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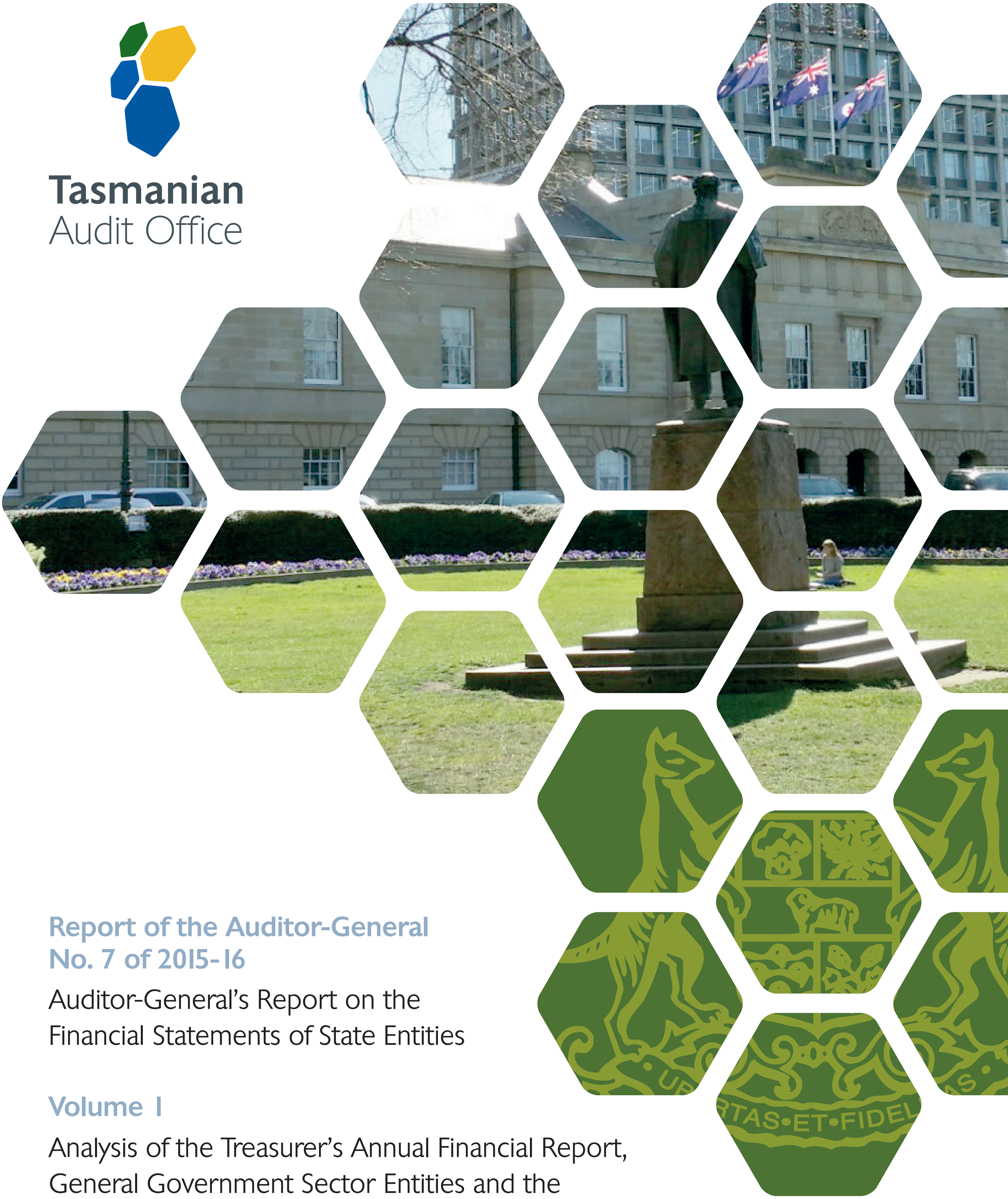

Report of the Auditor-General
No. 7 of 2015-16

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

Volume 1

Analysis of the Treasurer's Annual Financial Report, General Government Sector Entities and the Retirement Benefits Fund 2014-15

December 2015

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THE ROLE OF THE AUDITOR-GENERAL

