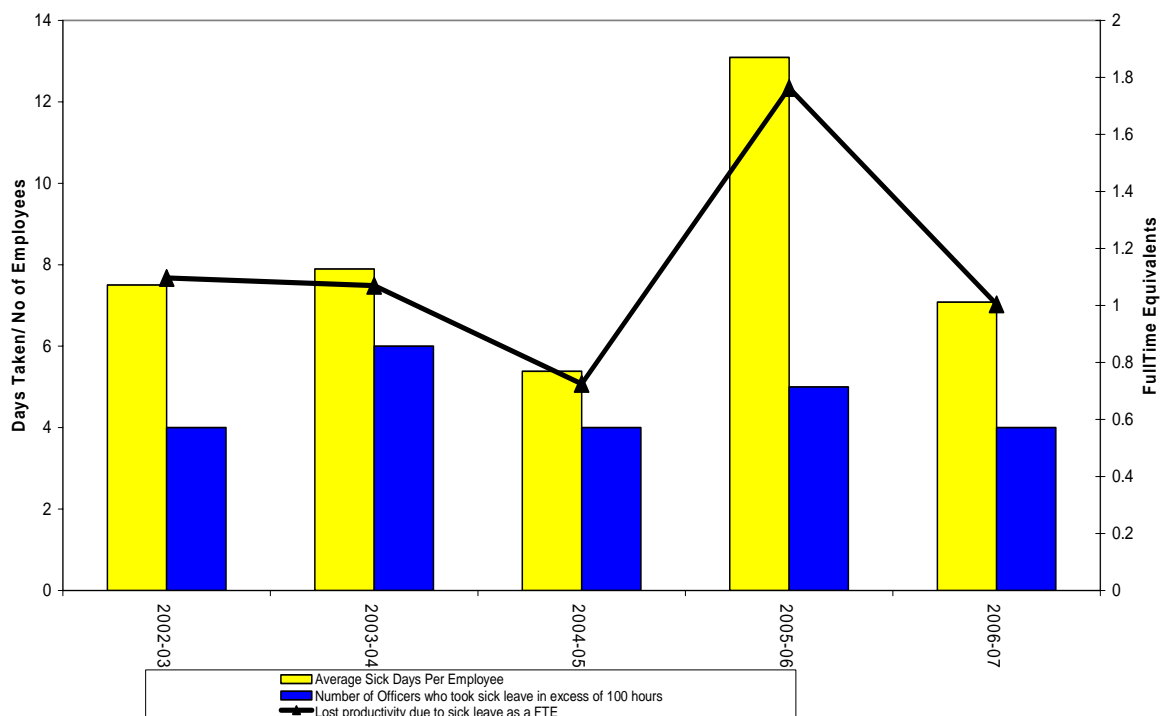


Figure 10 – Sick Leave Statistics

## Employee Relations

One of the Office's aims is to provide a stimulating environment for our staff and one of the important aspects of achieving this aim is employee relations. Our staff have various opportunities to discuss any issues that concern them. This can be during the performance appraisal process, via the Human Resources Committee and in normal staff interaction.

There was no internal grievance reported this year.

Performance appraisals were undertaken for all staff during the year but not all appraisals were completed within one month of the review date as per the Office's performance target. As reported under the Support Services Unit section of this report the Office is revising the performance management system to incorporate the competency framework developed.

## Organisational Effectiveness

The Office recognises that people are the key to improving our overall efficiency and performance. To measure our organisational effectiveness the Office commenced measuring staff satisfaction four years ago and the last survey was in 2005-06. The next survey will be conducted in May 2008.

The survey addresses factors such as alignment, communication and co-operation, ethics, social and environmental responsibility, leadership, motivation, organisational commitment, personal satisfaction, recruitment and selection, rewards and recognition, staff development, supervision and teamwork, EEO, involvement, job design and performance management. Staff participation rate has been at the level of 90% and this gives the Office a strong measure to assess and compare trends.

The results of the most recent survey are represented in the graph in Appendix 4.

The findings from that survey have been and are still being addressed.

## Audit Social Club

Seventy-five per cent of the staff are members of our Social Club. During the year members participated in a range of social and sporting activities. The club is full funded by staff, and run by a representative group. It sponsored activities such as past employees Christmas party, staff Christmas lunch, farewell lunches for staff retiring, welcome functions for new staff, dress down days to raise funds for charities, the Office's Christmas Giving Tree, fortnightly staff togethers, curry lunch day and Melbourne cup function.

Photos of staff at the Christmas Lunch at Peppermint Bay.



## Staff Achievements

### Retirements

During the year Don Bailey (December 2006) retired after being with the Office for 6.5 years. At the time of his retirement Don was working in the PAS unit having commenced with the Office as a financial auditor in 1999. We wish Don well in his retirement.

### Service Awards

Over the years the Office's age and experience profile has changed as staff have retired. However some of our staff have served the Office for significant periods and we recognise these achievements:

Neville I'Anson is congratulated on achieving 30 years service.

### Academic Achievement

Congratulations to the following staff on achieving passes or better for their examinations:

Rebecca Clarke – Bachelor of Law exams (combined degree)  
Narelle Hind – Bachelor of Information Systems exams  
Melinda Gambrell – Bachelor of Commerce and Law exams  
Jara Dean – CPA module exams  
Andrew Eizsele – on achieving CPA eligibility status  
Jesse Penfold – Completed Bachelor of Commerce & Information Systems  
Karen Strikis – Completed Master of Professional Accounting  
Suzanne Xue – Completed Master of Professional Accounting  
Sashi Ram – Completed Bachelor of Commerce  
Robyn Smith – Completed Foundations of Human Resources

### Staff Congratulations

We congratulate Kylie and Damian Cook on the birth of their daughter Charlotte and the following staff members on their marriages:

Rachael Burn to Paul Daniels; and

Simone Hopwood to Ian Lee.



## Our Community

### Staff Participation in Community Activities

The Office has participated in fund raising events such as Red Nose Day, Daffodil Day, and similar events. On these days the staff dress down for the day and pay for the privilege by donating money to the cause being supported.

The Office also participated in the Cancer Council's Relay for Life. This occurs in February each year and is an event where teams walk for 24 hours non-stop and raise money via sponsorship for cancer research. The Office raised in excess of \$3 000 for the relay. The event was a success and all participating staff enjoyed the social atmosphere and the chance to work as a team in a different environment. The Office has already started fund raising for next year's event.



### Environment Responsibility

The Office is committed to improved waste recycling and purchasing.

We produce external reports on recycled paper and use recycled printer cartridges, recycle our newspapers, milk and plastic cartons and cans; and encourage staff to print in duplex mode to reduce paper usage.

During the year our internal printing volumes increased as the following table indicates.

	<b>2005</b>	<b>2006</b>	<b>2007</b>
Printer copies black	214 529	218 540	270 491
Printer copies colour	-	47 337	98 801
Purchases of paper (number of reams)	-	366	438

The production run for reports tabled in Parliament is set at 250 copies and although reviewed during the year remains unchanged.

The premises leased by the Office offer very little opportunity to implement “green” solutions but the Office will review its options with our landlord.

During the year the Office leased a more fuel efficient motor vehicle when an existing vehicle lease term was reached.

In the year ahead we will:

- review the production run volume for external reports and consider other electronic means for distribution;
- review internal practices to reduce the volume of printing;
- when the lease terms expire for current motor vehicles consider the environmental impact of replacement motor vehicles;
- continue to review our purchasing decisions and increase our recycling efforts; and
- monitor the effects of our actions with respect to leasehold improvements so as to reduce our greenhouse impact.

## University of Tasmania – Tasmanian Audit Office - Prize 2007

In association with the School of Accounting & Governance, University of Tasmania the Office continues to sponsor a prize for the student with the highest mark in the Auditing unit. For the 2006 academic year the award was presented to Emily Armstrong.

The Office will continue to support the award.



Ric De Santi presenting award to Emily (left) with Professor Victoria Wise.



## Corporate Governance

## Index – Corporate Governance





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## Corporate Governance

During the year, as referred to in last year's annual report, the Office's corporate governance framework was reviewed and new arrangements have been implemented.

The membership of the Executive Management Team (EMT) comprises the Auditor-General and the heads of the business units and support unit. One of the other changes is that the EMT meets on a quarterly basis instead of monthly. This arrangement will be reviewed during 2007-08 to ascertain its effectiveness.

## Executive Management Team

	<b>AUDITOR-GENERAL</b> <b>Mike Blake</b> BCom FCA FCPA	Mike commenced as the Tasmanian Auditor-General on 10 May 2004 after being the Auditor-General of the Northern Territory for 22 months. He is a member of the AUASB.
	<b>DEPUTY AUDITOR-GENERAL</b> <b>Ric De Santi</b> BBus FCPA	Ric started his working career with the Audit Office as an audit cadet in 1976. Based in Launceston Ric progressed to the position of Director of Audit. In 1998 he left the Office to go to Racing Tasmania as Business Manager. In 2004 he returned to the Office as Director Quality Assurance and was promoted to Deputy Auditor-General in 2006.
	<b>DIRECTOR – PERFORMANCE AUDIT</b> <b>Geoff Driscoll</b> BEc BSc CPA	Geoff joined the Office in 1992 as a Senior EDP Auditor after working at the Australian National Audit Office for 8 years. In 1998 he joined the Department of Justice. In 2000 he returned to the Office as a Senior Performance Auditor and has since been promoted to Director Performance Audit.
	<b>ACTING DIRECTOR – STRATEGY and GOVERNANCE</b> <b>David Strong</b> BBus FCPA MAHRI ISACA	David joined the Office in 1988 as an EDP Auditor after spending eight years with the Tasmanian Development Authority. In 1989 became responsible for managing the Office's IT infrastructure. In 1993 was promoted to Manager Corporate Services taking responsibility for financial management, human resources management, information and communications technology, information management and corporate planning.

## Advisory, Audit and Review Committee

One of the recommendations from the external peer review conducted during 2005-06 was the formation of an advisory committee. The Auditor-General has established an Advisory, Audit and Review Committee (the Committee) to assist in fulfilling the Office's oversight and governance responsibilities to assist in identifying and managing risk and to act as a sounding board from time to time.

The Committee met for the first time in March 2007 when it ratified its charter. The committee, as its name refers, has three functions although these functions have two objectives.

### Advisory Objective

This component of the Committee's work is aimed at providing the Auditor-General with advice from time to time on matters that may be raised by him or on matters initiated by the Committee collectively or individually. Normally such matters would be raised at routine committee meetings although this does not preclude the Committee, or any of its Members, from raising matters with the Auditor-General at other times. However, no member may raise a matter or participate in any discussion where he or she has a conflict of interest.

The Charter provides no guidance on the matters that may be raised or discussed but the objective is to assist the Auditor-General to effectively and efficiently discharge his obligations whilst in no way relieving the Auditor-General of, or substituting for, those obligations.

### Audit and Review Objectives

These components of the Committee's work are to provide independent assurance and assistance to the Auditor-General on the Office's governance, risk, control, and compliance framework, its external accountability responsibilities and in meeting the Office's corporate objectives.

In particular, the Committee assists the Auditor-General in discharging his responsibilities for exercising due care, diligence and skill in relation to the Office's governance including financial and risk management, ethics, adequacy of internal controls, application of accounting policies, compliance with applicable laws and reporting of financial and non-financial performance information.

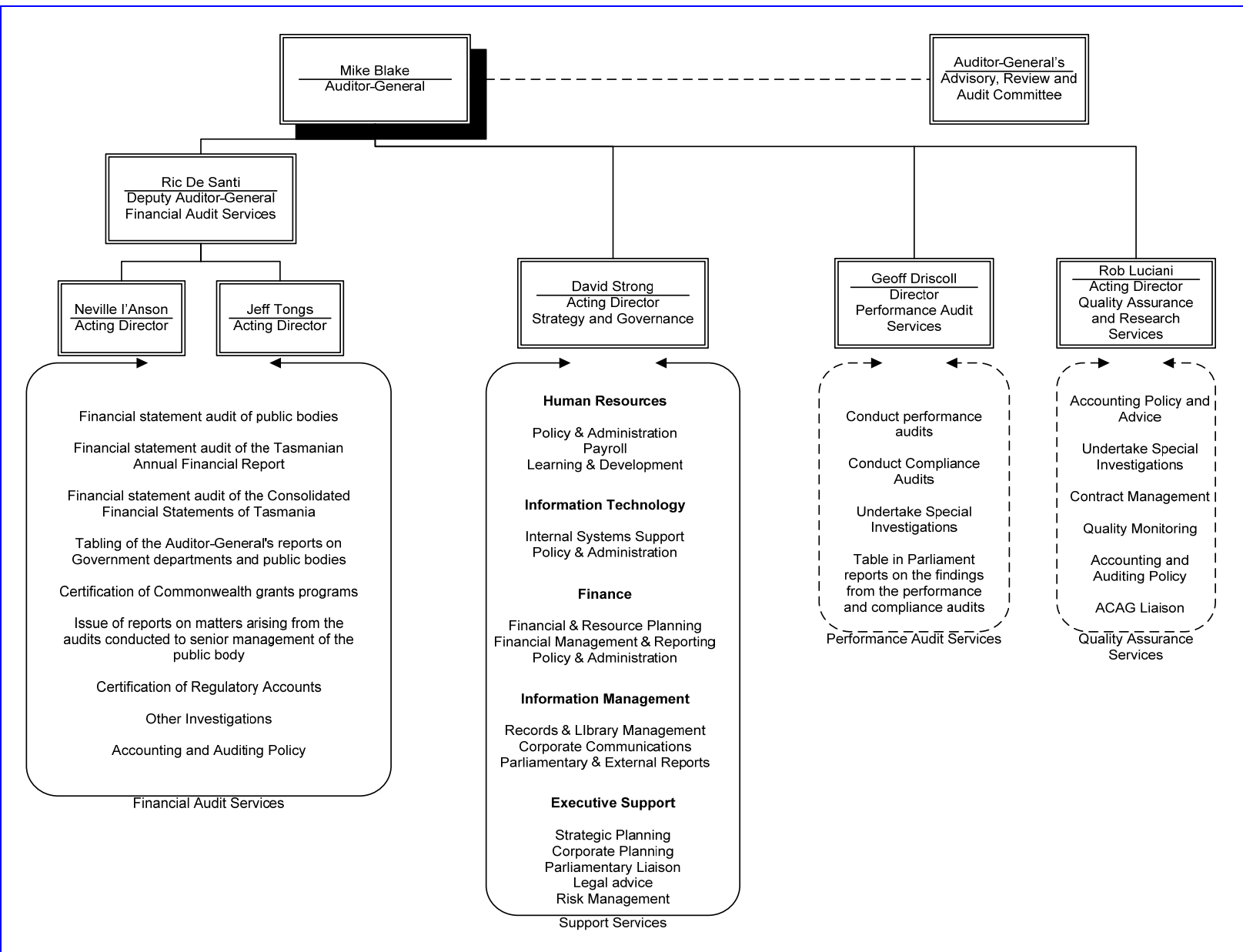
### Membership

The membership of the committee is as follows:

