

THE AUDITOR-GENERAL

ANNUAL REPORT

1997-98

AUGUST 1998

ACCESS GUIDE

OFFICE LOCATIONS AND ADDRESSES

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OFFICE HOURS:

The Office hours of Head Office are 8.30 am to 5.00 pm Monday to Friday.

Written publications, reports and other material produced by the Office are available to the public from the Head Office, or can be mailed by telephone or fax request.

All the reports the Office produces can be accessed via the Office's home page.

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1998

PARLIAMENT OF TASMANIA

AUDITOR-GENERAL
ANNUAL REPORT 1997-98

*Presented to both Houses of Parliament in accordance with the requirements of
Section 33 AB of the Tasmanian State Service Act 1984 and Section 27 of the
Financial Management and Audit Act 1990*

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Your Reference:

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24 September 1998

Hon D Crean MLC
Minister for Finance
Level 9 Executive Building
15 Murray Street
HOBART

Dear Mr Crean

In accordance with the requirements of Section 33 AB of the Tasmanian State Service Act 1984 and Section 27 of the Financial Management and Audit Act 1990, I have pleasure in presenting the Tasmanian Audit Office's annual report for the year ended 30 June 1998.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A J McHugh'.

A J McHugh
AUDITOR-GENERAL

Enc.

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PROFILE OF THE OFFICE

CHARTER

The Office is part of the accountability mechanism whereby the Parliament holds the Government accountable for fulfilling its responsibilities.

The Government is obliged to account to taxpayers, through the Parliament, for its management of public funds. 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.

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* and other Tasmanian Acts. The Auditor-General also has 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 the statutory responsibilities. The Auditor-General is the administrative head of the Office. In addition, the Auditor-General may engage private sector firms as his agents.

AUDIT INDEPENDENCE

The Audit Office is not a part of the Government itself. This independence from the Executive Government of the day and the state service is vital if the Audit Office is to perform its work effectively and make independent and unbiased judgements.

The Auditor-General is an independent Officer appointed by the Governor.

The Auditor-General 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 which arise from a range of financial and wider performance audits are communicated regularly to the Parliament without interference, fear or favour.

THE AUDIT MANDATE

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

This mandate provides the Auditor-General with a basis, not only for the provision of audit reports on the financial statements of public bodies, but also for bringing to the attention of Parliament cases of waste, mismanagement, non-compliance and fraud.

DESCRIPTION OF AUDIT TYPES

The Auditor-General, when carrying out his audit responsibilities, conducts two types of audits, classified as financial audits and performance audits.

Financial Audits

Any audit assignment which relates to forming an opinion on the annual financial statements of a public sector entity is a financial audit. These audits provide independent assurances to the Parliament and the community that the information presented in financial statements of public sector entities is presented fairly in accordance with Australian Accounting Standards.

Financial audits are conducted using a risk-based audit methodology which involves designing an audit program to address organisational risks and management controls. The financial audit methodology requires extensive use of audit software during the planning, testing and evaluation phases, together with the use of data analysis packages. These facilities ensure that the audits are conducted in the most efficient manner and that opinions formed on financial statements are provided on a timely basis.

As at 30 June, the Auditor-General had specific responsibility for issue of audit opinions for auditees as follows:-

	1994	1995	1996	1997	1998
Appropriations from the Public Account to His Excellency the Governor's Establishment, Legislative Council, House of Assembly and Legislature-General.	4	4	4	4	4
Government Departments	13	13	13	13	13
Marine Boards and Port Authorities	7	7	7	6	6
Local Government Authorities	29	29	29	29	29
Corporations Law Entities	1	1	1	3	10
Regional Health Boards which control public hospitals	3	3	3	3	-
Government Business Enterprises	24	20	20	20	19
Other public bodies including water, trading, registration, superannuation, marketing and other authorities.	42	45	44	36	38
TOTAL	123	123	121	114	119

The outcome of a financial statement audit is either an "unqualified" report or a "qualified" report. The auditor issues an unqualified report when the auditor forms the opinion that the financial statements present fairly the affairs and transactions of the auditee. In the case of a qualified report, the auditor forms the opinion that the auditee has not complied with one or more applicable Australian Accounting Standard or some other fundamental accounting principle.

The extent of qualified reports is shown in the following table:-

	1993-94	1994-95	1995-96	1996-97
Audit reports	135	136	135	127
Reports on special purpose grants	9	9	9	11
Reports to Insurance and Superannuation Commission	6	6	6	6
	150	151	150	144
Qualified audit reports	14	13	10	7
% of reports Qualified	9.3%	8.6%	6.7%	4.9%

Note that the total number of audit reports issued exceeded the number of auditees stated on the previous table because, in some cases, more than one report is issued.

For example, for the Department of Treasury and Finance audit reports are issued for Treasury Corporate, Revenue and Gaming, Car Pool, State Purchasing Sales, and Finance-General.

Performance Audits

A performance audit is an audit that deals with any aspects of an organisation's effectiveness, economy, efficiency or compliance with relevant legislation.

Performance audits extend beyond the examination of the financial affairs and transactions of a government agency to encompass issues of significance to the community such as health, safety and the environment.

The audit process begins with the planning phase which identifies the issues to be examined, timing, objectives, approach to be used and the resources required.

The next stage of an audit involves the systematic gathering, analysis and testing of information. The information is evaluated to develop conclusions and make constructive recommendations as required.

The results of all audit reviews are discussed with, and formally communicated to, senior management of audit clients. The audit process culminates in the presentation of an audit report to the audit client, with the more significant issues included in Auditor-General's Reports to the Parliament.

REPORTS TO PARLIAMENT

The Reports highlight issues requiring the attention of the Parliament or the Government, and can also contain recommendations to assist audit clients to improve their management and increase their operational effectiveness.

The Auditor-General does not have the authority to implement recommendations made in Reports - that is the role of the Parliament or the Government.

SERVICE DELIVERY

As previously discussed under the section 'The Audit Mandate' the Auditor-General has a broad responsibility. Under section 46 of the *Financial Management and Audit Act* the Auditor-General discharges this 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.

In 1997-98 the Auditor-General was responsible for issuing audit opinions for 119 auditees. The financial audits are categorised as follows:

- audits contracted out by the Auditor-General;
- local government contracts; and
- audits conducted by the staff of the Office.

AUDITS CONTRACTED OUT

Fees for financial audits that have been contracted out for the 1997-98 audit cycle¹ represent 2.3% of the fees raised for that audit cycle (1996-97, 6.6%). These fees are paid in the subsequent financial year.

Audits that the Auditor-General contracts out require the contract auditors to undertake all facets of the field audit, subject to review by the Auditor-General. Draft audit reports and draft management letters are prepared by the contract auditor; the final reports are issued by the Auditor-General.

LOCAL GOVERNMENT AUDITS

Section 85 of *Local Government Act 1993* provides:-

- "(1) The accounts and financial reports of a Council are subject to the *Financial Management and Audit Act 1990*.
- (2) The accounts and financial reports of the Council may be audited by private auditors with the approval of, and subject to any terms and conditions determined by the Auditor-General".

In consultation with the Minister for Local Government, terms and conditions have been developed for Councils to use private sector auditors.

The scheme provides that the working papers of the private auditors are subject to review by the Office and for the report on the financial statements to be issued by the Auditor-General.

Note ¹: The audit cycle is the period between 1 November and 31 October, eg 1 November 1997 to 31 October 1998 in the 1998 audit cycle.

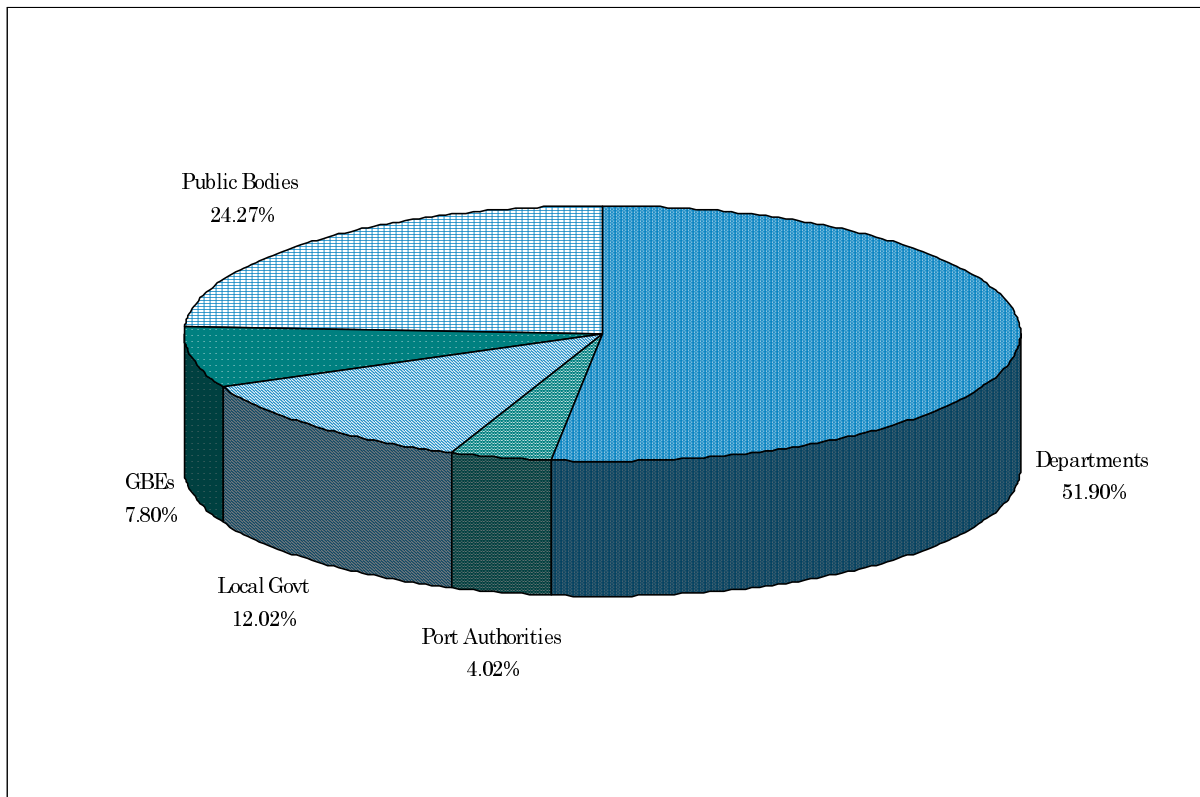
However, due to the proposed re-structuring of Local Government announced in the Premier's Directions Statement, a number of the Councils whose audit service contracts have expired have opted for new contracts to be for a one year period. Where this has not been the case,

provision has been made in contracts for them to lapse in the event of the Council being amalgamated. The current statistics for local government audits are:

Audits conducted by the private sector	8
Audits conducted by the Tasmanian Audit Office	<u>21</u>
Number of Councils	29

There will be a significant impact on the Office if the number of councils is reduced whether as a result of any reforms or by voluntary amalgamation.