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

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

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

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

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

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

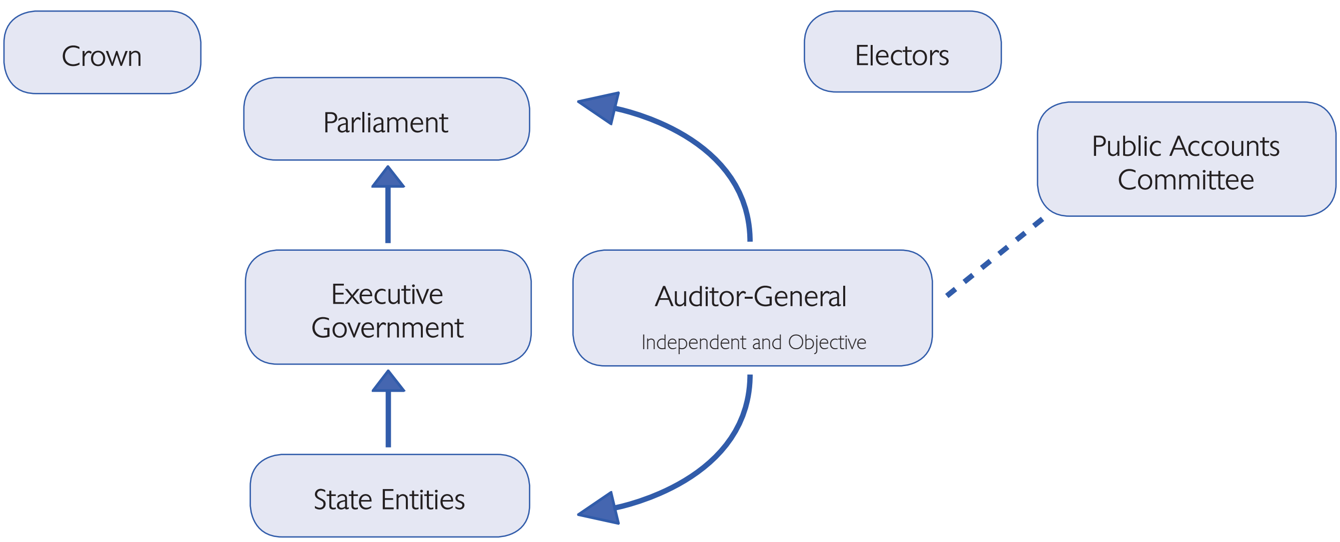
We can also carry out investigations but only relating to public money or to public property.

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

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

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

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



2015 (No. 36)

TASMANIA

2015
PARLIAMENT OF TASMANIA

Report of the Auditor-General No. 7 of 2015-16

Volume 1

Analysis of the Treasurer's Annual Financial Report, General Government Sector Entities and the Retirement Benefits Fund 2014–15

December 2015

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

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

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9 December 2015

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President

Dear Madam Speaker

Report of the Auditor-General No. 7 of 2015-16, Auditor-General's Report on the Financial Statements of State Entities – Volume 1 – Analysis of the Treasurer's Annual Financial Report, General Government Sector Entities and the Retirement Benefits Fund 2014-15

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the audit of the financial statements of state entities, Volume 1 - Analysis of the Treasurer's Annual Financial Report, General Government Sector Entities and the Retirement Benefits Fund 2014-15.

Yours sincerely

H M Blake
Auditor-General

FOREWORD

Each year, the Treasurer prepares the consolidated financial report of the State. The Treasurer's Annual Financial Report (TAFR) discharges Government's accountability for the State's finances to Parliament. I then audit the General Government Sector (GGS) and Total State Sector (Total State) financial statements and Public Account (PA) statements which are included in the TAFR.

My audits resulted in unqualified audit opinions being issued in time for the Treasurer to table those statements by 31 October 2015. This gives Parliament and the Community assurance that the financial statements present fairly, in all material respects, the financial performance and position of the GGS, Total State and PA and that they were prepared in accordance with prescribed financial reporting frameworks.

In addition, my Office provides an assessment of the State's overall financial performance and position. These assessments commenced following our 2007-08 audits with commentary included in Report of the Auditor-General No. 2 of 2008: *Government Departments and Public Bodies 2007-2008, Volume 1, Executive Summary, Executive and Legislature and Government Departments* tabled in December 2008. My analysis has evolved over this period and in this Report includes, for the first time, reference to final State demand and a summary of the GGS and Total State balance sheets since 2007.