- Mr Graeme Kennedy – Chairperson;
- Dr Michael Vertigan; and
- Dr Elaine Stratford

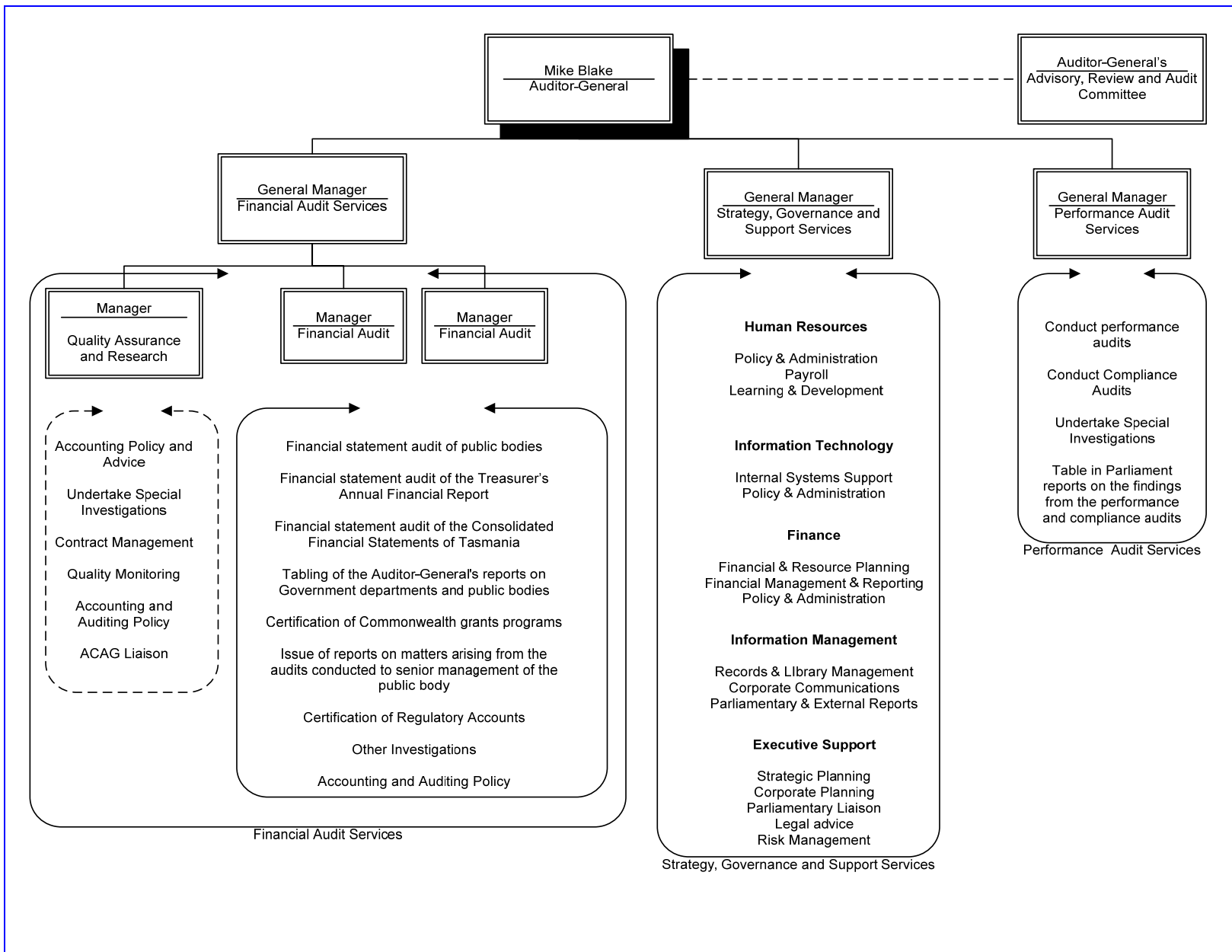
# Corporate Structure

As at 19 June 2007



# Corporate Structure

As at 20 June 2007



## Committees

The Office's committees are:

### Executive Management Team

The Executive Management Team is the senior management group that is responsible for the governance of the Office and for setting the Office's strategic direction, overseeing operational activities, policy formulation, and monitoring performance against corporate goals and milestones.

### Information Management Committee

The Information Management Committee has responsibility for ensuring that the use and application of the Office's information resource is consistent with the corporate direction and business functions of the Office. It also ensures the efficient and effective deployment of the Office's information technology in the performance of Office business.

The Committee met on three occasions during the year to progress initiatives and endorse business cases and policies. The major initiatives were:

- the timeframe for endorsement of policies and strategic plans;
- reviewed business cases for implementing the Office's new audit methodology IPSAM, a web content management system, infrastructure hardware upgrade and corporate application upgrades;
- reviewed the external report on the Office's hardware infrastructure;
- considered the implementation of COBIT and ITIL frameworks within the Office; and
- reviewed remote accessibility options for staff operating in the field.

### Audit Methodology Committee

The Audit Methodology Committee provides a strategic role in the maintenance of the financial audit and performance audit methodologies; provides assurance that the methodologies meet the needs of the Office and conforms to professional standards; and reviews the effectiveness of the methodologies.

The Committee met on two occasions during the year to progress and endorse business cases which included:

- endorsed the business case to implement IPSAM fully after a successful pilot;

- o reviewed and approved checklists and policies;
- o reviewed and implemented the recommendations from the internal quality reviews of financial audit and performance audit processes;
- o reviewed and implemented the recommendations from the external review conducted by the ACT Audit Office of financial audit services; and
- o discussed the integration between IPSAM and corporate applications.

## Human Resources Committee

The Human Resources Committee assists the EMT with policy development and with the implementation of policies and practices to ensure the Office's People Management Framework meets the requirements of the Office and staff.

The Committee met on two occasions during the year to progress and endorse business cases which included:

- o considered the recommendations of an external review of the Office's Human Resource policies and endorsed a timetable for implementing the recommendations;
- o discussed the development of the Office's People Management framework and the progress made with the development of three components of the framework;
- o reviewed and endorsed the Managing Diversity Policy; and
- o discussed the review of all policies and the need to rewrite all the policies in accordance with the Office's Policy Development Framework and the publication of the policies on the Office's new intranet.

Details of the composition of these committees are contained in Appendix 2.

## Risk Management

Risk management is an integral part of effective corporate governance. The Office has a comprehensive risk management framework that is aligned to our balanced scorecard that forms part of our strategic planning processes and underpins our business and support functions. The framework includes a risk management plan for the Office as a whole and risk plans for each business unit and support unit. These plans set out identified risks and determine appropriate treatment measures designed to reduce all risks to an acceptable level. The objectives and strategies identified in this plan have been developed within the context of our risk management framework.

During the year the Office's Risk Management Policy was revised and approved by the Executive Management Team. The policy has been reviewed by the Advisory, Audit and Review Committee who have recommended that a risk



management guideline/framework be developed to link the risks identified in the Office's risk portfolio. This framework is currently being developed.

In broad terms, our strategic risks relate to the need to:

<b>Providing value for money</b>  effectively manage our financial resources by building longer term organisational capability	<b>Highly satisfied Parliament and Clients</b>  maintain independence, integrity and professionalism by meeting our legal and professional standards, delivering quality products and having effective relationships with our clients
<b>Strongly performing teams</b>  effectively manage our people by building longer term organisational capability	<b>Rigorous methodology and process relevant to context</b>  have cost effective systems and processes that support our business

## Internal Audit

During the year an accounting firm was engaged to undertake a review of internal control procedures and practices in respect to information technology systems. The review was completed in March 2007 with the resulting report forwarded to the Advisory, Audit and Review Committee.

The report detailed six key findings:

- Absence of Office driven policy and procedure documentation;
- Apparent IT Manager overload of work;
- Lack of exception reports in respect to master file changes;
- Potential loss of information due to inappropriate backup schedule;
- Lack of general acceptance of the reporting functions and the suite of reporting tools by audit staff; and
- Staff disharmony with the time recording process.

The Office has addressed the above findings by:

- Rewriting financial management policies in accordance with the new policy development framework;
- Providing assistance to the Manager – ICT in the form of temporary contract staff and use of IT consultants;

- Writing reports to detail master file changes;
- Installing new infrastructure hardware; and
- Meeting with staff to address their concerns and agreed an action plan to move forward.

## External Review

In day to day matters internal control is provided through management's quality assurance processes, but another accepted practice is peer review. This involves one audit office or firm reviewing another. Benefits of peer review are independence and impartiality as well as transparency.

Every three years the Office seeks a peer review of its audit methodology in relation for financial audit and performance audit. During 2005-06 an agreement was entered into with the Auditor-General of the Australian Capital Territory (ACT) to undertake these reviews. The arrangement is reciprocal with our Office undertaking similar reviews for the ACT.

Also, every three years a peer review of the Office's total operations is undertaken. During 2005-06 Mr Len Scanlan, a former Auditor-General of Queensland, conducted a peer review of the Office. Mr Scanlan presented his report to the Auditor-General on 4 April 2006. The eight recommendations have been addressed as follows:

1. It is recommended that the Tasmanian Audit Office establish an Audit Committee to include external representation – in March 2007 an Audit Advisory Committee was formed;
2. It is recommended that the Tasmanian Audit Office establish an internal audit function by contracting in this function from the private sector – the Office is currently evaluating responses to an expression of interest for undertaking the internal audit function from 2007-08 onwards;
3. Audit Practice – elevation of the financial audit role and the audit findings through a greater client focus on client senior management and an increased level of formal reporting of financial audit findings to clients and to Parliament itself as the Office's primary client. Effective quality assurance is also relevant – this has been addressed by the Financial Audit Services Business Unit. Management letters prepared during the 2005-06 audit cycle responded to this recommendation;
4. Improved timeliness in financial audit service delivery specifically completion and finalising the issue of audit opinions on clients' financial statements and audit reports – this continues to be addressed by targeted measures aimed at earlier completion;
5. Improved teamwork as one office at an organisational level – the Financial Audit Services Business Unit now operates as a single team and

there is greater integration with the Performance Audit Services Business unit;

6. Increased focus on people management especially feedback, staff development and recognition – this is being addressed by various human resource strategies referred to earlier in this Annual Report;
7. Leading by example as a public sector entity in terms of adoption of best practice and satisfying accountability requirements and thereby dealing with reputation risk for the Office – this is being addressed through our risk management processes; and
8. Improving the performance and standing of the corporate services function in the Office – the restructure of this unit has been completed.

## External Audit

Under Section 45 of the *Financial Management and Audit Act 1990*, the Governor appoints an independent registered company auditor to perform an audit of the financial statements of the Tasmanian Audit Office.

In 27 June 2005 the Governor appointed Hall Chadwick, Chartered Accountants and Business Advisers, Melbourne for a three year term commencing with the audit for the year ended 30 June 2005.

Their audit report is attached to the financial statements contained in this annual report.

## Compliance and Accountability

### Quality Assurance Practices

The Office strives for best practice in relation to all the activities it undertakes and this is very much the case with the way we conduct our audits. We aim to continually raise the standard of our audit activities to meet the needs of Parliament and our clients.

### Audit methodologies

The Office places a high priority on ensuring that it has modern and effective methodologies for all audit activities. This is evidenced by the fact the Office has a dedicated committee, that is responsible for ensuring that our methodologies for financial and performance audits reflect best practice, and by creating within our structure the position of Director Quality Assurance.

A key aspect of our operational activities is to improve our audit policies and methodologies. These policies and methodologies assist with:

- Ensuring compliance with the legislative framework governing the audit environment in which the Office operates;
- Ensuring that the Office complies with auditing standards;
- Implementing quality assurance processes for all audit activities; and
- Providing Office staff with appropriate guidance on audit assignments.

During the year the Office implemented the new financial audit methodology developed by the Audit Offices of Victoria and Queensland. This methodology referred to as Integrated Public Sector Audit Methodology (IPSAM) was recommended by the Financial Audit Methodology Committee and endorsed by the Executive Management Team in November 2007.

### **Financial audit policy manual**

The Office's Financial Audit Manual guides staff in the conduct of financial statement audits. During the year the manual was reviewed and modified where necessary. Auditors in the field access the manual and other information on the Office's intranet in a controlled and secure manner. With the introduction of IPSAM, policies and procedures are being reviewed to ensure consistency with the Office's new policy development framework.

### **Performance audit policy manual**

The Office's Performance Audit Manual guides staff in the conduct of performance and compliance audits. During the year the manual was reviewed and modified where necessary. Like the financial auditors the performance auditors access the manual and other associated information via the Office's secure intranet. The policies and procedures will be reviewed and re-written in accordance with the Office's new policy development framework.