ALLOCATION OF IN-HOUSE TIME FOR FINANCIAL AUDITS - 1998



CORPORATE PLAN

The Mission of the Office is to:-

Perform high quality, independent and cost effective audits, which add value to our clients.

Provide reports to Parliament that are fair, relevant, timely and of high quality.

The Office is funded for a single output group (Public Sector Management and Accountability) which comprises the following activities:

- financial audit services;
- reports to Parliament;
- performance audit services; and
- whole of government services.

The organisation chart is illustrated on page 17.

OFFICE AS A WHOLE

Statistics and performance indicators for the Office as a whole are shown below:-

Key Operating Statistics	1994	1995	1996	1997	1998
Organisations and activities audited	123	123	122	114	119
Employees (FTE over the year)	54.3	46.2	41.0	38.3	35.2

Staff numbers continued to fall (by natural attrition) as the Office attained greater efficiency in the delivery of administrative and audit services.

The following statistics are based on accrual accounting information unless otherwise stated.

Key Financial Statistics	1994	1995	1996	1997	1998
	\$'000	\$'000	\$'000	\$'000	\$'000
Total operating income	3 581	3 455	3 424	3 060	3 097
Total operating expense	3 447	3 169	3 303	3 188	3 087
Change in Net Assets Resulting from Operations	134	436	121	(74)	(20)
Total Assets	2 342	2 437	2 556	2 325	2 211
Net Assets	1 302	1 650	1 789	1 615	1 495

A more detailed analysis of the financial affairs of the Office appears under the commentary on financial results for the year, later in this report.

Total operating income before abnormal items, rose slightly mainly due to the increased appropriation which rose from \$159 000 to \$196 000.

Total operating expenses declined by \$101 000 mainly due to reduced staffing . There were offsetting increases in depreciation, information technology and contract audit fees.

The small loss after abnormal items of \$20 000 is attributable to an abnormal charge for Fringe Benefits Tax. This was due to the Australian Taxation Office's decision not to accept the travel logs kept by some staff as meeting the requirements for the actual usage method of calculating tax payable

Total assets declined by \$114 000 mainly due to the equity reduction payment of \$100 000 made to the Consolidated Fund. However current assets also decreased because work in progress declined due to the reduction in audit staff numbers.

Efficiency	1994	1995	1996	1997	1998
Audit costs per thousand dollars of state public sector transactions (Derived from benchmarking formula)	0.76	0.68	0.63	0.63	0.63

One measure of efficiency of the Office is the total cost of running the Office compared to total State public sector transactions ie revenues plus expenditures. The relevant statistic is derived

from ABS publication Government Finance Statistics (ABS Catalogue No. 5512.0). Given that the ABS publication is not finalised until nine months after the end of the financial year the value of transactions is calculated by adjusting the previous years figure by CPI for the current year.

Corresponding benchmarking figures for WA and the ACT Audit Offices are shown below. Figures for 1997-98 are not yet available from these jurisdictions.

	1994-95	1995-96	1996-97	1997-98
Tasmania	0.68	0.63	0.63	0.63
West Australia	0.64	0.59	0.63	n/a
ACT	0.69	0.67	0.73	n/a

These figures indicated in relative terms the Office audit costs when compared with the other jurisdictions is improving.

Economy	1994	1995	1996	1997	1998
Average staff salary (\$ per FTE)	40 239	40 849	42 693	46 858	49 133
Average Accommodation cost per employee (net of sub-lease) (\$)	4 111	4 029	4 126	4 450	3 812
Average charge out rate (\$ per hr)	63.50	66.38	73.42	77.96	76.71

Average staff salary continues to rise. Factors include the move from the administrative and clerical award to the professional award, the yearly increments available to most staff under the awards, the retention of senior staff and consequent lack of recruitment at the entry level.

Accommodation cost per employee increased between 1996 and 1997 due to the decrease in staff numbers. The lease arrangements make it relatively inflexible to economise on office space but the Office was successful in obtaining a tenant for a part of the leased space in Hobart from July 1997. This action improved this statistic for 1998.

The charge out rate this year stabilised but the office needs to reduce semi-fixed overheads because of the smaller revenue base.

OUTPUT 1

PUBLIC SECTOR ACCOUNTABILITY

The accountability of the public sector covers:-

- Performance audits of the economy, efficiency and effectiveness of selected aspects of Public Sector Entities activities;
- Reports presented to Parliament are on the results of the audit of the Public Sector entities and any other significant items as they become apparent during the year; and
- The conducting of special investigations in the public interest.

The reports provide Parliament with independent assurance on the financial statements of Government Departments and Public Bodies, and information on significant matters relating to the financial performance of the entities. The reports include material non-compliance issues and relate any significant matter on the Public Account which requires the attention of Parliament.

Performance indicators

Efficiency	1994	1995	1996	1997	1998
Performance Audit Reports	1	3	5	6	7
Other Reports to Parliament	3	3	3	3	3

The number of reports to Parliament was similar to 1997. There were seven performance audit reports (refer to page 19) as well as the Annual Report (July 1997), the report on the Public Account (Sept 1997) and the general report on Government Departments and Public Bodies (Nov 1997). These latter reports were all tabled in advance of the statutory deadlines.

Effectiveness	1994	1995	1996	1997	1998
Parliament audit satisfaction index					
Usefulness Index on Public Account/Report No 2	n/a	n/a	1.50	1.46	1.51
Usefulness Index on Performance Audit Reports	n/a	n/a	1.35	1.10	1.23
Parliamentary Contribution to Accountability	n/a	n/a	1.54	1.54	1.56

The Office regards the Parliament as its main client. Members of Parliament are surveyed annually to determine their perception of the work of the Office. Total responses were 22 in 1996, 13 in 1997 and 21 in 1998. Three measures are reported here.

The index of usefulness of the Report on the Public Account and the Report on Government Departments and Public Bodies is an average of members' responses coded as 2 for "very useful", 1 for "useful" and 0 for "not useful". This index shows a slight improvement but this is not statistically significant.

The index of usefulness of the Performance Audit Reports is an average of the responses coded as above. The index declined sharply in 1997 but rebounded in 1998. It is not clear whether this was due to the subject matter of the reports, the interests of the respondents or other causes.

The third index is a composite derived from answers to the questions concerning whether "the work of the Tasmanian Audit Office has contributed to Parliamentary debate and better public sector accountability". The index increased slightly to 1.56 which is midway between "useful" and "very useful".

Financial	Estimate	Actual
Budget (Cash)	\$'000	\$'000
Expenditure	524	579
Revenue	524	579

The estimate quoted in the above table equates to the amount stated in the budget papers for 1997-98. During the year the estimate was revised to \$579 000 as a result of an increase in the Reserved-by-Law item for the Auditor-General's salary.

	Revised Estimate	Actual
Budget (Cash) Expenditure	\$'000	\$'000
Reserved-by-Law	196	196
Performance Audits	254	233
Reports/Public Interest	129	150
TOTAL	579	579

The above estimates are determined by the Office and hence funds are transferrable for non reserved-by-law items. The performance audit costs did not meet the internal estimate because staff were reallocated as a result of staff movements. However, the level of activity for public interest issues was above expectations.

OUTPUT 2

FINANCIAL AUDIT SERVICES

Financial audit services are the financial attest and regularity audits of the Treasurer, government departments and public bodies.

Performance Indicators

Effectiveness	1994	1995	1996	1997	1998
Auditee audit satisfaction index	n/a	n/a	3.04	3.09	2.95

The auditee survey results relate to the financial years 1994-95, 1995-96 and 1996-97 and were conducted approximately seven months after the end of each period. An index was constructed of "satisfaction" with the performance of the Office by the auditees. The index of 2.95 represents an average answer on a (strong disagreement) to (strong agreement) scale, corresponding to slightly less than 3.00 which represents "agreement" with the proposition that performance has been satisfactory.

Efficiency	1994	1995	1996	1997	1998
Attest audit costs per thousand dollars of state public sector transactions (Derived from benchmarking formula)	0.70	0.61	0.56	0.55	0.55
Index of audit fees (real terms) (1993/94=100)	100	95.2	90.9	84.2	82.2
Audit reports certified by 31 October based on hours	61%	68%	78%	84%	54%
Average financial audit revenue per FTE (financial auditors)	65 918	78 814	89 508	81 868	94 645

The attest audit costs per thousand dollars of state public sector transactions differs from the similar statistics on page 9 because they relate only to financial attest audit costs rather than the total costs of the office that include other activities. This statistic continues to show a small improvement in efficiency.

The estimated cost of the pure attest function (audit of financial statements) and the reporting to Parliament relative to total public sector transactions is 55 cents.

	1994-95	1995-96	1996-97	1997-98
Tasmania	0.61	0.56	0.55	0.55
West Australia	0.36	0.31	0.33	n/a
ACT	0.37	0.34	0.38	n/a

The corresponding benchmarking figures for pure financial attest audit for WA and the ACT Audit Offices are shown in the table above. Figures for 1997-98 are not yet available from these jurisdictions. The variation between the figures quoted on page 9 for "audit costs" and the figure for financial attest costs is explained by the level of performance audit activity of each jurisdiction. In 1996-97, performance audit activity as a percentage of total activity for Tasmania was 7%, Western Australia 36%, and the ACT 46%.

A further indication of efficiency in the broad is the index of audit fees. This index is calculated using 1993-94 as a base year where the index is set at 100. The index is calculated in real terms ie dollar values are compared after adjustment for changes in the Consumer Price Index. The index demonstrates that the Auditor-General's policy of attempting to keep audit fee increases at CPI less 1% for each year since 1994 has been successful since the index has declined from 100.0 in 1994 to 82.2 in 1998.

Most auditees have a requirement to report before the end of November in each year and to include audited financial statements in those reports. As a service to auditees, the Office seeks to complete as many audits as possible one month before this deadline. The target in the corporate plan was 85% by hours. The result was extremely disappointing. The reasons for the poor performance are related to the poor implementation of accounting standard AAS 29 in government agencies. Report No 2 of 1997 Government Departments and Public Bodies under Parts 2 and 5.2 give additional details.