As might be expected, my assessments of the State's financial performance and position have varied as the financial circumstances in which the State found itself in, particularly post the global financial crisis, changed. However, there have been some common observations over this period including[1]:

- continued high reliance on GST revenues with no evident attempt to reduce this reliance
- growing defined benefit superannuation obligations both in accrual and cash terms – governments have recognized this problem and I acknowledge it is not easily resolved in the short-term
- growth in costs at rates exceeding growth in revenues, in particular post the GFC – actions taken by governments in recent years has seen this reverse in 2014-15 resulting in a lower underlying deficit, but more is needed to turn this into an underlying surplus or break-even.

New trends I observed this year included:

- percentage growth in expenditure is now closer to percentage growth in Gross State Product but higher than growth in State Final Demand final State demand
- high dividends received from government businesses in recent years is unlikely to continue
- the State's Net Worth declined, in nominal terms, by $1.112bn since June 2007, from $9.726bn at 30 June 2007 to $8.614bn at 30 June 2015. There are varying reasons for this but, in my view, two primary ones:
    - higher unfunded defined benefit superannuation obligations, primarily caused by lower interest rates and other economic assumptions
    - the cumulative impact of operating deficits
- Net Debt, while still positive, declined.

1 *My observations are from a financial perspective and do not consider implications for service delivery.*

In addition to reporting on the GGS, Total State and PA financial statements, this year this Report includes summarised results and assessments of the financial performance and position of Government departments, Parliamentary agencies, a range of other GGS and non-GGS entities and the Retirement Benefit Fund all of which reported at 30 June 2015. Four entities within this group did not submit their financial statements within the statutory deadline, with one audit still to be undertaken. In all but one entity, unqualified audit reports were issued.

H M Blake
Auditor-General
9 December 2015

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INTRODUCTION

FORMAT OF THIS REPORT

Unless specifically indicated, comments in this Report were current as at 18 November 2015.

In addition to this Introduction, this Report includes:

- Key Points
- Conclusions and Recommendations
- Treasurer's Annual Financial Report
- Government Departments
- Executive and Legislature
- Tasmanian Health Entities
- Consolidated General Government Sector State entities
- Other General Government Sector State entities
- Other State entities
- State Superannuation Funds.

STATUS OF AUDITS

Audits of all entities dealt with in this Report have been completed. However, not included is commentary on River Clyde Trust due to delays in submission of financial statements for audit.

Under section 17 of the *Audit Act 2008* (Audit Act) specific time limits are set by which accountable authorities of State entities are to provide financial statements to the Auditor-General to formally allow the audit process to commence. Listed below are entities whose signed financial statements were not received by the statutory deadline of 45 days from the end of the financial year; that is, by 14 August 2014. Dates shown in brackets represent the date signed financial statements were received.

- Tasmanian Dairy Industry Authority (20 August 2015)
- Royal Tasmanian Botanical Gardens (21 August 2015)
- Property Agents Board (9 September 2015)
- River Clyde Trust (yet to be received).

Our responsibility under section 19 of the Audit Act is to complete the audit within 45 days of receiving signed financial statements from State entities.

FINANCIAL REPORTING FRAMEWORKS

Entities are required to follow an applicable financial reporting framework specified in relevant law or regulations. For example, Government Departments are required to present financial statements in accordance with the Model Departmental Financial Statements issued by the Department of Treasury and Finance. In most cases, State entities prepare general purpose financial statements in accordance with Australian Accounting Standards. In certain circumstances a small number of State entities can prepare special-purpose financial statements in accordance with a framework developed by us.

UNDERLYING RESULT

In our analysis of financial performance we have, if necessary, reallocated certain revenue or expenditure items to better assist readers to interpret financial performance. We use the term 'Underlying Surplus (Deficit)' throughout the Report. We define 'Underlying' as from continuing operations, excluding:

- non-operational capital funding
- revenue and expenses which are outside the normal course of operations, for example the cost of restructuring or significant gains or losses on sale or transfer of assets
- non-recurring items which are part of recurrent activities but unusual due to their size and nature.