### **Adherence to best practice principles and standards**

To comply with auditing standards and Office policies, procedures are applied to safeguard the quality of our audits. These procedures include:

- Involving senior officers in all phases of the audit, including approving the planning memorandum and reviewing significant matter arising on each audit;
- Implementing key account principles for all audits to ensure high risk audits involve senior officers within the Office; and
- Quality assurance processes that require senior staff to review audit results so that the audit meets our own professional standards. This involves having a three-tiered review process.

## Post-audit quality reviews

In addition to the review processes used during audits the Office applies a series of quality assurance reviews to supplement the above measures. This includes:

- An annual post-audit quality review program by the Manager Quality Assurance that involves a detailed review of a sample of completed audits;
- Clients completing surveys that measure aspects of the audit process including their satisfaction with the quality of the audit; and
- Peer reviews on financial audit and performance audit processes. These are conducted every three years.

During the year reviews were conducted of financial and performance audit processes. Both reviews found areas needing improvement and the heads of both business units accepted and agreed to the recommendations.

## Compliance with Treasurer's Instructions issued in accordance with FMAA

The Office ensures that its operational practices comply with the Treasurer's Instructions issued in accordance with the *Financial Management and Audit Act 1990* (FMAA).

## Compliance with the Public Interest Disclosure Act

Any member of the public can view a copy of the Office's procedures in respect of public interest disclosures during office hours.

## Performance Monitoring

The Office applies sound performance monitoring practices including:

- Preparation of full accrual monthly financial statements for consideration by the Executive Management Team;
- Budget vs. Actual reports on a monthly basis;
- Variance Analysis reports on job costing on a monthly basis to ensure accurate overhead recovery and full utilisation of staff;
- Aged analysis reports for creditors and debtors; and
- Leave entitlement reports which are reviewed quarterly.

## Financial Performance

Some key indicators of the Office's financial performance during 2006-07 included:

- A net loss for the period of \$ 0.039m (2005-06, \$ 0.165m profit); and
- Net assets at balance date of \$0.437m (2005-06, \$0.476m).

The Audit Office is managed with the objective of at least breaking even. Revenue from financial audit fees is designed to cover all costs involved in the provision of this service including staff salaries and on-costs, administration, accommodation and equipment charges.

Performance audits, investigations and the cost of reporting to Parliament are managed on a cost recovery basis from an appropriation from Parliament that is managed by the Department of Treasury and Finance.

The Auditor-General's salary and on-costs are a Reserved by Law item within the State's annual budget.

The following table is a five year summary of the Office's financial performance:

	2006-07 (\$'000)	2005-06 (\$'000)	2004-05 (\$'000)	2003-04 (\$'000)	2002-03 (\$'000)
Revenue from operating activities	4 793	4 594	3 907	3 628	3 389
Expenditure from operating activities	4 832	4 429	4 323	3 610	3 464
Operating surplus/(deficit)	(39)	165	(416)	18	(63)

## Details of movements in revenue and expenditure:

	2006-07 (\$'000)	2005-06 (\$'000)	2004-05 (\$'000)	2003-04 (\$'000)	2002-03 (\$'000)
<b>Revenue</b>					
User charges	4 384	4 262	3 487	3 173	3 078
Recurrent appropriations	301	276	301	362	239
Other revenue	108	56	119	101	72
<b>Total</b>	<b>4 793</b>	<b>4 594</b>	<b>3 907</b>	<b>3 636</b>	<b>3 389</b>
<b>Expenditure</b>					
Employee Benefits	3 022	2 805	2 542	2 542	2 516
Other expenses from ordinary activities	670	507	581	516	461
Audit Contractors	670	680	181	181	91
Information technology	129	90	117	184	130
Accommodation	201	198	176	153	153
Depreciation	140	149	146	117	113
Written down value of disposed assets	-	-	11	7	0
Income tax equivalence	-	-	294	8	(12)
<b>Total</b>	<b>4 832</b>	<b>4 429</b>	<b>4 323</b>	<b>3 618</b>	<b>3 452</b>
<b>Operating Surplus/(Deficit)</b>	<b>(39)</b>	<b>165</b>	<b>(416)</b>	<b>18</b>	<b>(63)</b>

The Office has steadily increased its revenue over the last five years in line with increases in expenditure. The increase in employee related costs are due to increased salaries as a result of the current State Services Wages Agreement (SSWA). The information technology related expenses increased as a result of the new financial audit methodology and licenses for new corporate applications. The significant increase in other expenses in 2006-07 relates to more spend on professional development, consultants and travel and transport.

The increase in user charges in 2006-07 relates mainly to the production of the reports to Parliament on the results of the financial statement audits where the cost increased by \$0.114m in comparison to 2005-06.

Implementation of revised outsourcing arrangements and staff shortages resulted in a higher level of financial audits outsourced to the private sector in 2006-07.

The operating loss for the year of \$0.039m includes expenditure for the production of the publication "Independence: the foundation of accountability – The History of the Tasmanian Audit Office". This one-off expenditure of \$0.048m, when deducted from the operating result, meant the Office realised its target of operating at a break-even result.

## Financial Position

	2006-07 (\$'000)	2005-06 (\$'000)	2004-05 (\$'000)	2003-04 (\$'000)	2002-03 (\$'000)
<b>Assets</b>					
Current assets	809	1 030	823	897	1 197
Non-current assets	581	483	260	577	526
<b>Total assets</b>	<b>1 390</b>	<b>1 513</b>	<b>1 083</b>	<b>1 456</b>	<b>1 723</b>
<b>Liabilities</b>					
Current liabilities	435	592	364	322	572
Non-current liabilities	518	445	408	397	432
<b>Total liabilities</b>	<b>953</b>	<b>1 037</b>	<b>772</b>	<b>719</b>	<b>1 004</b>
<b>Net Assets</b>	<b>437</b>	<b>476</b>	<b>311</b>	<b>737</b>	<b>719</b>

The Office's net assets decreased by \$0.039m due to the operating deficit for the year. Net working capital remains strong at \$0.437m (2005-06 - \$0.438m) and at 30 June 2007 the Office had a solid cash balance.

The variation in non-current assets compared to the previous year is due to the purchase of replacement information technology hardware. The decrease in the current liabilities is a result of a lower year end balance for creditors.



## Financial Statements

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## Tasmanian Audit Office

### Income Statement for the year ended 30 June 2007

	Notes	2007 Budget \$'000	2007 Actual \$'000	2006 Actual \$'000
Income				
Appropriation revenue – recurrent	1.4(a), 1.11(a), 3.1	319	301	276
User charges	1.4(b), 1.11(b), 3.2	4 806	4 384	4 262
Gain (loss) on sale of non-financial assets	1.4(d), 3.3	-	-	(4)
Other revenue	1.4(c), 1.11(c), 3.3	12	108	60
<b>Total income</b>		<b>5 137</b>	<b>4 793</b>	<b>4 594</b>
<b>Expenses</b>				
Employee entitlements	1.5(a), 1.11(d), 4.1	3 119	2 874	2 625
Depreciation and amortisation	1.5(b), 1.11(e), 4.2	167	140	149
Payroll tax	1.11(f)	173	148	180
Audit Contactors	1.11(g)	506	670	680
Accommodation		192	201	198
Information Technology		130	129	90
Materials and Supplies		242	234	172
Other expenses	1.5(c), 4.3	438	436	335
<b>Total expenses</b>		<b>4 967</b>	<b>4 832</b>	<b>4 429</b>
<b>Net operating surplus (deficit)</b>		<b>170</b>	<b>(39)</b>	<b>165</b>
<b>Net surplus (deficit) attributable to the State</b>		<b>170</b>	<b>(39)</b>	<b>165</b>

This Income Statement should be read in conjunction with the accompanying notes.

Budget information refers to original estimates and revised estimates and has not been subject to audit.

## Tasmanian Audit Office

## Balance Sheet as at 30 June 2007

	Notes	2007 Budget \$'000	2007 Actual \$'000	2006 Actual \$'000
<b>Assets</b>				
<i>Financial assets</i>				
Cash and deposits	1.6(a), 1.11(h), 9.1	1 266	303	368
Receivables	1.6(b), 1.11(h), 5.1	300	236	472
Work in progress	1.6(c), 1.11(h)	250	270	190
<i>Non-financial assets</i>				
Leasehold improvements, plant and equipment	1.6(d), 1.11(i), 5.3	198	279	329
Intangibles	1.6(e), 1.11(j), 5.4	45	173	45
Other assets	1.11(j), 5.5	70	129	109
<b>Total assets</b>		<b>2 129</b>	<b>1 390</b>	<b>1 513</b>
<b>Liabilities</b>				
Payables	1.7(a), 1.11(k), 6.1	89	139	185
Provisions	1.7(b), 6.2	-	15	14
Employee entitlements	1.7(c), 1.7(d), 1.11(l), 6.3	688	725	672
Other liabilities	1.7(c), 1.11(m), 6.5	-	74	166
<b>Total liabilities</b>		<b>777</b>	<b>953</b>	<b>1 037</b>
<b>Net assets (liabilities)</b>		<b>1 352</b>	<b>437</b>	<b>476</b>
<b>Equity</b>				
Contributed capital		1 168	1 168	1 168
Accumulated funds		184	(731)	(692)
<b>Total Equity</b>	8.1	<b>1 352</b>	<b>437</b>	<b>476</b>

This Balance Sheet should be read in conjunction with the accompanying notes.

Budget information refers to original estimates and has not been subject to audit.

## Tasmanian Audit Office

### Cash Flow Statement for the year ended 30 June 2007

	Notes	2007 Budget \$'000	2007 Actual \$'000	2006 Actual \$'000
<b>Cash flows from operating activities</b>				
<b>Cash inflows</b>		Inflows	Inflows	Inflows
		(Outflows)	(Outflows)	(Outflows)
Appropriation receipts - recurrent	1.11(n)	319	301	276
User charges	1.11(o)	4 806	4 446	5 056
GST receipts		477	345	87
Interest received	1.11(p)	12	29	10
Other cash receipts	1.11(q)	-	78	50
<b>Total cash inflows</b>		<b>5 614</b>	<b>5 199</b>	<b>5 479</b>
<b>Cash outflows</b>				
Employee entitlements	1.11(r)	(3 204)	(2 820)	(2 581)
GST payments		(477)	(340)	(376)
Other cash payments	1.11(s)	(1 508)	(1 888)	(1 886)
<b>Total cash outflows</b>		<b>(5 189)</b>	<b>5 048</b>	<b>(4 843)</b>
<b>Net cash from (used by) operating activities</b>	9.2	<b>425</b>	<b>151</b>	<b>636</b>
<b>Cash flows from investing activities</b>				
<b>Cash inflows</b>				
Proceeds from the disposal of non-financial assets		-	-	10
<b>Total cash inflows</b>		<b>-</b>	<b>-</b>	<b>10</b>
<b>Cash outflows</b>				
Payments for acquisition of non-financial assets	1.11(t)	(140)	(216)	(277)
<b>Total cash outflows</b>		<b>(140)</b>	<b>(216)</b>	<b>(277)</b>
<b>Net cash from (used by) investing activities</b>		<b>(140)</b>	<b>(216)</b>	<b>(267)</b>
<b>Net increase (decrease) in cash held</b>		<b>285</b>	<b>(65)</b>	<b>369</b>
<b>Cash at the beginning of the reporting period</b>		<b>981</b>	<b>368</b>	<b>(1)</b>
<b>Cash at the end of the reporting period</b>	9.1	<b>1 266</b>	<b>303</b>	<b>368</b>

This Statement of Cash Flows should be read in conjunction with the accompanying notes.

Budget information refers to original estimates and has not been subject to audit.

## Tasmanian Audit Office

### Statement of Recognised Income and Expense for the year ended 30 June 2007

	<b>2007 Actual \$'000</b>	<b>2006 Actual \$'000</b>
Net surplus/(deficit) for the period	(39)	165
<b>Total recognised income and expense for the period</b>	<b>(39)</b>	<b>165</b>

This Statement of Recognised Income and expense should be read in conjunction with the accompanying notes.

## Notes to and forming part of the Financial Statements for the year ended 30 June 2007

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## Note 1 Significant Accounting Policies

### 1.1 Objectives and Funding

The Office is structured to provide audit assurances to Parliament concerning the financial statements of the Treasurer, Government Departments, Government Business Enterprises, State-owned Companies, Local Government Councils and other public bodies and the economy, efficiency and effectiveness of those entities.

The Office is predominantly funded through fees for service. The undertaking of financial, performance and compliance audits and the publishing of reports are fee for service activities. The Office is also funded through a Parliamentary appropriation for the Auditor-General's salary and associated allowances. The financial report encompasses all funds through which the Office controls resources to carry on its functions.

The continued existence of the Office in its present form, undertaking its current activities, is dependent on the support of the Parliament and on the Office's ability to charge appropriate fees to recover its operational costs. All the Office's activities are classified as controlled.

### 1.2 Basis of Accounting

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

- o Treasurer's Instructions issued under the provisions of the *Financial Management and Audit Act 1990*; and
- o Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB). In particular, AAS 29 *Financial Reporting by Government Departments* has been applied.

From 1 January 2005, Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AEIFRS). Compliance with AEIFRS may not result in compliance with International Financial Reporting Standards (IFRS), as AEIFRS includes a number of requirements and options available to not-for-profit organisations that are inconsistent with IFRS.

The Office operates as a non-profit entity for financial reporting purposes.

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

The Financial Statements are presented in Australian dollars.

### 1.3 Changes in Accounting Policies

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

The Office adopts all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current financial period. New or amended Standards issued during 2006-07 had no material impact on the information presented in the Financial Statements.



The following Standards, amendments to Standards and Interpretations have been identified as those which may impact the Office in the period of initial operation. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

- AASB 7 Financial Instrument Disclosures – for reporting periods beginning on or after 1 January 2007.
- AASB 123 Borrowing Costs – for reporting periods beginning on or after 1 January 2009.