The financial audit revenue per FTE employee measures the revenue generating capacity of financial auditing staff. The measure peaked in 1996 and declined slightly in 1997 due mainly to the drop in financial audit revenues, but this year has increased due mainly to audit fee revenue remaining constant but the number of full-time equivalents has decreased.

Financial	Estimate	Actual
Budget (Cash)	\$'000	\$'000
Expenditure	2 534	2 475
Revenue	2 559	2 681

Commentary

As discussed in the section "Commentary on Financial Statements - Statement of Cash Flows" on page 40, cash receipts were above the estimate due to additional audit fees being received for assistance with implementing the accounting standard AAS 30. The expenditure is below the estimate as a result of decreased staff numbers and a reduction in the cost of goods and services.

FUTURE DIRECTIONS

REVIEW OF LEGISLATION

The Financial Management and Audit Act 1990 is currently under review as part of Tasmania's commitment to the implementation of a National Competition Policy. The review is being conducted by a committee consisting of Peter Williams from the Department of Treasury and Finance (Chair), Fiona Calvert from the Regulation Review Unit, Department of Treasury and Finance, and the Auditor-General.

The terms of reference require the review to address

- the legislative requirement that all Government Departments and public bodies must have their accounts audited by the Auditor-General (including the current practice whereby the Tasmanian Audit Office undertakes most of these audits itself); and
- the restriction that only the Auditor-General may report to Parliament on matters arising from any audits.

The review is required to produce a final report that must contain

- a summary of any public consultation undertaken;
- clear recommendations on the possible actions that can be taken by the Government, including retaining, amending or repealing the specific legislative restriction(s) on competition in question. Where retention or amendment is recommended, the report must include a clear demonstration of the benefit to the public;
- clear recommendations on any possible actions that can be taken by the Government in relation to the broader impact of the legislation on business; and
- an outline of any transitional arrangements which may be required under the recommended course of action and the rationale for these arrangements.

The review was initially required to be completed by 30 June 1998 but it is understood that a later date will be substituted to allow for the committee to complete its consultation process.

The outcome of this review is likely to be highly significant in setting the future direction of the Office.

The committee's draft report can be located on the Office's internet home page <http://www.audit.tas.gov.au/reports/Review/lrp.pdf>

FINANCIAL ARRANGEMENTS

During the year, Cabinet reviewed the administrative arrangement applying to the refund to the Consolidated Fund of 80% of the Auditor-General's Reserved by Law appropriation. The revised arrangement substitutes a capital charge levied on the net worth of the Office, a sales tax equivalent and a taxation equivalent applied to the taxable income of the Office. The change is roughly budget neutral and it was applied retrospectively commencing from 1 July 1997. This change will more fully reflect the commercial manner in which the Auditor-General intends to run the Office while preserving the Reserved by Law appropriation that is essential to the independence of the position.

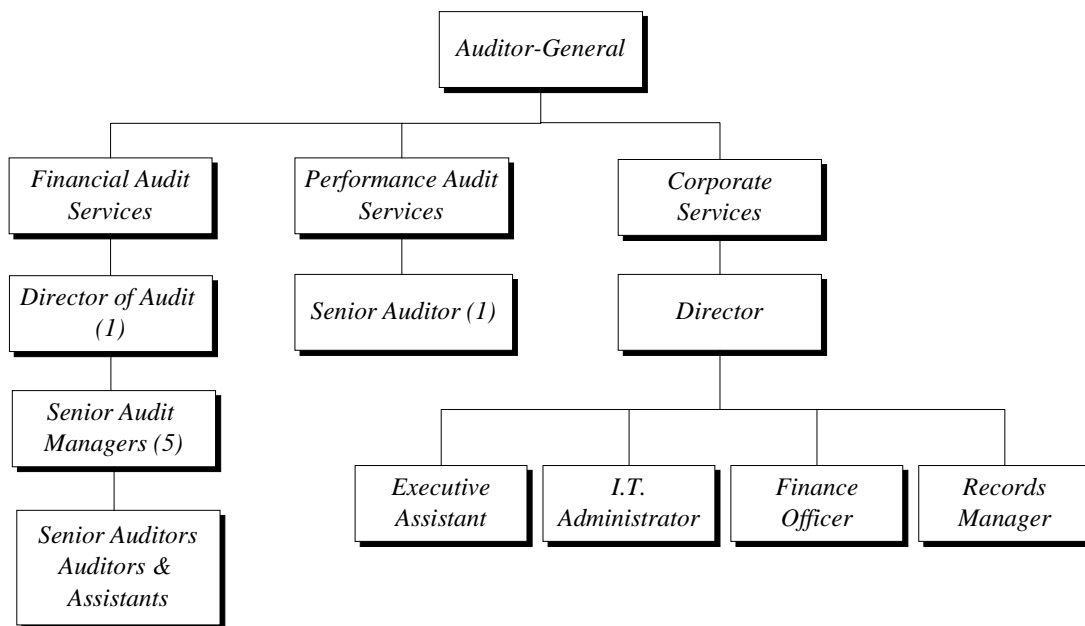
The revised arrangement will assist in ensuring that where the Office is in competition with the private sector (as in some Council audits), it is subject to a similar regime of charges.

ORGANISATION AND MANAGEMENT

OVERVIEW

The structure of the Office changed significantly this year. The Auditor-General presides over an executive management team consisting of the Director of Audit and the Director of Corporate Services. A new dedicated section for Performance Audits was created.

ORGANISATION CHART



KEY MANAGEMENT PERSONNEL

The key management personnel are listed below:-

AUDITOR-GENERAL

Dr A J McHugh Bsc (Hons) (University of Sydney) PhD (University of Sydney)
BA (Macquarie University) FCPA
Responsibilities: Auditor-General and administrative head of the Tasmanian Audit Office

DEPUTY AUDITOR-GENERAL/ DIRECTOR OF AUDIT

D W R Baulch FCPA
Responsibilities: Provide policy advice to the Auditor-General. Manage staff of the financial audit section in accordance with contemporary audit practices.

DIRECTOR CORPORATE SERVICES

D J Strong
B Bus (University of Tasmania)
ASA MACS PCP
Responsibilities: The Office's principal accounting officer, human resource manager and information resource manager (including records management and information technology).

LEGISLATION ADMINISTERED

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.

MAJOR DOCUMENTS PRODUCED

	Copies Printed ²	Productio n Cost \$	Printing Cost \$	Total Cost \$
Performance Audit Reports				
Special Report No 21 - Special Investigation into Administrative Processes associated with Preservation and Maintenance of the Port Arthur Historic Site.	300	9 174	1 755	10 929
Special Report No 22 - Land Information and Adverse Possession.	300	64 470	680	65 150
Special Report No 23 - Managing School Maintenance and Minor Works	300	21 398	1 450	22 848
Special Report No 24 -Further Review of Performance Indicators in Government Departments	300	50 714	1 455	52 169
Special Report No 25 - The Year 2000 - Are We Ready?	450	33 925	2 115	36 042
Special Report No 26 - Capitalisation and Reporting of Road Assets in Tasmania	300	46 321	1 680	48001
		226 004	9 135	235 139
Annual Reports as required by the Act				
Annual Report of the Office	350	15 407	5 640	21 047
Report No 1 - Public Account ¹	300	10 730	799	11 529
Report No 2 – Government Departments and Public Bodies	485	67 350	4 991	72 341
		93 487	11 430	104 917
		319 491	20 565	340 056

All of the above reports can be accessed via the Office's internet home page

<http://www.audit.tas.gov.au/reports/index.html>

Note:

1. The audit of the public account has in addition to the cost of reporting, an audit fee of \$79 920.
2. Included in the number of copies printed is 100 for Parliamentary Papers

CORPORATE SERVICES

OVERVIEW

The Corporate Services Section is comprised of the following functional units:-

- Human Resource Management
- Computer Services and Support
- Finance and Administration
- Executive Support

There are 4.68 full-time equivalent staff employed.

OBJECTIVES

Human Resource Management

Provides support and advice to management and staff of the Tasmanian Audit Office on all issues concerning the management of people at work and delivers a range of services directed at providing the Tasmanian Audit Office with a highly skilled, motivated and productive workforce.

Computer Services and Support

Provides IT related services to all areas of the Tasmanian Audit Office and also contributes to the development of policies, procedures and standards involving information technology issues.

Finance and Administration

The principal responsibilities are:-

- preparation and on-going management of the Tasmanian Audit Office budget;
- payment of accounts and processing of receipts;
- payment of salaries and maintenance of the leave management system;
- records management and office communications; and
- provision of accommodation, equipment and office stationery.

Executive Support

Provides the Executive management of the Office with secretarial support and services.

Annual Report

The section was able to meet its objective of producing the Office's annual report for 1996-97 by 31 July 1997. A pleasing result was the Office being presented with a Commended Certificate for our 1995/96 annual report in the Tasmanian State Government Agency category for the Annual Reports Award from the Tasmanian Division of the Institute of Public Administration Australia.

Recycling

The Office is committed to using recycled products, and providing materials for recycling to the Hobart City Council.

Benchmarking of Computer Support Services

During the year the Office participated in a benchmarking exercise with audit offices within Australasia. The following table indicates the office's performance against the average of the other audit offices that participated.

	Tasmania	Average
Ratio of IT staff to total staff	3.2%	2.9%
Ratio of IT salary cost to total cost salary	2.5%	2.4%
Ratio of IT full costs (salary, operating costs and outsourcing) to total operating expenditure	6.1%	4.4%
Ratio of WDV of computers to total assets	11.4%	25.7%
Ratio of leased computers to total assets	0%	3.5%
Ratio of IT outsourcing to full IT costs	0%	12.3%

HUMAN RESOURCE MANAGEMENT

STAFFING INFORMATION

STAFF RECRUITMENT

No staff were recruited during the year.