Government Departments disclose an Underlying Net Operating Balance in notes to their financial statements in accordance with the Model Department Financial Statements. The Underlying Net Operating Balance is derived by excluding non-operational capital funding and capital-related costs from the net operating balance. The underlying result used in our analysis may differ from the Underlying Net Operating Balance disclosed in the financial statements.

SUBMISSIONS AND COMMENTS RECEIVED

A copy of each chapter in this Report was provided to the relevant entity for comment and response.

Comments provided are not subject to the audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of these comments rests solely with those who provided the response or comment.

Where comments were provided, these are included in respective chapters.

KEY AREAS OF AUDIT ATTENTION

Key areas of audit attention have been included in this Report to assist Parliamentarians and other users to understand our approach to auditing these areas, which, by their identification, are considered 'risks' associated with the entity's operations: this ensures audit resources are allocated efficiently and effectively.

KEY POINTS

TREASURER'S ANNUAL FINANCIAL REPORT

- General Government Sector (GGS) financial statements and Public Account (PA) statements were submitted for audit within the statutory deadline.
- Separate unqualified audit reports were issued on the GGS and Total State financial statements and PA statements on 26 October 2015. The audits were completed with satisfactory results and no outstanding matters. This means that the statements presented fairly, in all material respects, the financial performance and position of the GGS, Total State and PA and were prepared in accordance with the prescribed financial reporting frameworks.
- Although the trend is improving, the GGS incurred net Underlying Operating deficits in each of the past four years.
- The lower Underlying Net Operating Balance (deficit) in 2014-15, along with lower expenditure growth, suggests the current and previous Governments were addressing the gap between revenues and expenditures to an extent.
- Funding from the Australian Government totalled 60% of operating revenue in 2014-15, consistent with a four-year average of 61%, demonstrating significant and on-going reliance by Tasmania on funding from the Australian Government.
- Returns from Government businesses represents a revenue risk for Government as, in our view, it is unlikely that the level of dividends and tax equivalents collected in 2013-14 and 2014-15 can continue in the short-term. Government recognised this in the Forward Estimates.
- In the current year, four Government businesses provided 96% of the total dividend, guarantee fees and income tax revenue. In contrast, seven Government businesses provided no returns during the four-year period under review.
- Our analysis showed that Operating revenue grew at a faster rate than Operating expenses. It also showed that expenditure growth was equal to the growth in Gross Domestic Product in current prices in 2014-15 but above the percentage change in the State Final Demand.
- The capacity of the State to meet its future superannuation obligations will require close monitoring. Payments this year totalled $419m (2013-14, $323m) which are expected to increase up to and including 2021.
- Total assets of the GGS and Total State Sector increased by $3.260bn and $3.884bn, respectively, since 2007 mainly due to increased land and buildings and infrastructure assets.
- During this period, GGS and Total State Sector liabilities increased by $4.372bn and $4.996bn respectively primarily because:
    - the net unfunded defined benefit liability increased from $3.677bn to $7.151bn for the GGS and $4.214bn to $7.925bn for the Total State
    - at the Total State level, Gross borrowings increased from $5.070bn at 30 June 2007 to $5.526bn at 30 June 2015.

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GOVERNMENT DEPARTMENTS 60

- Each Department submitted its financial statements within the statutory deadline.
- All audits were completed satisfactorily and on time with unqualified audit reports issued in all instances.
- Government Departments incurred a combined Underlying Deficit of $139.003m but a combined Comprehensive Surplus of $304.716m due principally to Administrative restructure income of $465.734m recorded within the Department of State Growth. This income eliminates when preparing the Treasurer's Annual Financial Report.
- The main contributors to the Underlying Deficit of $139.003m were:
  - State Growth, $81.757m
  - Education, $27.062m
  - Primary Industries, Parks, Water and Environment, $12.586m.
- Deficits of this magnitude should not be regarded as unusual or alarming because departments are not funded for depreciation. To illustrate this, in State Growth's case, depreciation for the year totalled $85.731m.
- Department of Health and Human Services (DHHS) recorded a Net Deficit of $102.820m primarily due to the final transfer of properties in Stage 2 of the Better Housing Futures program, which involved the transfer of 1 196 Housing Tasmania properties in the north of the State, worth $132.921m. Over the three years ended 30 June 2015, 3 917 properties valued at $478.006m were transferred under this program.
- The eight Departments had combined Net Assets to the value of $9.175bn.