The financial impact of the adoption of these Standards is currently not known.

## 1.4 Income

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

### *(a) Appropriation Revenue*

Appropriations, whether recurrent or capital, are recognised as revenues in the period in which the Office gains control of the appropriated funds.

### *(b) User Charges*

Amounts earned in exchange for the provision of goods are recognised when the good is provided and title has passed. Revenue from the provision of services is recognised when the service has been provided.

Notional revenues and expenses for audits conducted by service providers where the client pays directly for the service are accounted for as notional charges and audit contractors expense.

### *(c) Interest*

Interest revenue is recognised as it accrues.

### *(d) Gain (Loss) from the Sale of Non-financial Assets*

Revenue from the sale of non-financial assets is recognised when control of the asset has passed to the buyer.

## 1.5 Expenses

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

### *(a) Employee Entitlements*

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

### ***(b) Depreciation and Amortisation***

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

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

#### **Physical assets (Depreciation)**

Furniture and fittings	Between 4-10 years
Computer equipment - Hardware	Between 3-4 years
Office equipment	Between 5-10 years

#### **Intangible assets (Amortisation)**

Computer equipment - Software	Between 3-5 years
-------------------------------	-------------------

The cost of improvements to or on leased properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Office, whichever is the lesser. Major amortisation rates are:

Leasehold Improvements	10 per cent
Lease :make good"	10 per cent

### ***(c) Other Expenses***

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

## **1.6 Assets**

Assets are recognised in the Balance Sheet when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.

### ***(a) Cash and Deposits***

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

### ***(b) Receivables***

Receivables are recognised at the amounts receivable as they are due for settlement. Impairment of receivables is reviewed on an annual basis. Impairment losses are recognised when there is an indication that there is a measurable decrease in the collectability of receivables.

### **(c) Work in Progress**

Work in progress is measured by the actual hours spent to date on the individual audits multiplied by the appropriate charge out rate per employee category less amounts invoiced. Work in progress is valued at the lower of cost or net realisable value. Impairment losses are recognised when there is an indication that there is a measurable decrease in the recoverability of work in progress.

### **(d) Non-current Physical Assets**

#### **(i) Valuation basis**

All Non-current physical assets are recorded at historic cost.

#### **(ii) Asset recognition threshold**

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

#### **(iii) Impairment**

The carrying amounts of non-current physical assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

### **(e) Intangibles**

An intangible asset is recognised where:

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

Intangible assets held by the Office are valued at cost and are amortised on a straight line basis over their estimated useful life.

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

## **1.7 Liabilities**

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

### ***(a) Payables***

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

### ***(b) Provisions***

Provisions are recognised when it is probable that a payment will be made and the amount of the payment can be reliably measured. Any right to reimbursement relating to some or all of the provision is recognised as an asset when it is virtually certain that the reimbursement will be received.

### ***(c) Employee Entitlements***

Liabilities for wages and salaries and annual leave are recognised when the employee becomes entitled to receive the benefit. Those liabilities expected to be realised within 12 months are measured as the amount expected to be paid. Other employee entitlements are measured as the present value of the benefit at 30 June 2007, where the impact of discounting is material, and at the amount expected to be paid if discounting is not material.

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

The Office has recognised a liability for the Auditor-General's employee entitlement provisions even though the provisions will be paid as a Reserved by law item that is funded by way of an appropriation to the Office when paid out in the future.

### ***(d) Superannuation***

The Office does not recognise a liability for the accruing superannuation benefits of Office employees. This liability is held centrally and is recognised within the Finance-General Division of the Department of Treasury and Finance.

### ***(e) Revenue in Advance***

The Office invoices for financial audit work on a "phase" basis. Where work is invoiced but further work is anticipated, revenue is recognised as revenue in advance.

## **1.8 Leases**

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

The Office does not enter into finance leases.

## **1.9 Financial Instruments – Non-derivative**

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, and trade and other payables which are recognised at amortised cost.

Difference between amortised cost and fair value are not recognised in the Balance Sheet being immaterial.

## 1.10 Judgements and Assumptions

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

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

Judgements made by the Office that have significant effects on the Financial Statements are disclosed in the relevant notes to the financial statements.

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

## 1.11 Budget Information

Budget information refers to the original estimates disclosed in the 2006-07 Budget Papers and has not been subject to audit.

### *Variation Explanations*

#### *Income Statement*

- (a) The variation between budget and actual resulted from lower actual Reserved By Law non-salary expenditure items than budgeted, such as allowances.
- (b) The variation between budget and actual for user charges was \$396 000 due to:
  - I. un-recovered work-in-progress due to time spent on implementation of the Office's new financial audit methodology \$100 000; and
  - II. staff shortages estimated at \$290 000.
- (c) The variation between budget and actual for other revenue is due to:
  - I. a \$70 000 contribution, not included in the budget, received from the Government to assist the Office in the purchase of a new financial audit methodology; and
  - II. interest revenue received exceeding budget by \$17 000.
- (d) The variation between budget and actual for employee entitlements is due to:
  - I. actual establishment level for the year being lower than anticipated after adjusting for contracted in services resulting in cost savings of \$57 000;
  - II. the saving in the Auditor-General's salary and allowances of \$18 000; and

III. the expected implementation of the Office's restructure not occurring resulting in a cost saving of \$170 000.

- (e) The variation between budget and actual for depreciation and amortisation charges relates to the later purchasing of software and hardware than originally planned resulting in lesser charges for depreciation and amortisation.
- (f) The variation between budget and actual for payroll tax is attributable to the movements in employee entitlements as discussed in point (d).
- (g) The variation between budget and actual for audit contractors is as a result of timing differences and additional fee charged by contractors for IFRS implementation which were not included in the budget.

### **Balance Sheet**

The following commentary in respect of variations will relate to the actual amounts for 2006 and 2007. There will be no commentary to explain the variations between budget and actual for 2007 as the budget figures represent those in the Budget Papers for 2006-07 tabled in Parliament in May 2006, and therefore have not been adjusted for opening balances as at 1 July 2006 to make the figures comparable. The variations based on the actuals of 2006 and 2007 are:

- (h) The cumulative variation between 2006 and 2007 actuals for cash and deposits, receivables and work in progress is due to:
  - I. the reduced establishment level which meant the Office did not generate the expected revenue (\$290 000) that could be converted into cash; and
  - II. the reduction in revenue in advance from \$130 000 to \$35 000.
- (i) The between 2006 and 2007 actuals for plant and equipment and intangibles is due to additional purchases made as a result of strategic decision subsequent to the budget finalisation.
- (j) The variation between 2006 and 2007 actuals for other assets is due to the primary component, prepayments, increasing as a result of increased software licences for software applications being purchased as a result of strategic decisions.
- (k) The variation between 2006 and 2007 actual for payables is due to a reduction in creditors outstanding at year end by \$45 000.
- (l) The variation between 2006 and 2007 actuals for employee entitlements is due to:
  - I. the increase in salaries by 4.5% adding \$28 000 to the provision; and
  - II. the increase in accrued leave balances adding \$25 000 to the provision.
- (m) The variation between 2006 and 2007 actuals for other liabilities is due to the decrease in revenue in advance at 30 June, \$95 000.

### **Cash Flow Statement**

- (n) The variation between budget and actual appropriation receipts is due to lower actual Reserved by Law non-salary expenditure items than budgeted, such as allowances.
- (o) The variation between budget and actual for user charges receipts is due to lower than expected revenue for the financial year which meant lower cash receipts from user charges similar to the shortfall described in point (b).

- (p) The variation between budget and actual for interest received is due to higher average cash balance over the year resulting in additional interest earned of \$17 000.
- (q) The variation between budget and actual for other cash receipts is due to:
- I. a contribution from the Government of \$70 000 for the implementation of the Office's new financial audit methodology; and
  - II. the transfer of funds relating to employee entitlement provisions for staff who transferred from other Government departments totalling \$8 000.
- (r) The variation between budget and actual for employee entitlements is due to:
- I. an actual establishment level for the year being lower than anticipated resulting in cost savings of \$196 000;
  - II. the saving in the Auditor-General's salary and allowances of \$18 000; and
  - III. the expected implementation of the Office's restructure not occurring resulting in a cost saving of \$170 000.
- (s) The variation between budget and actual for other cash payments is due to:
- I. audit contractors exceeding budget by \$165 000;
  - II. accommodation expenses exceeding budget by \$10 000;
  - III. materials and supplies exceeding budget by \$81 000;
  - IV. training expenses exceeding budget by \$33 000;
  - V. consultant expenses exceeding budget by \$71 000; and
  - VI. miscellaneous expenses exceeding budget by \$15 000.
- (t) The variation between budget and actual for acquisition of non-financial assets is due to:
- I. planned purchases being brought forward from the following year (\$25 000); and
  - II. purchases relating to strategic decisions not planned for the year (\$50 000).

## 1.12 Rounding

All amounts in the Financial Statements have been rounded to the nearest thousand dollars, unless otherwise stated. Where the result of expressing amounts to the nearest thousand dollars would result in an amount of zero, the financial statement will contain a note expressing the amount to the nearest whole dollar.

## 1.13 Office Taxation

The Office is exempt from all forms of taxation except Fringe Benefits Tax, Payroll Tax and the Goods and Services Tax (GST).

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

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- o where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expenses; or
- o for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

## Note 2 Office Output Schedules

### 2.1 Output Group Information

Budget information refers to original estimates and has not been subject to audit.

#### OUTPUT GROUP 1 – (PUBLIC SECTOR MANAGEMENT & ACCOUNTABILITY)

	2007 Budget \$'000	2007 Actual \$'000	2006 Actual \$'000
<b>Revenue</b>			
Revenue from Government			
Reserved by law	319	301	276
User charges	4 786	4 384	4 262
Gain (loss) on sale of non-financial assets	3	-	(4)
Other Revenue	30	108	60
<b>Total</b>	<b>5 137</b>	<b>4 793</b>	<b>4 594</b>
<b>Expenses</b>			
Employee entitlements	3 291	2 874	2 625
Depreciation and amortisation	167	140	149
Payroll tax	173	148	180
Audit contractors	506	670	680
Accommodation	192	201	198
Information technology	130	129	90
Materials and supplies	155	234	172
Other Expenses	353	436	335
<b>Total</b>	<b>4 967</b>	<b>4 832</b>	<b>4 429</b>
<b>Net Result</b>	<b>170</b>	<b>(39)</b>	<b>165</b>
<b>Expense By Output</b>			
Public Sector Management and Accountability	4 967	4 832	4 429
<b>Total</b>	<b>4 967</b>	<b>4 832</b>	<b>4 429</b>
<b>Total Net Result of Output Groups</b>	<b>170</b>	<b>(39)</b>	<b>165</b>



## Note 3 Income

### 3.1 Appropriation Revenue

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

	2007 Actual \$'000	2006 Actual \$'000
Items Reserved by Law - Auditor-General's Salary and associated on-costs	301	276
<b>Total Revenue from Government</b>	<b>301</b>	<b>276</b>

### 3.2 User Charges

Financial Audit Services	2 987	2 967
Performance and Compliance Audit	1 079	1 091
Reports to Parliament	318	204
<b>Total</b>	<b>4 384</b>	<b>4 262</b>

Two clients of the Office have contracts with service providers to undertake the financial audit of their organisations where the client pays the service provider directly. In a departure from previous years the notional user charges are included in the financial statements instead of just disclosure by way of a note to the financial statements

	48	48
--	----	----

### 3.3 Gains/Losses on Sale of Non-financial Assets

<b>Office and computer equipment</b>		
Proceeds from sales	-	10
Written down value of disposed assets	-	(14)
<b>Gain/loss on sale</b>	<b>-</b>	<b>(4)</b>

### 3.4 Other Revenues

Interest revenue	29	7
Revenue for Audit Methodology	70	50
Other	9	3
<b>Total</b>	<b>108</b>	<b>60</b>

## Note 4 Expenses

### 4.1 Employee Entitlements

	2007 \$'000	2006 \$'000
Wages and salaries	2 325	2 048
Annual leave	197	231
Long service leave	79	67
Fringe benefits tax	25	29
Superannuation – contribution scheme	133	122
Superannuation – defined benefit scheme	115	128
<b>Total</b>	<b>2 874</b>	<b>2 625</b>

Superannuation expenses relating to defined benefits schemes relate to payments into the Superannuation Provision Account (SPA) held centrally and recognised within the Finance-General Division of the Department of Treasury and Finance. The amount of the payment is based on an employer contribution rate determined by the Treasurer, on the advice of the State Actuary. The current employer contribution is 11 per cent of salary.

Superannuation expenses relating to the contribution scheme are paid directly to the superannuation fund at a rate of nine per cent of salary. In addition, departments are also required to pay into the SPA a “gap” payment equivalent to two per cent of salary in respect of employees who are members of the contribution scheme.