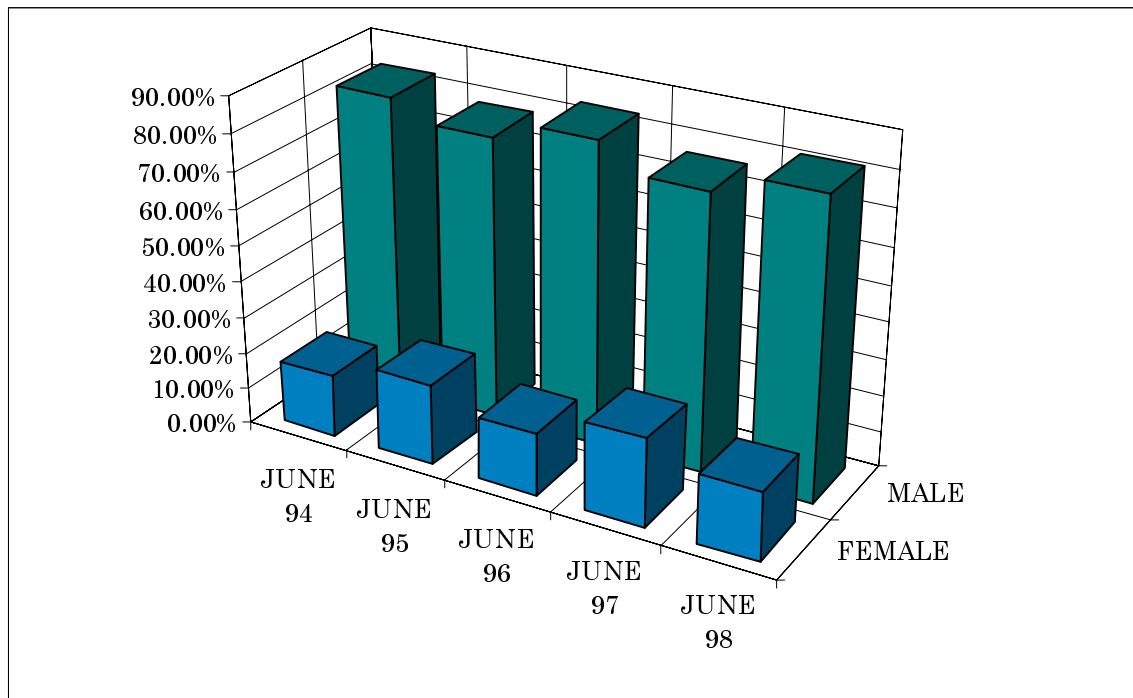
STAFF RECRUITMENT AND TURNOVER

The rate of staff turnover in the Office has increased this year. The number of staff over the last five years has decreased by 45%.

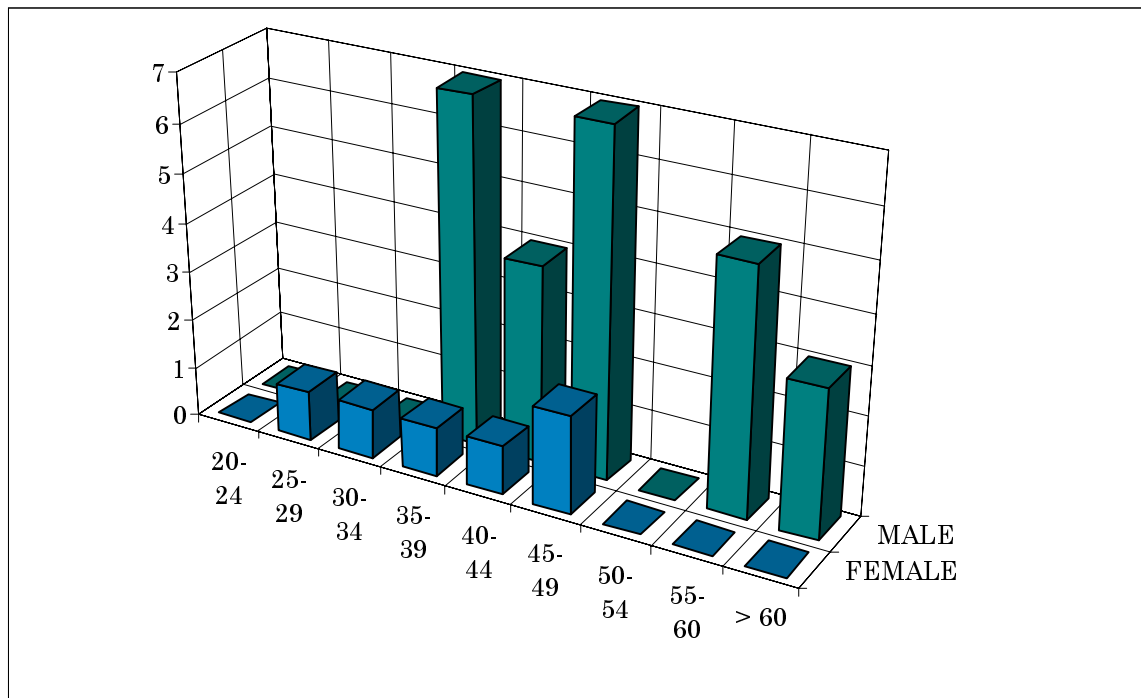
Employment statistics are represented as full-time equivalents and are detailed below.

	1993-94	1994-95	1995-96	1996-97	1997-98
Permanent Employees 1 July	59	47.5	42	38	33.36
Losses					
Redundancy	5	-	-	-	-
Retirements	2	3	1	2	1
Resignations	7	3	4	3	1.68
Promotions (Other Agencies)	5	3	1	-	-
Deaths	-	-	-	-	-
	-19	-9	-6	-4	-2.68
Gains					
State Service	-	1	-	-	-
Non-State Service	7.5	1.5	-	-0.36	-
Conversion from Temporary to Permanent	-	1	2	-	-
	7.5	3.5	1	0	0
Total Permanent Employees	47.5	42	38	33.36	30.68
Plus temporary employees	2	2	3	3	1
Number Employed 30 June	49.5	44	41	36.36	31.68
% change per year	(16%)	(11%)	(6%)	(9%)	(13%)

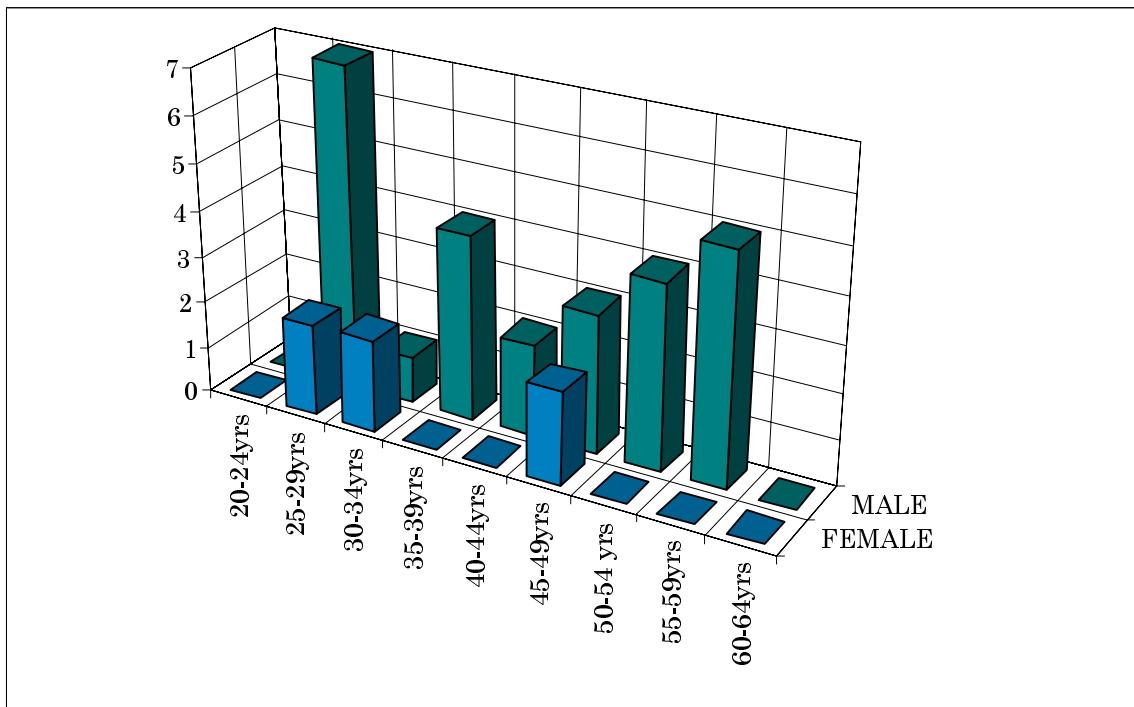
% Total Staff by Gender for the Period June 94 To June 98



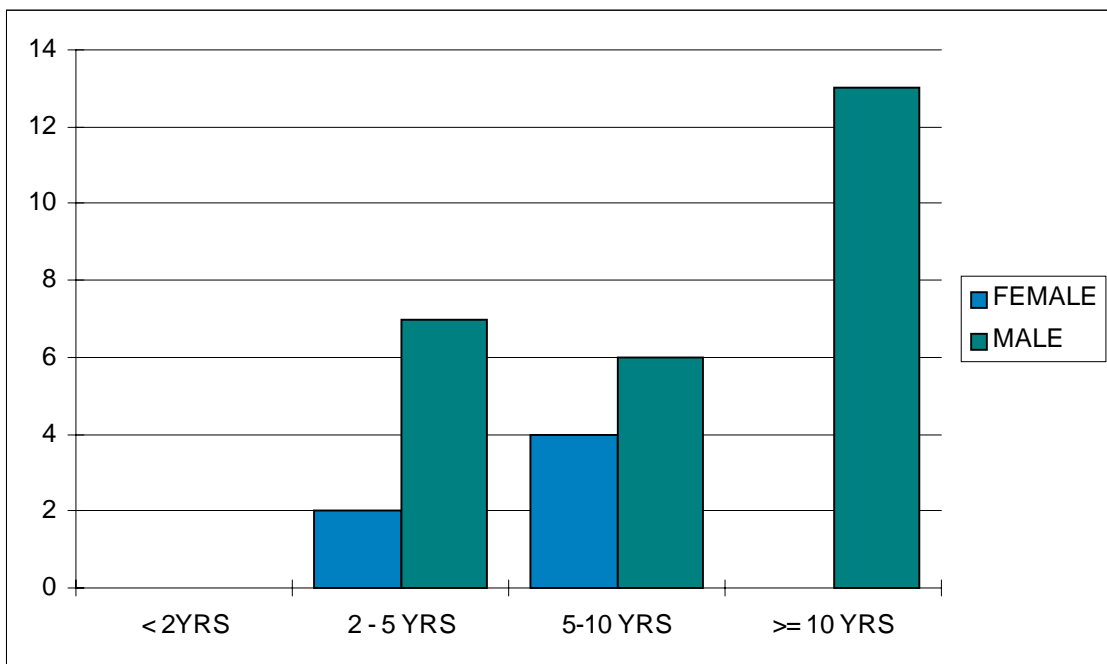
Number of Staff by Gender by Salary Range (\$'000) as at 30 June 1998