### 4.2 Depreciation and Amortisation

#### (a) Depreciation

Computer equipment – hardware	54	67
Office furniture and furniture and fittings	41	36
<b>Total</b>	<b>95</b>	<b>103</b>

#### (b) Amortisation

Leasehold improvements	14	11
Computer equipment – software	30	34
Leasehold makegood	1	1
<b>Total</b>	<b>45</b>	<b>46</b>
<b>Total Depreciation and Amortisation</b>	<b>140</b>	<b>149</b>

### 4.3 Other Expenses

	2007 \$'000	2006 \$'000
Worker's compensation	12	12
Travel and transport	120	100
Training	104	55
Consultants	176	142
Insurance	9	12
Miscellaneous expenses	15	12
<b>Total</b>	<b>436</b>	<b>335</b>

## Note 5 Assets

### 5.1 Receivables

User charges (inclusive of GST)	234	469
Interest	2	1
Other receivables	-	2
<b>Total</b>	<b>236</b>	<b>472</b>
Settled within 12 months	236	472
Settled in more than 12 months	-	-
<b>Total</b>	<b>236</b>	<b>472</b>

### 5.2 Work In Progress

Work in progress comprises unbilled revenue as at 30 June	270	190
<b>Total</b>	<b>270</b>	<b>190</b>
Settled within 12 months	270	190
Settled in more than 12 months	-	-
<b>Total</b>	<b>270</b>	<b>190</b>

### 5.3 Leasehold Improvements, Plant and Equipment

#### (a) Carrying amount

<b>Computer Equipment – Hardware</b>		
At Cost	482	429
Less: Accumulated depreciation	(367)	(313)
<b>Total</b>	<b>115</b>	<b>116</b>
<b>Leasehold improvements</b>		
At cost	131	132
Less: Accumulated amortisation	(24)	(11)
<b>Total</b>	<b>107</b>	<b>121</b>
<b>Office Equipment</b>		
At cost	83	80
Less: Accumulated depreciation	(52)	(28)
<b>Total</b>	<b>31</b>	<b>52</b>
<b>Furniture and Fittings</b>		
At cost	67	64
Less: Accumulated depreciation	(41)	(24)
<b>Total</b>	<b>26</b>	<b>40</b>
<b>Total Leasehold Improvements, Plant and Equipment</b>	<b>279</b>	<b>329</b>

### **(b) Reconciliation of movements of leasehold improvements, plant and equipment**

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

#### **2007**

	Computer Equipment \$'000	Office Equipment & Furniture \$'000	Leasehold Improve- ments \$'000	Total \$'000
<b>Carrying value at 1 July</b>	<b>116</b>	<b>92</b>	<b>121</b>	<b>329</b>
Additions	53	6	-	59
Disposals	-	-	-	-
Depreciation and amortisation	(54)	(41)	(14)	(109)
<b>Carrying value at 30 June</b>	<b>115</b>	<b>57</b>	<b>107</b>	<b>279</b>

#### **2006**

	Computer Equipment \$'000	Office Equipment & Furniture \$'000	Leasehold Improve- ments \$'000	Total \$'000
<b>Carrying value at 1 July</b>	<b>165</b>	<b>14</b>	<b>-</b>	<b>179</b>
Additions	18	123	132	273
Disposals	-	(11)	-	(11)
Depreciation and amortisation	(67)	(34)	(11)	(112)
<b>Carrying value at 30 June</b>	<b>116</b>	<b>92</b>	<b>121</b>	<b>329</b>

## **5.4 Intangibles**

### **(a) Carrying amount**

	<b>2007 \$'000</b>	<b>2006 \$'000</b>
<b>Intangibles with a finite useful life</b>		
Software At Cost	441	283
Less: Accumulated amortisation	(268)	(238)
<b>Total</b>	<b>173</b>	<b>45</b>

### **(b) Reconciliation of movements of intangible assets**

<b>Carrying amount at 1 July</b>	<b>45</b>	<b>81</b>
Additions	158	4
Disposals	-	(4)
Amortisation expense	(30)	(36)
<b>Carrying amount at 30 June</b>	<b>173</b>	<b>45</b>

## 5.5 Other Assets

### (a) Carrying amount

	2007 \$'000	2006 \$'000
<b>Other Current Assets</b>		
Tax assets – GST receivable from the ATO	-	3
Prepayments	118	93
<b>Total</b>	<b>118</b>	<b>96</b>
<b>Other Non-current Assets</b>		
Lease makegood	14	14
Less: Accumulated amortisation	(3)	(1)
<b>Total</b>	<b>11</b>	<b>13</b>
Settled within 12 months	118	96
Settled in more than 12 months	11	13
<b>Total</b>	<b>129</b>	<b>109</b>

### (b) Reconciliation of movements – other non-current assets

<b>Carrying amount at 1 July</b>	<b>13</b>	-
Additions	-	14
Depreciation expense	(2)	(1)
<b>Carrying amount at 30 June</b>	<b>11</b>	<b>13</b>

## Note 6 Liabilities

### 6.1 Payables

Creditors	132	177
Payroll tax payable	1	1
Accrued fringe benefits tax	6	7
<b>Total</b>	<b>139</b>	<b>185</b>
Due within 12 months	139	185
Due in more than 12 months	-	-
<b>Total</b>	<b>139</b>	<b>185</b>

Settlement is usually made within 30 days.

## 6.2 Provisions

### (a) Carrying amount

	2007 \$'000	2006 \$'000
<i>Provision for lease makegood</i>	15	14
<b>Total</b>	<b>15</b>	<b>14</b>
Due within 12 months	-	-
Due in more than 12 months	15	14
	<b>15</b>	<b>14</b>

### (b) Reconciliation of movements in provisions

<b>Balance at 1 July</b>	<b>14</b>	-
Increases	1	14
<b>Balance at 30 June</b>	<b>15</b>	<b>14</b>

## 6.3 Employee Entitlements

Accrued salaries	24	28
Annual leave	225	196
Long service leave	449	425
Superannuation	2	2
In Lieu of Overtime	25	21
<b>Total</b>	<b>725</b>	<b>672</b>
Due within 12 months	296	265
Due in more than 12 months	429	407
<b>Total</b>	<b>725</b>	<b>672</b>

## 6.4 Superannuation

### (a) Type of plan

#### *Retirement Benefits Fund (RBF) Scheme*

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

The scheme was closed to new members on 15 May 1999.

An independent actuarial assessment is undertaken into the RBF Scheme as at 30 June each financial year.

## 6.5 Other Liabilities

	2007 \$'000	2006 \$'000
<b>Revenue Received in Advance</b>		
Other revenue received in advance	35	130
<b>Other liabilities</b>		
Employee benefits – on-costs	37	36
Tax liabilities	2	
<b>Total</b>	<b>74</b>	<b>166</b>
Due within 12 months	49	142
Due in more than 12 months	25	24
<b>Total</b>	<b>74</b>	<b>166</b>

## Note 7 Commitments and Contingencies

### 7.1 Schedule of Commitments

<b>By Type</b>		
Lease Commitments		
Operating leases	2 078	2 128
<i>Total lease commitments</i>	<b>2 078</b>	<b>2 128</b>
Other commitments		
Contract audits	369	837
<i>Total other commitments</i>	<b>369</b>	<b>837</b>
<b>By Maturity</b>		
Operating lease commitments		
One year or less	225	216
From one to five years	943	885
More than five years	910	1 027
<i>Total operating lease commitments</i>	<b>2 078</b>	<b>2 128</b>
Other commitments		
One year or less	311	581
From one to five years	58	256
More than five years	-	-
<i>Total other commitments</i>	<b>369</b>	<b>837</b>
<b>Total</b>	<b>2 447</b>	<b>2 965</b>

### (a) Operating Leases

Operating leases relate to office accommodation and motor vehicles. For office accommodation the lease terms are 10 years, with an option to extend for a further 10 years. All operating lease contracts contain certain market review clauses. The motor vehicle lease is governed by the Government's contract where vehicles are leased and replaced every two years or 40,000 kilometres of use whichever is the earlier event.

### (b) Contract Audits

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

## Note 8 Equity and Movements in Equity

### 8.1 Reconciliation of Equity

	Accumulated results		Contributed Capital		Total Equity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Balance at 1 July	(692)	(857)	1 168	1 168	476	311
Net surplus/deficit	(39)	165	-	-	(39)	165
Balance at 30 June	(731)	(692)	1 168	1 168	437	476

Equity represents the residual interest in the net assets of the Office.

## Note 9 Cash Flow Reconciliation

### 9.1 Cash and Cash Equivalents

Cash and Deposits includes the balance of the Special Deposits and Trust Fund Accounts held by the Office, and other cash held, excluding those accounts which are administered or held in a trustee capacity or agency arrangement.

	2007 \$'000	2006 \$'000
<b>Special Deposits and Trust Fund Balance</b>		
<i>Special Deposits and Trust Account T644</i>	303	368
<b>Total Cash and Cash Equivalents</b>	<b>303</b>	<b>368</b>

### 9.2 Reconciliation of Operating Surplus to Net Cash from Operating Activities

Net operating surplus (deficit)	(39)	165
Depreciation and amortisation	140	149
Gain (loss) from sale of non-financial assets	-	4
Decrease (increase) in Receivables	236	72
Decrease (increase) in Prepayments	(25)	(38)
Decrease (increase) in Work In Progress	(80)	18
Decrease (increase) in GST assets	2	15
Decrease (increase) in Other assets	53	-
Increase (decrease) in Employee entitlements	(46)	44
Increase (decrease) in Payables	3	79
Increase (decrease) in Tax liabilities	1	-
Increase (decrease) in Other liabilities	(94)	128
<b>Net cash from (used by) operating activities</b>	<b>151</b>	<b>636</b>



## Note 10 Financial Instruments

### Risk Exposures

The Office does not hold any derivative financial instruments.

#### (a) Credit risk exposures

The credit risk on financial assets of the Office, which have been recognised in the Balance Sheet, is generally the carrying amount, net of any Provision for impairment.

#### (b) Interest rate risk

The Office's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table. For interest rates applicable to each class of asset or liability refer to individual notes to the Financial Statements.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the Office intends to hold fixed rate assets and liabilities to maturity.

#### 2007

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Maturing in:						Non- Interest Bearing	Total
			1 Year	2 Years	3 years	4 years	5 Years	More than 5 Years		
	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial Assets</b>										
Cash in Special Deposits and Trust Fund	5.96	303	-	-	-	-	-	-	-	303
Work in progress	-	-	-	-	-	-	-	-	270	270
Receivables	-	-	-	-	-	-	-	-	236	236
<b>Total</b>		<b>303</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>506</b>	<b>809</b>
<b>Financial Liabilities</b>										
Payables	-	-	-	-	-	-	-	-	139	139
<b>Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>136</b>	<b>139</b>

#### 2006

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Maturing in:						Non- Interest Bearing	Total
			1 Year	2 Years	3 years	4 years	5 Years	More than 5 Years		
	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial Assets</b>										
Cash in Special Deposits and Trust Fund	5.15	368	-	-	-	-	-	-	-	368
Work in progress	-	-	-	-	-	-	-	-	190	190
Receivables	-	-	-	-	-	-	-	-	472	472
<b>Total</b>		<b>368</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>662</b>	<b>1 030</b>
<b>Financial Liabilities</b>										
Payables	-	-	-	-	-	-	-	-	185	185
<b>Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>185</b>	<b>185</b>

## 10.2 Net Fair Values of Financial Assets and Liabilities

	2007 Total Carrying Amount \$'000	2006 Total Carrying Amount \$'000
<b>Financial assets</b>		
Cash in Special Deposits and Trust Fund	303	368
Work in progress	270	190
Receivables	236	472
<b>Total financial assets</b>	<b>809</b>	<b>1 030</b>
<b>Financial Liabilities (Recognised)</b>		
Trade and other creditors	139	185
<b>Total financial liabilities</b>	<b>139</b>	<b>185</b>

### Financial Assets

The net fair values of cash and non-interest bearing monetary financial assets approximate their carrying amounts.

### Financial Liabilities

The net fair values for trade and other creditors are approximated by their carrying amounts.

## Note 11 Auditor's Remuneration

The Governor in accordance with the Financial Management and Audit Act 1990 appoints the Auditor of the Tasmanian Audit Office. Hall Chadwick was appointed in 2005 for three years.

Audit fees	8	8
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## Note 12 Key Management Personnel Compensation

Key management personnel are determined to be the members of the executive of the Office. Compensation in 2005-06 for key management personnel amounted to the following.

Short term employee benefits	684	588
Long term employee benefits	110	94

## **Note 13   Principal Address and Registered Office**

Ground Floor  
144 –148 Macquarie Street  
Hobart TASMANIA



## Certification of Financial Statements

### For the Year ended 30 June 2007

We certify that the accompanying financial statements of the Tasmanian Audit Office are in agreement with the relevant accounts and records and have been prepared in compliance with Treasurer's Instructions issued under the provisions of the *Financial Management and Audit Act 1990* to present fairly the financial transactions for the year ended 30 June 2007 and the financial position as at the end of the year.

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

Mike Blake  
Auditor- General

8 August 2007

David Strong  
Director  
Strategy and Governance

8 August 2007

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

### **Report on the financial report**

We have audited the accompanying financial report of the Tasmanian Audit Office, which comprises the balance sheet as at 30 June 2007, and the income statement, cash flow statement, statement of recognised income and expense for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the certification of financial statements.

### **Auditor-General's responsibility for the financial report**

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

### **Auditor's responsibility**

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

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

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

McLean Delmo  
Hall Chadwick  
Audit Assurance P/L

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## **Independence**

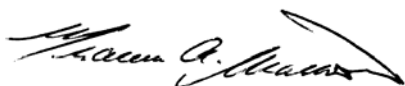
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements.

## **Auditor's opinion**

In our opinion, the financial report of the Tasmanian Audit Office presents fairly, in all material respects, the financial position of the Tasmanian Audit Office as of 30 June 2007 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Financial Management and Audit Act 1990.