Breakdown of Staff by Age And Gender as at 30 June 1998



Length of Employment with the Office as at 30 June 1998



STAFF BY CATEGORY

	June 94	June 95	June 96	June 97	June 98
Executive Management	6	6	5	5	3
Managers	6	5	5	5	5
Audit Staff	32	28	26	23	20
DP Support Staff	2	1	1	1	1
Administration Staff	3.5	4	4	2.68	2.68
	49.5	44	41	36.36	31.68
Average Staff for the year	54.25	46.17	40.96	38.31	35.23

LEAVE MANAGEMENT

SICK LEAVE

	1993-94	1994-95	1995-96	1996-97	1997-98
Full Pay Sick Leave (Days)	221.0	252.0	127.1	158.9	256.8
Half Pay Sick Leave (Days)	22.1	0.0	0.0	0.0	0.0
No pay Sick Leave (Days)	18.0	53.0	0.0	0.0	0.0
Total Sick Leave Taken (Days)	261.1	305.0	127.9	158.9	256.8
Average Per Employee (Days)	4.8	6.6	3.1	4.2	7.3
Number of Officers who took leave in excess of 100 hours	3	4	1	0	4

ANNUAL AND LONG SERVICE LEAVE

Details of the number of employees where accrued leave credits exceed the statutory limit as at 30 June are as follows:

	1993-94	1994-95	1995-96	1996-97	1997-98
Number of employees where Annual leave credits are in excess of 40 working days as at 30 June	7	7	13	13	13
Number of employees whose Long Service Leave credits are in excess of 100 working days as at 30 June	9	6	7	6	5

Employees are generally required to reduce their annual leave credits to less than 40 working days as at 30 September in each year.

The Office is developing a strategy with staff to reduce the above excess leave balances over the next 18 months.

STAFF DEVELOPMENT

Eligible Training Courses and Staff Development Activities

The training statistics are provided below.

Training provided to staff in the year comprised:-

- in-house courses on audit methodology, changes to accounting and audit standards, audit software for planning and workpapers and in the use of specific audit techniques.
- external courses sponsored by the accounting profession and other training institutions.

	External Courses	Internal Courses	Total Hours
Auditing, Accounting and Finance	431	378	809
EDP Auditing	0	0	0
Management and Public Administration	52	0	52
Human Resource Management	9	0	9
Communications and Personal Development	30	0	30
Information Technology	182	72	254
TOTAL	704	450	1 154

	1993-94	1994-95	1995-96	1996-97	1997-98
Number of days of training provided	370.0	536.2	292.6	204.2	157.3
Average number of days per employee	6.82	11.62	7.15	5.33	4.46

Study Assistance Policy

The Office encourages staff members to further their professional development by undertaking appropriate courses of study, usually at the University.

Study assistance may involve employees receiving time off and/or financial assistance. Time off is granted subject to the Office's convenience and the nature and extent of the assistance is dependent on the benefit which the course of study is likely to bring to the Tasmanian State Service.

Continuing Professional Development

The Office encourages staff members to commit themselves to continuing professional development.

Subject to prior approval, staff are allowed time off during working hours to attend seminars.

The Office's contribution towards the cost of CPD courses, seminars, etc (for fees, travel, accommodation and meals) is dependent on funds available and relevance of subjects to the Office's functions.

Graduates within the Office wishing to undertake CPD are reimbursed 50% of the fees involved upon successful completion of the Programme.

EQUAL EMPLOYMENT OPPORTUNITY POLICY

EQUAL EMPLOYMENT OPPORTUNITY POLICY

The Tasmanian Audit Office is committed to employment policies and practices which do not discriminate against individuals on the basis of sex, ethnic origin, marital status, physical disability, religion, political opinion or other characteristic.

The Tasmanian Audit Office has a commitment to:

- ensure fairness and equity in all employment practices, policies and conditions of service;
- ensure that all recruitment, promotion and selection procedures are non-discriminatory, including the representation of both men and women on selection panels, and the development of position descriptions and selection criteria which canvass the widest possible interpretation of skills and experience relevant to the functions of the Office;
- ensure employees, regardless of sex, marital status, ethnic origin and physical disability have equal access to staff development programmes, job rotation, inter-departmental working groups, secondments, work assignments and other procedures which may expand an employee's range of work experience and enhance career prospects; and
- ensure all conditions of service are applied fairly and equitably to all employees.

A committee of staff has the responsibility to oversight the implementation of the policy, prepare annual plans of issues to be addressed and to act as contact persons for staff with any grievances.

INDUSTRIAL DEMOCRACY

A Consultative Committee exists to provide a forum for management and staff to exchange ideas and information, and consult on issues concerning both parties.

Membership of the Committee at 30 June 1998 was:-

Auditor-General;
Director Corporate Services;
Staff of the Office (5) ,and
Representative of the Community and Public Sector Union
(State Public Services Federation Tasmania).

Four meetings were held during the year.

Issues discussed at these meetings included:

Occupational, Health and Safety Issues;
EEO Management Plan;
Internal Management Issues;
Audit Methodology;
Office Restructure;
Performance Audit Resourcing;
Professional Development and Review Scheme;
Ergonomic Assessment Audit;
Career Paths within the Office;
Staffing Issues; and
Replacement of management information system.

During the year there were no days lost due to industrial disputes.

OCCUPATIONAL HEALTH AND SAFETY

The responsible officer for health and safety at the workplace is:-

David Strong
Director Corporate Services

The Office's policies in relation to occupational health and safety and rehabilitation are set out in its OHS Policy and Procedures Manual.

WORKERS COMPENSATION STATISTICS

	1993-94	1994-95	1995-96	1996-97	1997-98
Claims Lodged	0	0	1	0	1
Days Lost	0	0	0	0	14.25
Cost of Claims	0	0	0	0	\$1 197
Premium	\$12 938	\$12 660	\$10 752	\$14 856	\$12 397

As at 30 June 1998, an ergonomic assessment is being undertaken by a qualified consultant. It is expected the consultant's report will be finalised by 31 August 1998.

PUBLIC ACCESS

FREEDOM OF INFORMATION

FOI Contact Officer	David Darby
Location	Level 5 144 Macquarie Street Hobart

Telephone:	(03) 6233 2879
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Number of Requests received	0
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The following information is held by the Office:-

Audit Working Papers and Files

This information is confidential to the Auditor-General. Any information in respect to an auditee should be sought directly from that auditee.

Reports of the Auditor-General

Details are shown on page 19 of this Report of Reports issued by the Auditor-General.

INVOLVEMENT WITH COMMITTEES

Committees on which staff of the Office have served during the year either as members or in an advisory capacity were as follows:-

Australasian Council of Auditors-General

- Member
- Member of Executive Committee and Liaison Committee

Professional Committees

- Urgent Issues Group
- Australian Society of Certified Practising Accountants
 - State President
 - National Council - Divisional Councillor
 - Audit Committee
 - Public Sector Accountants Committee
 - CPA Network Committee
 - Ethics Centre of Excellence Northern Branch Council
- Institute of Public Administration Australia Tasmanian Division
 - Corporate Member
 - State Councillor

Inter-Government/Public Bodies Committees

- Office for Multicultural and Ethnic Affairs
 - Performance Indicator Working Group
- EEO Committees
 - Changing Workplace Behaviour Policy Development Sub-committee
 - Contact Officers Committee
- University of Tasmania Faculty of Business
- Remus Consortium
 - Steering Committee
 - HR Reference Group
- Training Consortium
 - Steering Committee
- Information Technology Managers Group
- Information Management Forum

MANAGEMENT POLICIES

ASSET MANAGEMENT

ACCOMMODATION

The Office occupies Government owned or leased properties in Hobart and Launceston.

The Office is currently required to lease the 5th floor in the TGIO Building, Macquarie Street, until the expiry date of the lease on 23 April 1999.

INFORMATION TECHNOLOGY

The Office is maintaining its policy of replacing IT hardware every two to three years.

The Office's disaster recovery and backup policy document is in its final draft after being revised.

The Office is continually developing its internal network to facilitate access by the public via the internet.

RISK MANAGEMENT

The major risk exposures of the Office are associated with the conduct of audits.

To minimise these risks, audits are conducted in accordance with Australian Auditing Standards, which are issued jointly by the Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants in Australia. The standards provide the fundamental benchmarks and quality assurance guidelines which must be followed by members of the accounting profession.

The Office minimises these risks by:-

- reviewing its audit methodology regularly;
- ensuring the review process as defined in the Audit Manual is performed;
- ensuring that an external quality assurance review is performed periodically on a selection of financial audit working papers.
- ensuring that a quality assurance review is performed periodically to evaluate the performance audits conducted.

The Office attempts to minimise the risk of injury to workers by reviewing work practices and the office environment.

The risk of information loss and equipment loss is minimised by ensuring disaster/recovery procedures are performed, and officers follow the code of conduct relating to securing computer equipment and information.

PRICING POLICIES

The Office is dependent upon audit fees as the main source of revenue and a small budget appropriation for the Auditor-General's salary, Performance Audits, Reports to Parliament and Whole-of-Government Services.

Audit fees charged are determined by the Treasurer 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 on a number of criteria which include size, history, risk, complexity, systems in place including internal controls, organisation and accounting changes and location.

TAO Charging Policy

This policy covers a number of different types of work. Any proposed departures from the policy must be approved by the Auditor-General.

This policy is concerned with substantial commitments of time as it would be counter-productive to insist on charging for every small service provided by the Office. As a guide, times of more than 20 hours represents a substantial amount of time that should be accounted for.

The aim is to seek recovery of full direct cost plus overheads where that is feasible in the circumstances.

Financial audits constitute most of the throughput of the Office. Each audit should recover the full cost of auditors, Managers, Directors and the Auditor-General and include a proportional amount of overheads.

If additional hours above allocated hours are traced to auditee causes the excess should be recovered.

Documents tabled in Parliament are supplied free of charge where stocks of a print run already exist. It may be necessary to seek recovery of costs if material needs to be photocopied in large numbers or reprinted.

All services provided to other Auditor-General offices are free of charge unless there is an external third party involved in the supply of the service, e.g. a training course delivered by a third party.

EXTERNAL AND INTERNAL SCRUTINY

External Review

There was no new review in this year. However the Office proceeded to implement most of the recommendations in the review of performance audits done by a member of staff of the Victorian Auditor-General's office last year.

Specifically, the Office:-

- initiated collecting information more systematically and has set up a performance audit data base. This is based on annual reports by various agencies, reports by other Auditors-General, reports by Parliamentary committees etc.
- approached the Public Accounts Committee and central and other agencies to canvass views on future performance audit topics.
- established formal selection criteria to assist in the prioritising of audit topics.
- updated the performance audit methodology based closely on that of the Victorian Audit Office.

Survey of Auditees

The Office conducted its annual survey of auditees in March 1998 relating to the audit of the 1996-97 financial year. Some aspects of the survey are reported at page 12.

In addition it should be noted that approximately one quarter of the respondent auditees would prefer not to use this Office if given a choice of a financial auditor. This statistic has remained steady over 3 years.

While some of this evident dissatisfaction is related to conflict over professional issues, other aspects are also important and will have to be addressed by way of the provision of better service and value for money. It is also an important input into the competition policy review of the legislation currently in progress.

INTERNAL AUDIT

No internal audit was undertaken this year

EXTERNAL AUDIT

Under Section 45 of the *Financial Management and Audit Act 1990*, the Governor may appoint an independent Registered Company Auditor to perform an audit of the financial statements of the Tasmanian Audit Office. Deloitte Touche Tohmatsu, Chartered Accountants, Hobart, were appointed for a term of three years expiring on completion of the audit for the year ended 30 June 2000. Their Audit Report is attached to the financial statements contained in this Report.

COMMENTARY ON FINANCIAL RESULTS

The financial statements appear on pages 41-69.

FINANCIAL STATEMENTS PREPARED ON A CASH BASIS

Adequate explanations for the variances in receipts and payments are set out in Note 4.

FINANCIAL STATEMENTS PREPARED ON AN ACCRUAL BASIS

Operating Statement

Employee Entitlements declined from \$1 887 000 to \$1 756 000 due to a reduction of staff numbers. Depreciation expense increased as a result of hardware and software acquisitions. Information technology increased as a result of increased new software acquisitions and implementation costs. Contract auditor fees increased as a result of contracting a consultant to assist with a performance audit.

Operating revenue decreased in 1998, this is a result of the Office not meeting its budgeted work in progress target for 30 June. The revenues from government increased as a result of the increase in the Reserved-by-Law item for the Auditor-General's salary.

The abnormal items detailed in Note 14 contributed a net (\$30 000) to the results for the year.

The overall loss for the year of \$20 000 represents a 0.64% loss on the total cost of services of \$3 087 000.

Statement of Financial Position

Receivables are down due to a further decline in the level of interim billing, and Work in Progress is down as previously discussed. Cash has increased as a result of expenditure being under budget.

Investment in non-current assets is down as a result of depreciation charges.

Current liabilities are up and non-current liabilities are down because several staff have large long service leave entitlements to be used this year to meet statutory limits. Also a reduction in staff numbers has reduced the employee related provisions.

Equity is down because of the operating loss and the return of equity.

Statement of Cash Flows

Employee entitlements and goods and services decreased in comparison to last year.

User charges and fees and the receipts from appropriation increased by \$95 000 in comparison to the previous year.

The equity reduction of \$100 000 in 1998 represents the second of three such payments to be made annually.

The sales tax/capital charge replaces the refund of the Auditor-General's salary as discussed on page 15.

The cash balance at the end of the financial year although substantial, is only adequate to fund current liabilities and provide funds to meet employee salaries as they fall due.

Output Schedule

This Statement recasts the Operating Statement into high level categories of expenses and revenues but is otherwise identical. It is drawn up on an accrual basis. All revenues and expenses contribute to the single output group (consisting of two outputs) described in Note 5.

TASMANIAN AUDIT OFFICE



FINANCIAL STATEMENTS

FOR THE YEAR ENDED

30 JUNE 1998

TASMANIAN AUDIT OFFICE

FINANCIAL STATEMENTS

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- Summary of Expenditure
- Explanation of significant variations

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- Explanation of significant variations

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PUBLIC ACCOUNT
CASH STATEMENTS
30 JUNE 1998

TASMANIAN AUDIT OFFICE

Financial summary for the year ended 30 June 1998

Summary of Financial Transactions

		1997	1998	1998	
	Note	Actual \$'000	Estimate \$'000	Actual \$'000	Variation \$'000
OPENING BALANCE		946	748	748	-
Total receipts	4 (b)	3 116	3 163	3 244	81
Total expenditure	4 (c)	(3 314)	(3 232)	(3 138)	(94)
CLOSING BALANCE		748	679	854	175

Closing balance of accounts in the Special Deposits and Trust Fund Administered by the Office consist of:

Business Unit Account (T644)	854
TOTAL CLOSING BALANCE	854

TASMANIAN AUDIT OFFICE

Financial summary for the year ended 30 June 1998 (continued)

Source of Funds

	Note	1997 Actual \$'000	1998 Estimate \$'000	1998 Actual \$'000	Variation \$'000
OPENING BALANCE		946	748	748	-
Consolidated Fund:					
Reserved by Law	4 (a)	159	190	196	6
Total Consolidated Fund		159	190	196	6
Other Receipts					
Proceeds from sale of assets	4 (e)	10	10	2	(8)
Operating revenue not paid into Consolidated Fund	4 (b)	2 047	2 963	3 046	83
Total Other Receipts		2 957	2 973	3 048	75
TOTAL RECEIPTS		3 116	3 163	3 244	81
TOTAL SOURCE OF FUNDS		4 062	3 911	3 992	81
Less					
Equity Reduction	4 (k)	100	100	100	-
Closing balance:					
Other		748	679	854	175
TOTAL FUNDING OF OUTPUTS		3 214	3 132	3 038	(94)

TASMANIAN AUDIT OFFICE

Financial summary for the year ended 30 June 1998 (continued)

Summary of Expenditure

		1997	1998	1998	
	Note	Actual \$'000	Estimate \$'000	Actual \$'000	Variation \$'000
OUTPUT GROUP 1					
Public Management and Accountability					
1.1 Public Sector Accountability		414	524	579	55
1.2 Financial Audit and Related Audit Services	4 (c)	2 800	2 534	2 459	(75)
TOTAL OUTPUT GROUP 1		3 214	3 058	3 038	(20)
TOTAL OUTPUT GROUPS		3 214	3 058	3 038	(20)
TOTAL EXPENDITURE		3 214	3 058	3 038	(20)

TASMANIAN AUDIT OFFICE

**Consolidated Fund Transactions for the year ended
30 June 1998**

	Note	1997 Actual \$'000	1998 Estimate \$'000	1998 Actual \$'000	Variation \$'000
EXPENDITURE FROM THE CONSOLIDATED FUND TOWARDS THE COST OF PRODUCING OUTPUTS					
Reserved by Law	4 (a)	159	190	196	6
TOTAL EXPENDITURE		159	190	196	6

TASMANIAN AUDIT OFFICE

Special Deposits and Trust Fund Statement of Receipts and Expenditure for the year ended 30 June 1998

T644 – Tasmanian Audit Office Operating Account
To record transactions with the receipt and disbursement of funds for
activities undertaken by the Tasmanian Audit Office

	Note	1997 Actual \$'000	1998 Actual \$'000
OPENING BALANCE		946	748
RECEIPTS			
Reserved by Law	4 (a)	159	196
Fees for Service	4 (d)	2 861	2 958
Proceeds from Sale of Equipment	4 (e)	10	2
Interest	4 (f)	55	26
Other		31	62
TOTAL RECEIPTS		3 116	3 244
PAYMENTS			
Employee Entitlements	4 (g)	1 890	1 726
Superannuation	4 (g)	201	186
Payroll Tax	4 (h)	139	118
Fringe Benefits Tax	4 (m)	16	37
Workers Compensation		15	13
Purchases of Office Equipment and Leasehold Improvements	4 (i)	123	171
Purchases of Goods and Services	4 (j)	735	665
Sales Tax Equivalent/Capital Charge	4 (l)	-	122
Refund Auditor-General's Salary	4 (l)	95	-
TOTAL PAYMENTS		3 214	3 038
Closing Balance Prior to Equity Reduction		848	954
Equity Reduction	4 (k)	100	100
CLOSING BALANCE		748	854
CLOSING BALANCE CONSISTS OF:			
Approved Carry Forward Funds		748	854
		748	854

PUBLIC ACCOUNT
ACCRUAL STATEMENTS
30 JUNE 1998

TASMANIAN AUDIT OFFICE

Operating Statement for the year ended 30 June 1998

	Note	1998 \$'000	1997 \$'000
OPERATING EXPENSES			
Employee entitlements	2(e)	(1 756)	(1887)
Superannuation and Payroll Tax	2(f)	(321)	(313)
Depreciation	2(d),5	(212)	(197)
Accommodation	2(g)	(164)	(159)
Materials, Supplies & Services		(73)	(74)
Information Technology		(160)	(148)
Contract Auditors Fees		(144)	(130)
Travel and Transport		(72)	(82)
Training		(34)	(34)
Other		(151)	(164)
TOTAL COST OF SERVICES		(3 087)	(3 188)
OPERATING REVENUE			
User charges and fees	7	2 795	2 814
Other revenues	7	67	66
TOTAL OPERATING REVENUE		2 862	2 880
NET COSTS OF SERVICES		(225)	(308)
REVENUES FROM GOVERNMENT			
Recurrent Appropriation	3 (a)	196	159
Assumption of Liabilities	3 (b)	35	23
TOTAL REVENUES FROM GOVERNMENT		231	182
NET REVENUES FROM DISPOSAL OF NON-CURRENT ASSETS	7	4	(2)
NET REVENUE FROM ABNORMAL ITEMS	14	(30)	54
CHANGE IN NET ASSETS RESULTING FROM OPERATIONS BEFORE INCOME TAX		(20)	(74)
INCOME TAX EXPENSE		-	-
CHANGE IN NET ASSETS RESULTING FROM OPERATIONS AFTER INCOME TAX		(20)	(74)

TASMANIAN AUDIT OFFICE

Statement of Financial Position as at 30 June 1998

	Note	1998 \$'000	1997 \$'000
CURRENT ASSETS			
Cash on hand and deposit accounts		854	748
Receivables	2(i),8	13	58
Work in Progress		933	1 041
Prepayments		64	88
TOTAL CURRENT ASSETS		1 864	1 935
NON-CURRENT ASSETS			
Plant, equipment and furniture	9	347	390
TOTAL NON-CURRENT ASSETS		347	390
TOTAL ASSETS		2 211	2 325
CURRENT LIABILITIES			
Payables	2(h)	18	8
Employee entitlements	13	357	327
Other		19	26
TOTAL CURRENT LIABILITIES		394	361
NON-CURRENT LIABILITIES			
Employee entitlements	13	322	350
TOTAL NON-CURRENT LIABILITIES		322	350
TOTAL LIABILITIES		716	710
EQUITY	10	1 495	1 615
TOTAL LIABILITIES AND EQUITY		2 211	2 325