**MCLEAN DELMO HALL CHADWICK**



**G A Marriott**  
Partner

**Melbourne**  
**14 August 2007**

## Appendices

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## Appendix 1 – Employees of the Office

As at 30 June 2007 the Office employed 37 full-time employees and two part-time employees. The list of employees is detailed below based on the organisational structure as at 19 June 2007:

Employee	Position	Location
Mike Blake	Auditor-General	Hobart
<b>Financial Audit Services</b>		
Ric De Santi	Deputy Auditor-General	Hobart
Neville I'Anson	Acting Director	Hobart
Jeff Tongs	Acting Director	Hobart
Rob Luciani	Acting Director	Launceston
Geoff Morffew	Assistant Director	Hobart
Christina Buell	Acting Assistant Director	Hobart
Damian Cook	Acting Assistant Director	Hobart
Simone Hopwood	Senior Auditor	Launceston
Keith Rylands	Senior Auditor	Hobart
Debbie Scott	Senior Auditor	Launceston
Fabiola Solis	Senior Auditor	Hobart
Rachel Wilson	Senior Auditor	Launceston
Jara Dean	Acting Senior Auditor	Hobart
Andrew Eizsele	Acting Senior Auditor	Hobart
Kylie Cook	Auditor	Hobart
Matthew Joseph	Auditor	Hobart
Wayne Oates	Auditor	Hobart
Jesse Penfold	Auditor	Hobart
Karen Strikis	Auditor	Hobart
Rebecca Clarke	Audit Cadet	Launceston
Sashi Ram	Audit Cadet	Hobart
Suzanne Xue	Audit Cadet	Hobart
<b>Performance Audit Services</b>		
Geoff Driscoll	Director	Hobart
Geoff Fisher	Assistant Director	Hobart
Simon Andrews	Senior Auditor	Hobart
Rosina Beaumont	Senior Auditor	Hobart
Danny Moore	Senior Auditor	Hobart
Donna Powell	Senior Auditor	Hobart
Melinda Gambrell	Auditor	Hobart
Beverley Pasanen	Auditor	Hobart
Brendon Thomas	Auditor	Hobart
<b>Strategy, Governance and Support Services</b>		
David Strong	Acting Director, Strategy and Governance	Hobart
Rachael Burn	Acting Manager, Finance & Human Resources	Hobart
Rohan Grant	Manager, Information and Communication Technology and Information Management	Hobart
Catherine De Santi	Executive Officer – Finance	Hobart
Narelle Hind	Executive Officer – Information Management	Hobart
Sandra O'Connor	Executive Officer – Finance and Payroll	Hobart
Robyn Smith	Executive Officer – Executive Support and Human Resources	Hobart

## Appendix 2 - Composition of Office Committees

### Executive Management Team

The members of the team are:

- Mike Blake – Chair;
- Ric De Santi;
- Geoff Driscoll;
- and
- David Strong

### Human Resources Committee

The members of the committee are:

- David Strong - Chair;
- Simon Andrews;
- Rachael Daniels;
- Debbie Scott / Rachel Wilson; and
- Christina Buell.

### Information Management Committee

The members of the committee are:

- Ric De Santi – Chair;
- David Strong;
- Rohan Grant;
- Geoff Fisher;
- Jeffrey Tongs; and
- Narelle Hind.

### Financial Audit Methodology Committee

The members of the committee are:

- Ric de Santi – Chair;
- Rob Luciani;
- Neville I'Anson;
- Jeff Tongs; and
- Geoff Driscoll.

### Performance Audit Methodology Committee

The members of the committee are:

- Mike Blake – Chair;
- Geoff Driscoll; and
- Ric De Santi.

## Appendix 3 – List of Clients

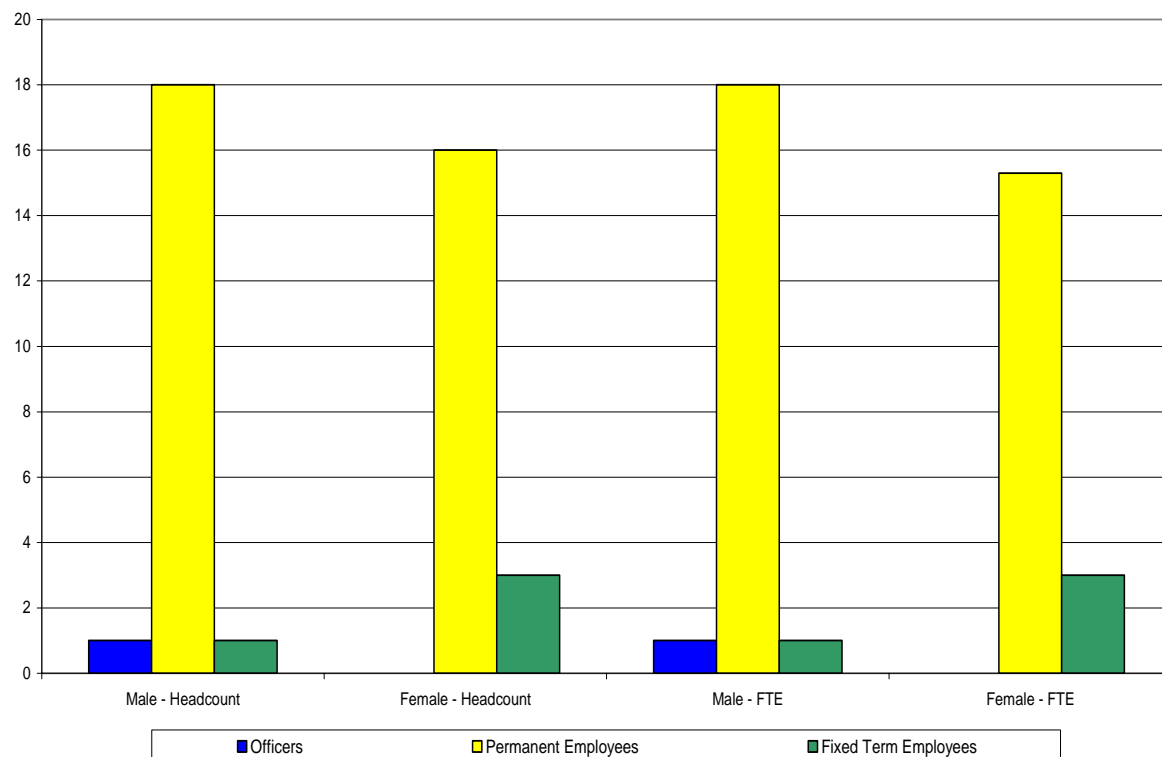
<b>Parliament of Tasmania</b>
The Office of the Governor
House of Assembly
Legislative Council
Legislature-General
<b>Ministerial Portfolio and Government Departments</b>
Department of Economic Development
Department of Education
Department of Health and Human Services
Department of Infrastructure, Energy and Resources
Department of Justice
Department of Police and Emergency Management Services
Department of Premier and Cabinet
Department of Primary Industries and Water
Department of Tourism, Arts and Environment
Department of Treasury and Finance
<b>Government Business Enterprises</b>
Forestry Tasmania
Hydro Tasmania
Motor Accidents Insurance Board
Port Arthur Historic Site Management Authority
Printing Authority of Tasmania
Rivers and Water Supply Commission
Southern Regional Cemetery Trust
Tasmanian International Velodrome Management Authority
Tasmanian Public Finance Corporation
The Public Trustee
<b>State Owned Companies</b>
Aurora Energy Pty Ltd
Bell Bay Power Pty Ltd
Bell Bay Three Pty Ltd
Ezikey Group Pty Ltd
Hobart International Airport Pty Ltd
Hydro Tasmania Consulting (Holding) Pty Ltd
King Island Port Corporation Pty Ltd
Lofty Ranges Power Pty Ltd
Metro Coaches Pty Ltd
Metro Tasmania Pty Ltd
RE Storage Holding Pty Ltd
Tasmanian Ports Corporation Pty Ltd
TOTE Tasmania Pty Ltd
Transend Networks Pty Ltd
TT Line Company Pty Ltd
<b>Statutory Authorities</b>
Board of Architects*
Chiropractors and Osteopaths Registration Board*
Dental Board of Tasmania*
Dental Prosthetists Registration Board*
Medical Council of Tasmania*
National Trust of Australia (Tasmania)
Nursing Board of Tasmania*
Optometrists Registration Board *
Pharmacy Board of Tasmania*
Physiotherapists Registration Board *
Plumbers and Gasfitters Registration Board*

Podiatrists Registration Board*
Private Forests Tasmania
Psychologists Registration Board*
Medical Radiation Science Professionals Registration Board of Tasmania*
RBF Tas Planning Pty Ltd
Retirement Benefits Fund Board
Schools Registration Board*
State Fire Commission
Sullivans Cove Waterfront Authority
TAFE Tasmania
Tasmanian Arts Advisory Board *
Tasmanian Community Fund
Tasmanian Dairy Industry Authority
Tasmanian Development and Resources
Tasmanian Qualification Authority
Teachers Registration Board
Tourism Tasmania
Travel Agency Licensing Board
<b>Local Government</b>
<b>Councils:</b>
Break O'Day Council
Brighton Council
Burnie City Council
Central Coast Council
Central Highlands Council
Circular Head Council
Clarence City Council
Derwent Valley Council
Devonport City Council
Dorest Council
Flinders Council
George Town Council
Glamorgan/Spring Bay Council
Glenorchy City Council
Hobart City Council
Huon Valley Council
Kentish Council
King Island Council
Kingborough Council
Latrobe Council
Launceston City Council
Meander Valley Council
Northern Midlands Council
Sorell Council
Southern Midlands Council
Tasman Council
Waratah/Wynyard Council
West Coast Council
West Tamar Council
<b>Authorities:</b>
Burnie Airport Corporation Pty Ltd
Cradle Coast Authority
Derwent Valley Investments Pty Ltd
Dulverton Regional Waste Management Authority
Esk Water Authority
Hobart Regional Water Authority
Integrated Community Networks Pty Ltd
Southern Waste Strategy Authority
West Coast Hospital and Community Services Pty Ltd

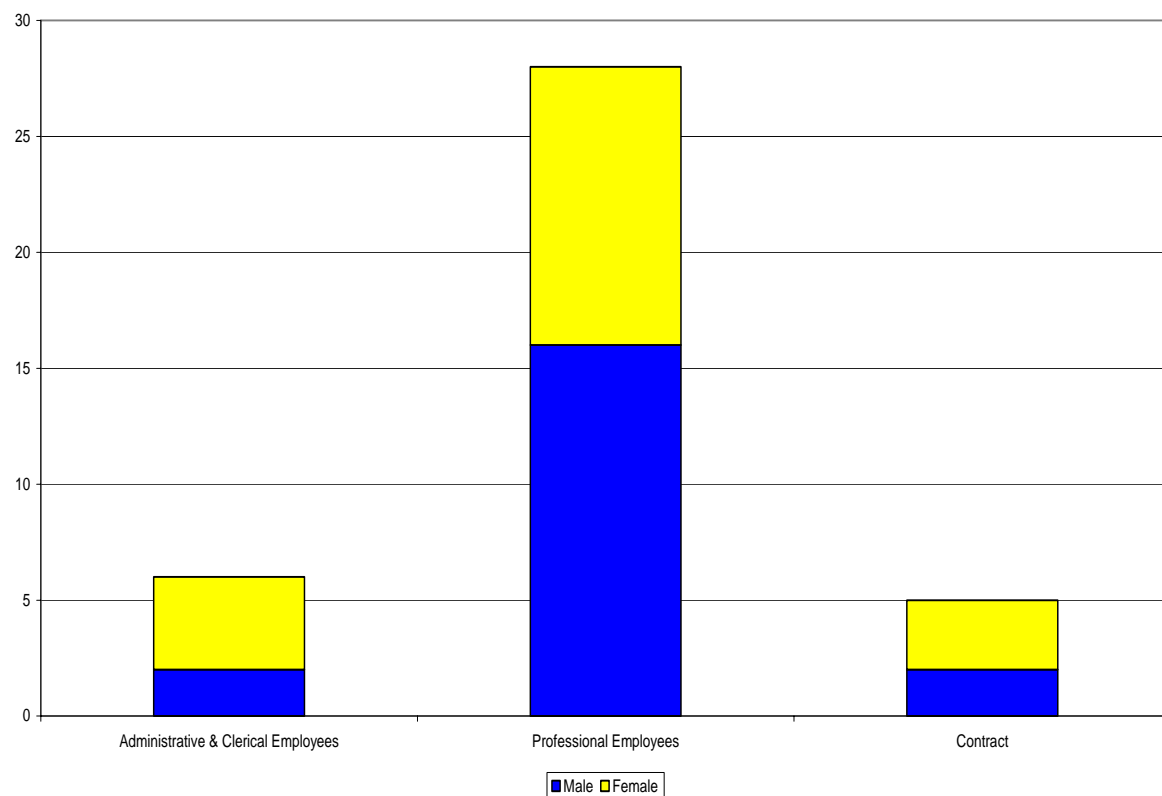
Public Bodies
Aboriginal Land Council of Tasmania
ANZAC Day Trust
Ben Lomond Skifield Management Authority
Brittons Swamp Drainage Trust *
Cheshunt Drainage Trust *
Clyde Water Trust
Council of Law Reporting
Davy Point Drainage Trust *
Don River Irrigation Water Trust *
Egg Lagoon Drainage Trust *
Elizabeth Macquarie Drainage Trust *
Forests and Forest Industry Council
Forest Practices Authority
Forthside Irrigation Drainage Trust *
Government Prices Oversight Commission
Housing Tasmania
Inland Fisheries Service
Inveresk Railyards Management Authority
Jim Bacon Foundation
Lake Nowhere-Else Dam / Whitemark Creek Irrigation Trust *
Launceston Sailors Home Trust
Lawrenny Drainage Trust *
Legal Aid Commission of Tasmania
Lobster Rivulet Drainage Trust *
Local Government Association of Tasmania
Marine and Safety Tasmania
Mowbray Swamp Drainage Trust *
National Heritage Trust
Nominal Insurer
Northern Tasmanian Natural Resource Management Regional Committee *
Office of the Tasmanian Energy Regulator
Richmond Irrigation Trust *
Royal Tasmanian Botanical Gardens
Tasmanian Ambulance Service
Tasmanian Beef Industry (Research and Development) Trust
Tasmanian Building and Construction Industry Training Board
Tasmanian Heritage Council
Tasmanian Land Conservancy Inc *
Tasmanian Museum and Art Gallery
Tasmanian Risk Management Fund
Tasmanian Wilderness World Heritage Area
Theatre Royal Management Board
The Southern Tasmanian Natural Resource Management Regional Committee *
Togari Drainage Trust *
Tsuneichi Fujii Fellowship Trust
University of Tasmania Foundation Inc.
UTAS Innovations Ltd
University of Tasmania
Wellington Park Management Trust
Western Creek Drainage Trust *
Workcover Tasmania
Workers Rehabilitation and Compensation Tribunal
* Audits Dispensed with