TASMANIAN AUDIT OFFICE

Statement of Cash Flows for the year ended 30 June 1998

	Note	1998 \$'000	1997 \$'000
		Inflows (Outflows)	Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee Entitlements		(2 039)	(2 108)
Goods & Services		(667)	(874)
Receipts			
User charges and fees		2 936	2 879
Interest received		26	53
Other		41	13
NET CASH FROM OPERATING ACTIVITIES		297	(37)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for the purchase of non-current assets	11	(171)	(135)
Receipts from the sale of non-current assets	7	6	10
NET CASH FROM INVESTING ACTIVITIES		(165)	(125)
CASH FLOWS FROM GOVERNMENT			
Receipts from appropriation			
Reserved by Law		196	159
Payments to Government			
Equity Reduction	4 (k)	(100)	(100)
Sales Tax / Capital Charge	4 (l)	(122)	-
Refund Auditor-General's Salary	4 (l)	-	(95)
NET CASH PROVIDED BY GOVERNMENT		(26)	(36)
Net increase (decrease in cash held)		106	(198)
Cash at the beginning of the year		748	946
CASH AT THE END OF THE YEAR		854	748

TASMANIAN AUDIT OFFICE
Output Schedule
Office's Expenses and Revenues prepared on an accrual
basis for the year ended 30 June 1998

OUTPUT GROUP	1	
	1998	1997
	\$'000	\$'000
EXPENSES AND REVENUES		
EXPENSES		
Employee Costs	2 076	2 200
Depreciation	212	197
Materials, Supplies & Services	647	627
Other	182	164
TOTAL	3 117	3 188
REVENUES		
Government	231	182
User charges and fees	2 795	2 814
Other revenues	71	118
TOTAL	3 097	3 114
REVENUE LESS EXPENSES	(20)	(74)

The Office only has one output group.

TASMANIAN AUDIT OFFICE

Notes to and forming part of the financial statements for the year ended 30 June 1998

1. Objectives and Funding

The Office's objective is to provide independent audit assurance to Parliament concerning the financial statements of the Treasurer, Government Departments and Public bodies and the economy, efficiency and effectiveness of the operations of those entities

The Office is partially funded by Parliamentary appropriations for performance audits, special investigations and reports to Parliament. It provides all financial audit services on a fee-for-service basis and the fees charged are based on estimated times to perform the audits.

Fees are approved by the Treasurer.

The funding from audit fees and appropriations is credited to an operating account in the Special Deposits and Trust Fund and costs of operating the Office are met from those funds.

2. Significant Accounting Policies

(a) Basis of Accounting

The financial statements have been prepared in accordance with the Treasurer's Instructions issued under the provisions of the Financial Management and Audit Act 1990. For activities financed through the Public Account, selected statements have been prepared on a cash basis of accounting. These statements comprise a Summary of Financial Transactions, a Summary of Consolidated Fund Transactions and a statement for the Office's account in the Special Deposits and Trust Fund.

Other financial statements in respect of the total activities of the Office have been prepared on an accrual basis in accordance with applicable Australian Accounting Standards, other mandatory professional reporting requirements and Treasurer's Instructions. Collectively these financial statements comprise the Office's general purpose financial report.

They have been prepared on the accrual basis of historical cost accounting.

The Office is subject to payroll tax. From 1997-98 the Office has agreed to pay into the Consolidated Fund an amount equivalent to sales tax, income tax and a capital charge.

(b) Appropriations

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

(c) Valuation of non-current assets

The asset capitalisation threshold adopted by the Office is \$5 000. Assets valued at less than \$5 000 are charged to the Operating Statement in the year of purchase.

Assets are grouped on the basis of having a similar nature or function in the operations of the Office.

(d) Depreciation of Non-Current Assets

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 the following class of assets at the stated depreciation rates:

Office Equipment and Furniture, on a straight line basis balance (25%).

Information Technology, on a straight line basis (33% to 50%)

Leasehold Improvements, on a straight line basis (20%)

(e) Employee Entitlements

Liabilities for employee entitlements in respect of wages and salaries, annual leave, and other current employee entitlements are accrued at nominal amounts calculated on the basis of current wage and salary rates in accordance with employee conditions and awards.

Obligations to employees in respect of accumulated leave credits in lieu of overtime are included with employee entitlements.

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.

Consideration is given, when assessing expected future payments, to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using interest rates attaching, as at the reporting date, to the Commonwealth Government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

On-costs include payroll tax and employer superannuation contributions.

Entitlements in respect of service equal or greater than ten years are shown as a current liability where the employees have indicated their intention to take leave during the next twelve months. The remaining balance is classified as non-current and discounted accordingly.

(f) Superannuation

Most employees of the Office contribute to the Retirement Benefits Fund (RBF) scheme that covers employees in the Tasmanian public Sector.

A superannuation provision is maintained in the Special Deposits and Trust Fund for all Departments.

The Office's obligation in respect of superannuation is extinguished by the payment of the employers contribution based on 11% of salaries for contributory members and the appropriate Superannuation Guarantee charge in respect of non-contributors.

(g) Leases

The Office has entered into an operating lease agreement for accommodation.

Equal instalments of the lease payments are charged to the Operating Statement over the lease term as this is representative of the pattern of benefits to be derived from the leased property.

(h) Accounts Payable

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether billed or not billed to the Office. Accounts payable are normally settled with 28 days.

(i) Accounts Receivable

Trade debtors to be settled within 30 days are carried at amounts due. The collectibility of debts is assessed at balance date and specific provision is made for any doubtful debts.

(j) Comparatives

Where necessary comparatives have been amended to reflect current year disclosure requirements.

3. Appropriations

<i>(a) Reconciliation of Appropriations to Government Revenues</i>	1998	1997
	\$'000	\$'000
Total Appropriations	196	159
Net Cash from Government	196	159
Other Government Revenues:		
Assumption of Liabilities	35	23
Total Government Revenues	231	182

(b) Assumption of Liabilities

Under the commercialisation agreement where the Office incurs additional cost in respect of the accrual liabilities for employee entitlements as at 30 June 1993, the Consolidated Fund meets the pre 30 June 1993 amount.

During the reporting period, the Government agreed to settle the Office's obligations in respect of the following items:

Employee Entitlements		
Long Service Leave	35	23
Net Cash from Government	35	23

4. Explanation of Material Variances

(a) The Auditor-General's salary increased. The salary is determined by averaging the salaries of the Auditors-General of South Australia and Western Australia.

(b) Receipts for audit fees increased from the estimate as a result of assistance to government agencies in implementing the new financial reforms and the new ports legislation.

(c) Employee entitlements decreased from the estimate as a result of a greater decrease in staff numbers than anticipated. Goods and services were under budget.

(d) Fees for Service includes funding from Finance-General. The variance from the previous year is due to the provision of additional audit services.

(e) Reduced amount of equipment sold.

(f) The interest revenue is in line with a reduced cash balance and declining interest rates.

(g) Due to a decrease in staff numbers.

(h) The Office applied for the general exemption as a small business for 1995-96, however, the State Revenue Office ruled that this exemption was not applicable. Consequently, additional payroll tax for 1995-96 was paid during 1996-97.

(i) The Office has a policy of replacing portable computers every three years. The Office purchased a bulk number of portables this year and additional software modules for our audit methodology. The Office also replaced its management reporting system.

(j) In line with the Office's policy to reduce costs associated with Office overheads.

(k) The Office has agreed to pay \$100 000 per annum to the Consolidated Fund as a reduction in equity for three years commencing 1996-97.

(l) In accordance with the terms of its commercialisation agreement with the Government, the Office prior to this year was committed to return a percentage of its Reserved by Law funding to the Consolidated Fund. During 1997-98 this was renegotiated and the Office is required to pay an amount equivalent to sales tax, income tax and a capital charge.

(m) The Office was required to pay additional FBT as a result of an audit.

5. Outputs of the Office

The Office has only one output group of which the objective is:

"To provide independent audit assurance to Parliament concerning the financial statements of the Treasurer, Government Departments and other public bodies and the economy, efficiency and effectiveness of the operations of those entities".

Intended Outputs:

The Office provides the following outputs:

- financial audit services
- public sector accountability

Key Performance Measures

Issue of audit reports to auditees by 31st October of the relevant audit cycle (% completion weighted by audit hours).

Tabling of the Office's report on the Public Account and report on Ministerial Portfolios comprising Government Departments, Government Business Enterprises and statutory authorities in Parliament by the prescribed tabling dates.

The Office conducts performance audits of the economy, efficiency, and effectiveness of selected aspects of public sector entities' activities. The Office's goal is to provide at least as much audit resources as has been appropriated to the Office.

	1998 \$'000	1997 \$'000
Key Performance Indicators		
Percentage of financial audits completed by 31 October	54%	84%
Reports tabled within prescribed time frames	Yes	Yes

		1998 \$'000	1997 \$'000
Aggregate cost of performance audits at least equal to funding from appropriation			
	Target	254	266
	Actual	233	292

6. Depreciation Expense

Depreciation expense for the reporting period was charged in respect of:

Computer Equipment		146	140
Office Equipment and Furniture		28	26
Leasehold Improvements		38	31
		<u>212</u>	<u>197</u>

7. Revenues

Audit Revenue

Financial Audit Fees Raised		2 537	2 096
Add Work in Progress (30 June)		933	1 041
		<u>3 470</u>	<u>3 110</u>
Less Work in Progress (1 July)		(1 041)	(741)
Financial Audit Fees Revenue		2 429	2 369

Firearms Project Fees		-	88
Fees for Whole of Government Services		366	357
User charges and fees		2 795	2 814

Work in Progress is measured by the actual hours spent to date on the audit multiplied by the appropriate charge out rate per employee category.

Proceeds from Sales of Goods and Services

Proceeds from the sale of goods and services are not required to be paid into the Consolidated Fund.