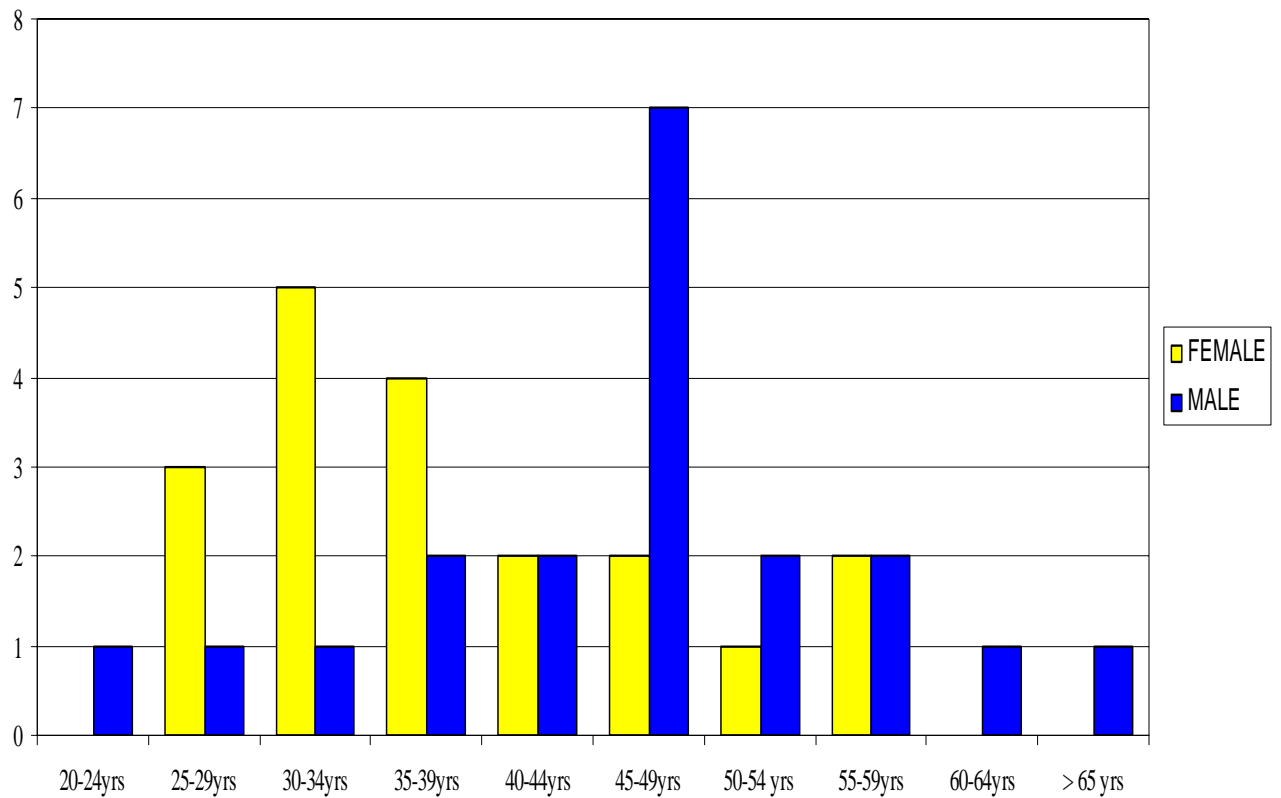
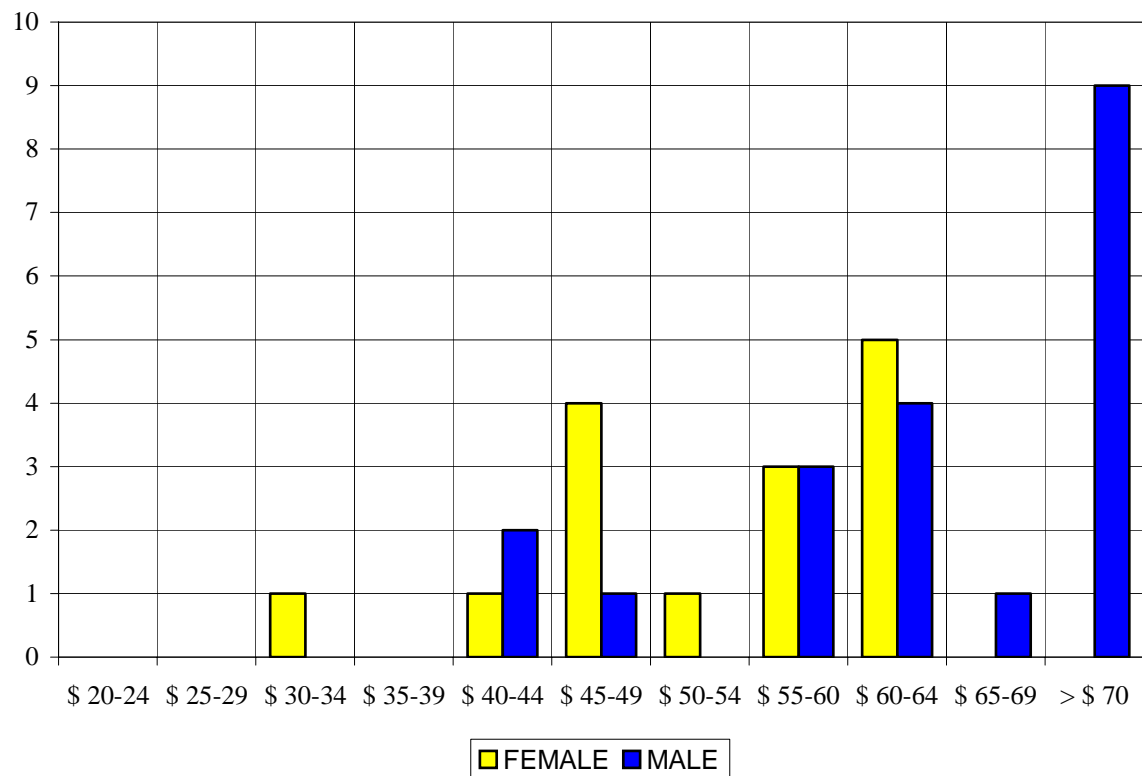
## Appendix 4 - Additional Staff Statistics

**Figure 11 - Staff Profile by Employment Category**



**Figure 12 - Staff Profile by Awards**



**Figure 13 - Staff Profile by Age****Figure 14 - Staff Profile by Salary**

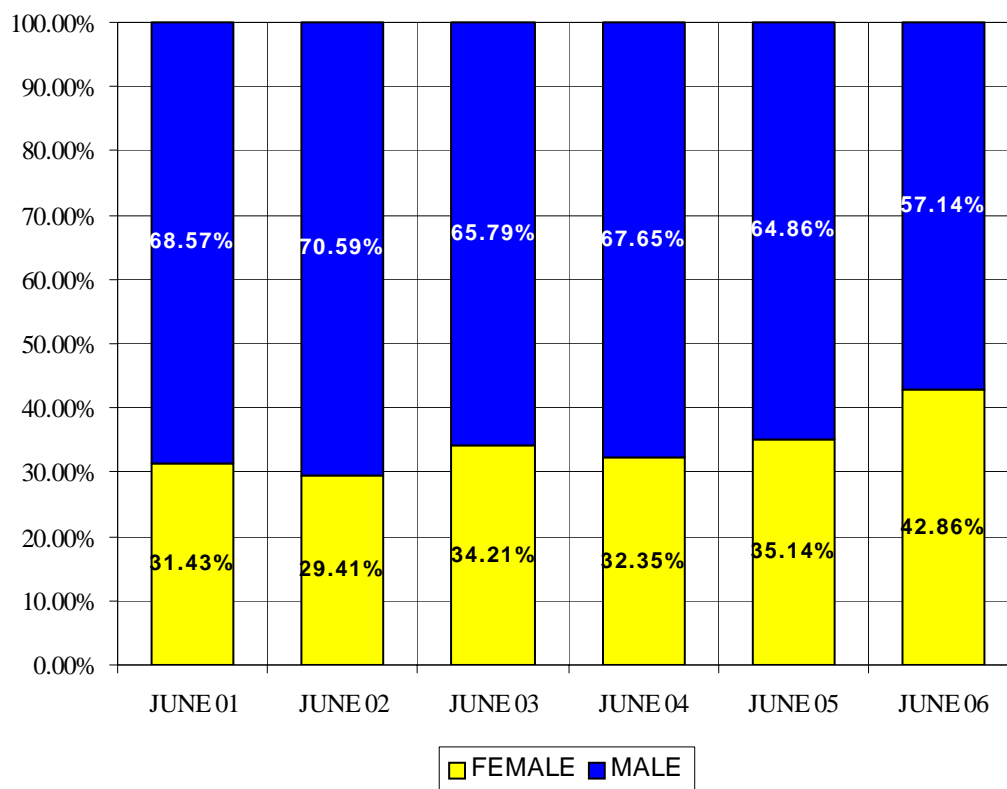
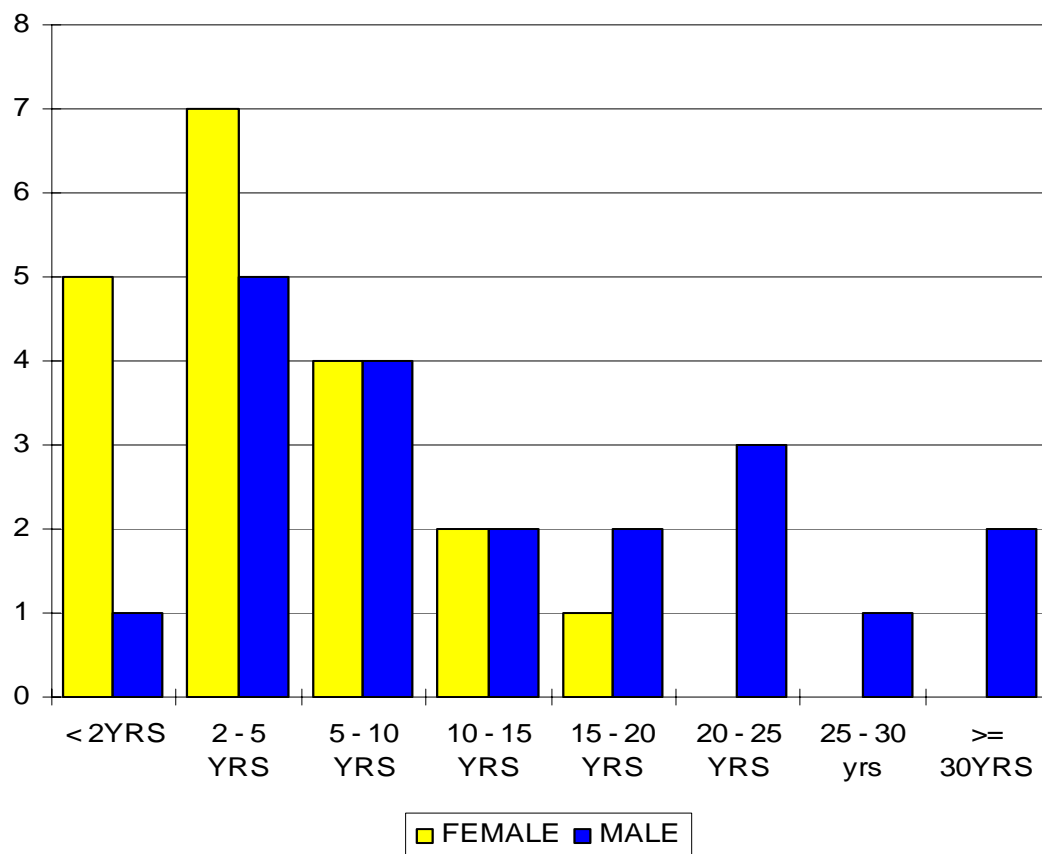
**Figure 15 - Staff Profile by Gender****Figure 16 – Length of Service within the Office**