Net Revenues from Disposal of Non-Current Assets

Proceeds from the disposal of Computer Equipment		6	10
Less: Written down value of Computer Equipment		2	12
		<u>4</u>	<u>(2)</u>

	1998 \$'000	1997 \$'000
8. Receivables		
Audit Fees and Charges Outstanding	-	58
Sundry Debtors	13	-
	<u>13</u>	<u>58</u>
Debts written off as non-collectable	5	-
9. Non-Current Assets		
Plant, Equipment and Furniture		
Computer Equipment	655	570
(Accumulated Depreciation)	(388)	(306)
	<u>267</u>	<u>264</u>
Office Equipment & Furniture and Leasehold Improvements	300	281
(Accumulated Depreciation)	(220)	(155)
	<u>80</u>	<u>126</u>
Total	<u>347</u>	<u>390</u>
10. Equity and Changes in Equity		
Equity represents the residual interest in the net assets of the Office.		
Opening Equity	1 615	1 789
Less Equity Reduction	(100)	(100)
	<u>1 515</u>	<u>1 689</u>
Change in Net Assets Resulting from Operations	(20)	(74)
Equity at the end of the reporting period	<u>1 495</u>	<u>1 615</u>
11. Purchase of Non-Current Assets		
Computer Equipment	152	122
Office Equipment and Leasehold Improvements	19	13
	<u>171</u>	<u>135</u>

	1998 \$'000	1997 \$'000
12. Reconciliation of Net Cash used in Operating Activities to Net Cost of Services		
For the purposes of the statement of cash flows, "cash" includes cash on hand and deposit accounts.		
Net Cost of Services	(225)	(308)
<i>Abnormal Items</i>	(30)	54
Refund of Auditor-General's Salary	-	95
Sales Tax / Capital Charge	122	-
<i>Items not involving Cash</i>		
Depreciation	212	197
Employee Entitlements	38	(40)
(Increase)/Decrease in Receivables	45	346
(Increase)/Decrease in Work in Progress	108	(304)
(Increase)/Decrease in Other Non Current Assets	24	(83)
Increase/(Decrease) in Revenue in Advance	(7)	23
(Decrease) Increase in Payables	10	(17)
Net Cash used in Operating Activities	297	(37)

13. Employee Entitlements

Current

Accrued Salary and Related Salary Payments	47	23
In Lieu of Overtime	1	7
Leave Loading	-	4
Annual Leave	242	237
Long Service Leave	67	56
	<u>357</u>	<u>327</u>

Non-Current

Long Service Leave	322	350
	<u>322</u>	<u>350</u>

	1998 \$'000	1997 \$'000
14. Abnormal Items		
1997-98		
The Office was required to pay additional fringe benefits tax as a result of an external audit. This amounted to \$25 177. An bad debt was written off during the year (\$5 000).		
1996-97		
The Office reassessed its treatment of long service leave for staff with more than ten years service. This reassessment resulted in the classification of the current liability being based on the employees intention to take leave during the next twelve months and the remaining balance being classified as non-current and discounted accordingly. The result is abnormal revenue of \$94 841.		
The Office identified surplus space under its non-cancellable accommodation lease in May 1997, and entered into a sublease arrangement with a tenant in June 1997 which will result in the Office incurring a \$25 795 shortfall in rent recovery. This has been treated as an abnormal item.		
The Office was required to pay additional payroll tax as the Office incorrectly applied the general exemption for small business. This amounted to \$14 500.		
15. Operating Lease Commitments		
At the reporting date, the Office had the following obligations under non-cancellable operating leases (these obligations are not recognised as liabilities):		
Not later than 1 year	129	159
Later than 1 year and not later than 2 years	-	129
Later than 2 years and not later than 5 years	-	-
	129	288
16. Auditor's Remuneration		
Amounts paid, or due and payable to the independent auditor	4	4

CERTIFICATION OF THE FINANCIAL STATEMENTS

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 1998 and the financial position as at end of the year.

At the date of signing I am not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.



A J McHugh
AUDITOR-GENERAL

29 July 1998

**Deloitte Touche
Tohmatsu**



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**INDEPENDENT AUDIT REPORT TO THE TREASURER
RE: TASMANIAN AUDIT OFFICE**

Scope

We have audited the attached General Purpose Financial Statements of the Tasmanian Audit Office for the year ended 30 June 1998, being Public Account – Cash Statements comprising Financial Summary Consolidated Fund Transactions and Special Deposits and Public Account – Accrual Statements comprising Operating Statement, Statement of Financial Position, Statement of Cash Flows and Notes to the Financial Statements. The Auditor General is responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of those financial statements in order to express an opinion on them to the Treasurer.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with the provisions of the Financial Management and Audit Act 1990, applicable Australian Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and Treasurer's instructions.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the Financial Statements of the Tasmanian Audit Office are properly drawn up:

- a) so as to give a true and fair view of the Office's financial position as at 30 June 1998 and the results of its operations and its cashflows for the financial year ended on that date; and
- b) in accordance with applicable Australian Accounting Standards; and
- c) in accordance with the provisions of the Financial Management and Audit Act 1990.

DELOITTE TOUCHE TOHMATSU

Deloitte Touche Tohmatsu

L T Cox
Partner
Chartered Accountants
Hobart, 31 July 1998

APPENDICES

APPENDIX 1 – ADDITIONAL HUMAN RESOURCE STATISTICS

STAFF AGE PROFILE - HEAD COUNTS

	30 June 1996		30 June 1997		30 June 1998	
	Male	Female	Male	Female	Male	Female
15-19 years	0	0	0	0	0	0
20-24 years	4	0	2	2	0	0
25-29 years	7	2	5	2	7	2
30-34 years	2	2	1	2	1	2
35-39 years	5	1	6	0	4	0
40-44 years	2	0	2	1	2	0
45-49 years	4	2	3	2	3	2
50-54 years	9	0	7	0	4	0
55-59 years	0	0	3	0	5	0
60-99 years	1	0	0	0	0	0
TOTALS	34	7	29	8	26	6
AVERAGE AGE	39.93	35.89	41.42	35	41.96	37.28

STAFF SALARY PROFILE - HEAD COUNTS (FTE SALARY)

	30 June 1996		30 June 1997		30 June 1998	
	Male	Female	Male	Female	Male	Female
< \$19 000	0	0	0	0	0	0
\$19 001 - \$23 000	0	0	0	0	0	0
\$23 001 - \$27 000	1	1	0	0	0	0
\$27 001 - \$31 000	4	2	0	3	0	1
\$31 001 - \$35 000	5	1	2	1	0	1
\$35 001 - \$40 000	4	0	6	1	8	1
\$40 001 - \$45 000	10	3	4	1	3	1
\$45 001 - \$50 000	0	0	7	2	7	2
\$50 001 - \$55 000	5	0	5	0	0	0
\$55 001 - \$60 000	1	0	0	0	5	0
\$60 001 >	4	0	5	0	3	0
TOTALS	34	7	29	8	26	6
AVERAGE SALARY*	44 299*	34 947	49 635*	36 446	51 128*	40 488

* includes the Auditor-General

STAFF TURNOVER - HEAD COUNTS

	30 June 1996		30 June 1997		30 June 1998	
	Male	Female	Male	Female	Male	Female
Redundancy	0	0	0	0	0	0
Retirements	1	0	2	0	1	0
Promotions to other agencies	0	1	0	0	1	1
Deaths	0	0	0	0	0	0
Resignations	2	2	3	0	0	0
End of temporary appointment	0	0	2	0	2	1
TOTALS	3	3	7	0	4	2

STAFF MOVEMENTS - HEAD COUNTS

	30 June 1996		30 June 1997		30 June 1998	
	Male	Female	Male	Female	Male	Female
Secondments	0	0	0	0	1	0
Leave without pay	0	0	0	1	1	0
TOTALS	0	0	0	1	2	0

STAFF AWARDS - FULL-TIME EQUIVALENTS

	30 June 1996		30 June 1997		30 June 1998	
	Male	Female	Male	Female	Male	Female
Clerical Officers	30	6	4	2.36	4	1.68
Professional Officers	0	0	21	5	20	4
Contract	4	0	4	0	2	0
TOTALS	34	6	29	7.36	26	5.68

EQUAL EMPLOYMENT - HEAD COUNTS

	30 June 1996		30 June 1997		30 June 1998	
	Male	Female	Male	Female	Male	Female
Disabilities	1	0	1	0	1	0
Aboriginal & Torres Strait Islanders	0	0	0	0	0	0
Non English Speaking Background	1	0	1	0	1	0
TOTALS	2	0	2	0	2	0

STAFF RECRUITMENT - HEAD COUNTS

	30 June 1996		30 June 1997		30 June 1998	
	Male	Female	Male	Female	Male	Female
From within State Service	0	0	0	0	0	0
Non-State Service	2	0	1	1	0	0
TOTALS	0	0	1	1	0	0

STAFF CATEGORIES - HEAD COUNTS

	30 June 1996		30 June 1997		30 June 1998	
	Male	Female	Male	Female	Male	Female
Prescribed	1	0	1	0	1	0
Permanent Full-Time	28	5	27	5	24	5
Permanent Part-Time	0	2	0	2	0	1
Full-Time Temporary – S38(1)(a)	2	0	1	1	0	0
Part-Time Temporary – S38(1)(a)	0	0	0	0	0	0
Full-Time Temporary – S38(1)(b)	3	0	0	0	1	0
Part-Time Temporary - S38(1)(b)	0	0	0	0	0	0
TOTALS	34	7	29	8	26	6

STAFF CATEGORIES - FULL-TIME EQUIVALENTS

	30 June 1996		30 June 1997		30 June 1998	
	Male	Female	Male	Female	Male	Female
Prescribed	1	0	1	0	1	0
Permanent Full Time	28	5	27	5	24	5
Permanent Part Time	0	1	0	1.36	0	.68
Full-time temporary - S38(1)(a)	2	0	1	1	0	0
Part-time temporary - S38(1)(a)	0	0	0	0	0	
Full-time temporary - S38(1)(b)	3	0	0	0	1	0
Part-time temporary - S38(1)(b)	0	0	0	0	0	0
TOTALS	34	6	29	7.36	26	5.68

STAFF CATEGORIES - HEAD COUNTS BY LOCATION

	30 June 1996		30 June 1997		30 June 1998	
	Male	Female	Male	Female	Male	Female
Hobart	28	4	25	4	24	4
Launceston	6	3	4	4	2	2
TOTALS	34	7	29	8	26	6

COMPLIANCE INDEX TO DISCLOSURE REQUIREMENTS: 1997-1998

This index has been prepared to facilitate identification of compliance with statutory disclosure requirements: Financial Management and Audit Act 1990 (FMAA) and Treasurer's Instructions (TI), the Tasmanian State Service Act 1984 (TSS) including Statutory Rule No. 123 of 1990 Tasmanian State Service (Agency Reporting) Regulations (TSS(AR)R) and other contemporary reporting practices.

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N/A not applicable

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