Figure 17 - Staff Profile by Location

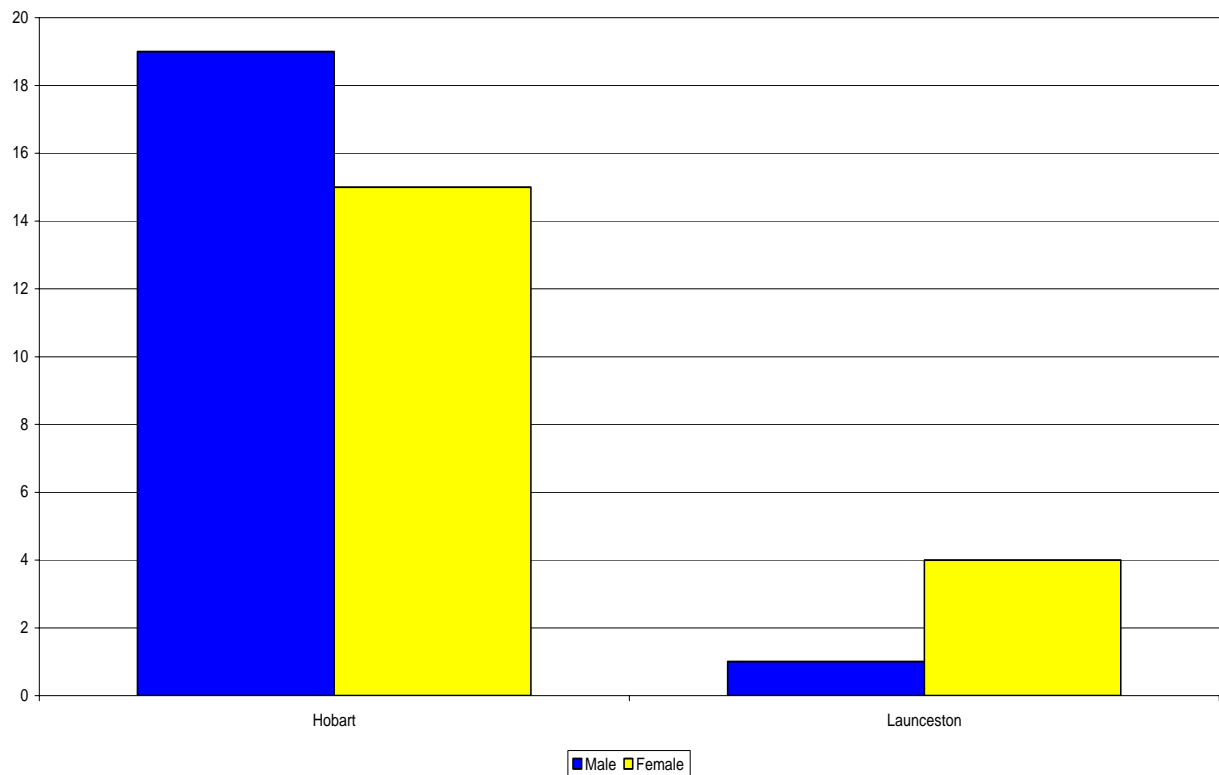
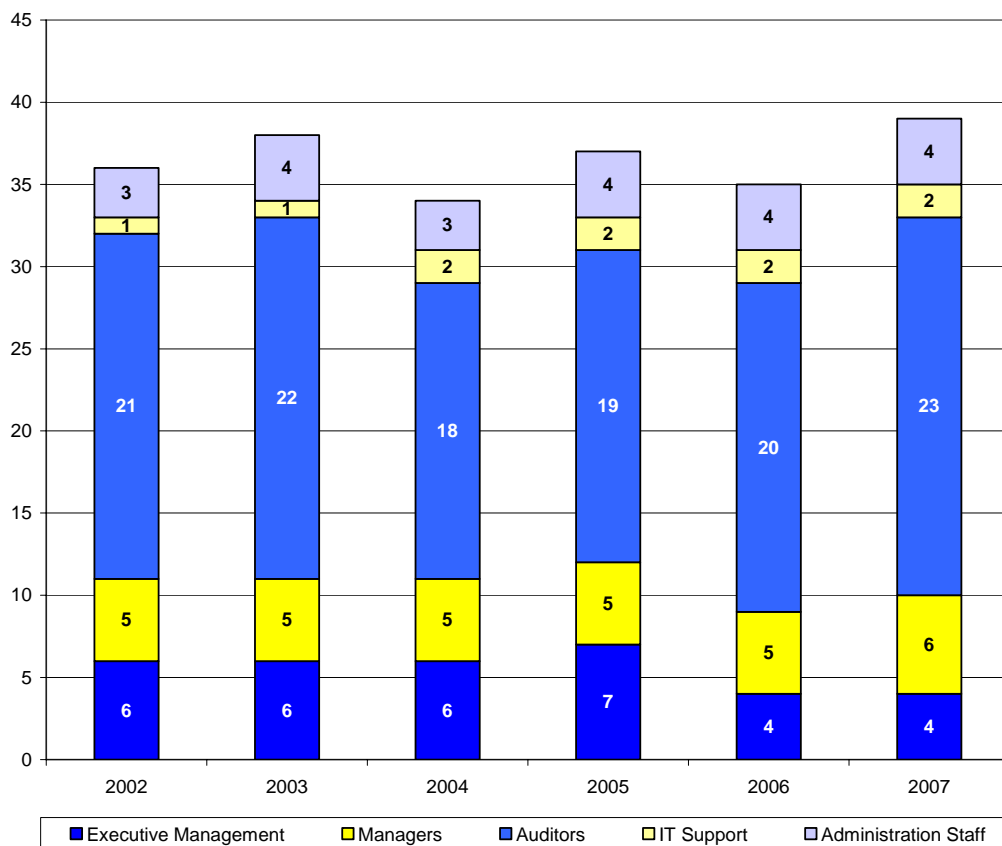
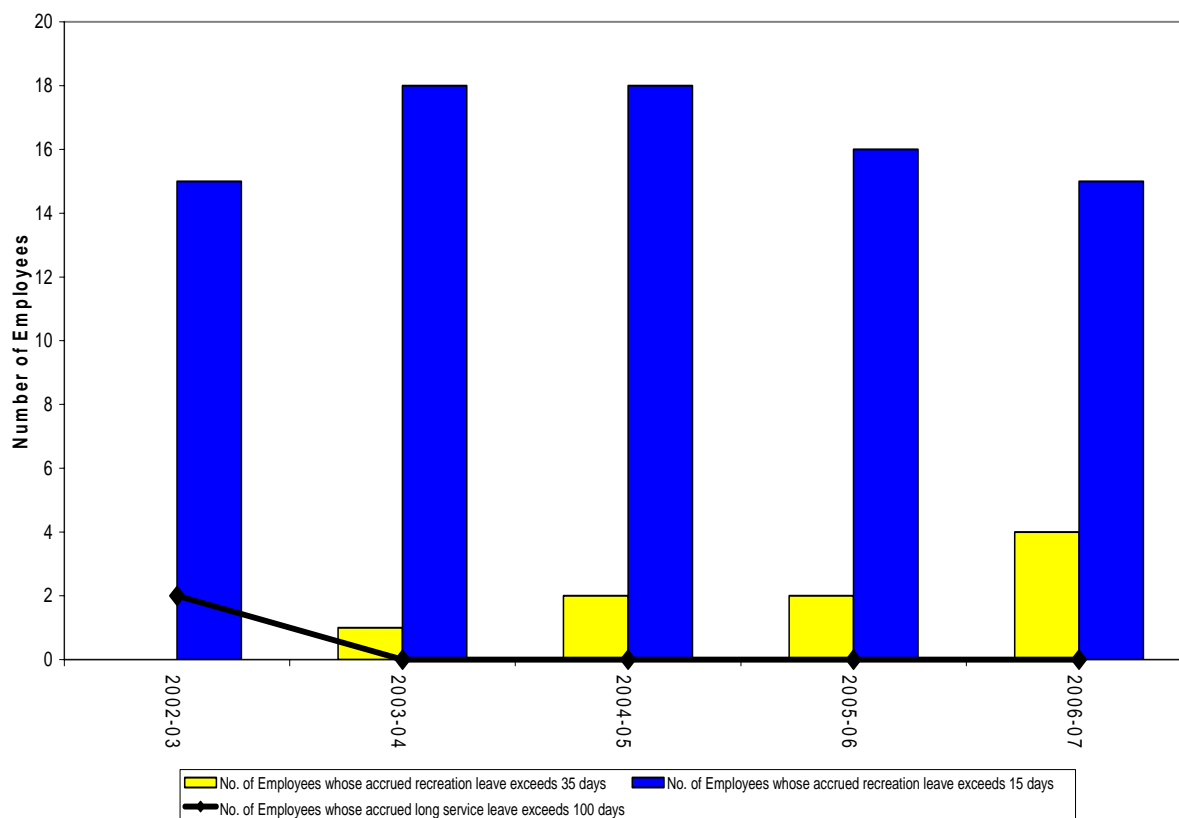
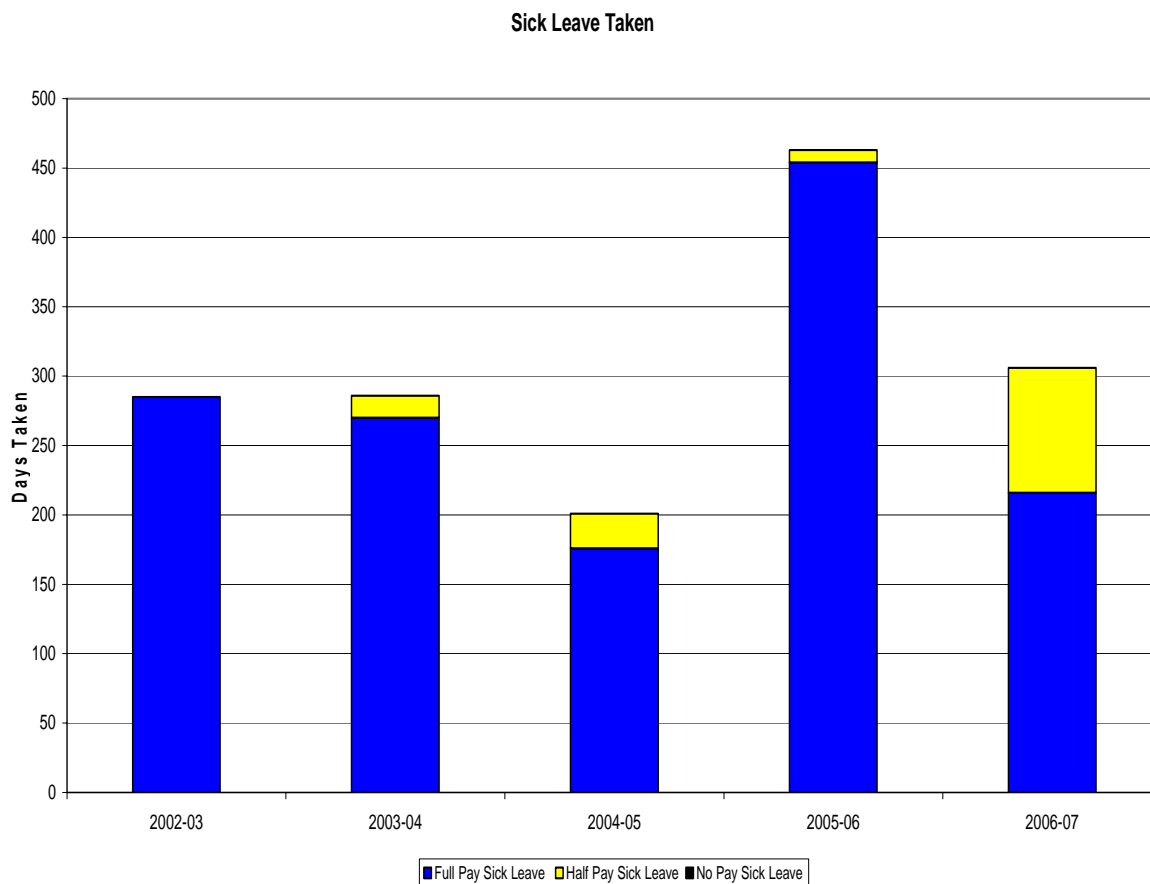


Figure 18 – Staff Profile by Role



**Figure 19 - Annual Leave and Long Service Leave****Figure 20 - Sick Leave**

**Figure 21 – Staff Satisfaction Survey 2002-06 – ratings expressed in percentages**



## Appendix 5 - Additional Compliance Statistics

### Asset Management and Pricing Policies

#### Major capital projects

By the very nature of our business the Office has limited investment in capital works. From time to time the Office undertakes minor works associated with fit-outs of the tenancies leased. These minor works are funded from the Office's own financial resources.

#### Asset management

The financial statements for 2006-07 are reported on an accrual basis, and contain full details of the Office's asset management policies as notes to the statements.

Office assets have been valued in accordance with the Office's accounting policies and procedures, and these values are disclosed in the statements, together with appropriate notes on valuation methods.

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

#### Pricing policies

Audit fees for conducting financial, performance and compliance audits are the main source of revenue for the Office. In addition, the Office receives a budget appropriation for the Auditor-General's salary and associated allowances.

The Treasurer determines audit fees charged for financial audits after consultation with the Auditor-General in accordance with Section 56 of the *Financial Management and Audit Act 1990*.

Fees are calculated on the basis of meeting the full cost of operating the Office. Individual fees are determined by applying a number of criteria that include size, history, risk, complexity, systems in place including internal controls, organisation and accounting changes and location. Given no change in any of the criteria fees would increase year to year by the movement in Average Weekly Ordinary Time Earnings for the public sector.

## Government Procurement

### Support for local business

No contracts were awarded during 2006-07 with values in excess of \$50 000.

### Complaints

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

### Freedom of Information

The information gathered during the conduct of audits is confidential and not available to third parties.

The administrative processes of the Office come under the Freedom of Information legislation. There was one application under the legislation during the year but the Office was not the holder of the information being requested.

The Office's freedom of information contact officer is Sandra O'Connor, Executive Officer – Finance and Payroll.

### Superannuation Declaration

I, Mike Blake, hereby certify that the Tasmanian Audit Office has met its obligations under the *Australian Government's Superannuation Guarantee (Administration) Act 1992* in respect of those employees of the Office who are members of the following complying superannuation schemes to which the Office contributes:

- UniSuper Fund
- MLC Master Key Superannuation Fund



H M Blake  
30 June 2007

## Appendix 6 – Glossary of Abbreviations and Acronyms

AASB	Australian Accounting Standards Board
ACAG	Australasian Council of Auditors-General
AEIFRS	Australian Equivalents to International Financial Reporting Standards
BSC	Balanced Scorecard
COBIT	Control Objectives for Information and Related Technology
EMT	Executive Management Team
FAS	Financial Audit Services
FMAA	Financial Management and Audit Act
FOI	Freedom of Information
FPI	Financial Performance Index
FTE	Full-time Equivalent
GBE	Government Business Enterprise
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards
IPSAM	Integrated Public Sector Audit Methodology
ISO	International Standards Organisation
ITIL	Information Technology Infrastructure Library
KPI	Key Performance Indicator
PAS	Performance Audit Services
SOC	State-owned Company
SS	Support Services
TAO	Tasmanian Audit Office