EXECUTIVE AND LEGISLATURE 82

- Each Executive and Legislature entity submitted its financial statements within the statutory deadline.
- All audits were completed satisfactorily with unqualified audit reports issued in all instances.
- Executive and Legislature entities incurred a combined Underlying Deficit of $0.758m, and a Comprehensive Surplus of $0.031m. The four entities had combined Net Assets to the value of $77.995m the bulk of which related to:
  - Parliament House, $35.000m
  - Government House, $37.247m

TASMANIAN HEALTH ENTITIES

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- Each Tasmanian Health entity submitted its financial statements within the statutory deadline.
- All audits were completed satisfactorily with unqualified audit reports issued in all instances.
- Tasmanian Health entities incurred a combined Underlying Deficit of $46.244m. However, a combined Comprehensive Deficit of $110.683m was recorded, due principally to the transfer of Housing Tasmania properties to the non-government sector valued at $132.921m.
- During the course of 2014-15, Tasmanian Health Organisation – North added 39 additional employees, which was in contrast to Departmental FTE declining by 233 employees, with further reductions at Tasmanian Health Organisation – South, 154 employees and Tasmanian Health Organisation – North West, 28 employees.
- The Health sector had combined Net Assets to the value of $2.277bn.

CONSOLIDATED GGS ENTITIES

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- All entities included in this category, except for the Tasmanian Affordable Housing Limited, submitted their financial statements within the statutory deadline.
- All audits were completed satisfactorily with unqualified audit reports issued in all instances.
- Consolidated General Government Sector entities incurred a combined Underlying Deficit of $21.484m, and a Comprehensive Deficit of $120.661m. The six entities had combined Net Assets to the value of $1.800bn.
- Individually the main contributors to these results and financial position were:
    - Abt Railway Ministerial Corporation recorded an Underlying Surplus of $1.425m but which included Government grants of $0.409m
    - Ambulance Tasmania recorded an Underlying Deficit of $5.032m and Net Assets of $25.717m
    - Housing Tasmania recorded an Underlying Deficit of $19.634m and Net Assets of $1.261bn
    - Tasmania Development and Resources recorded an Underlying Surplus of $1.622m and Net Assets of $34.800m
    - Tasmanian Museum and Art Gallery recorded a Comprehensive Surplus of $15.240m, mainly due to asset revaluation increments this year, and Net Assets of $430.567m.

OTHER GGS ENTITIES 100

- All entities included in this category, except for the Royal Tasmanian Botanical Gardens, submitted their financial statements within the statutory deadline.
- All audits were completed satisfactorily with unqualified audit reports issued in all instances.
- Other General Government Sector State entities incurred a combined Underlying Deficit of $13.635m and a Comprehensive Deficit of $57.374m. The sixteen entities had combined Net Assets totalling $325.699m.
- The main contributors to this result were:
    - TasTAFE recorded an Underlying Deficit of $4.729m, a Comprehensive Deficit of $52.180m and Net Assets of $172.751m. The Comprehensive Deficit was influenced by the write-down of building assets treated as an expense.
    - State Fire Commission recorded an Underlying Deficit of $6.798m, a Comprehensive Deficit of $4.141m and Net Assets of $91.292m. This was the second successive year with a significant deficit and highlights the need to control costs into the future.

OTHER STATE ENTITIES 106

- All entities included in this category, except for the Property Agents Board, River Clyde Trust and Tasmanian Dairy Industry Authority, submitted their financial statements within the statutory deadline.
- Apart from the River Clyde Trust, all audits were completed satisfactorily. The audit of the River Clyde Trust is ongoing. Unqualified audit reports were issued in all instances except for the National Trust of Australia (Tasmania).
- A qualified audit report was issued on the financial statements of the National Trust of Australia (Tasmania). The report also included an emphasis of matter paragraph.
- Other State entities incurred a combined Underlying Deficit of $0.032m, and a Comprehensive Deficit of $0.057m.
- The thirteen entities reported upon had combined Net Assets to the value of $58.109m.

SUPERANNUATION FUNDS 109

- The Retirement Benefits Fund (RBF) submitted its financial statements within the statutory deadline.
- The audit was completed satisfactorily and an unqualified audit report was issued.
- Assets under management reached $5.305bn at 30 June 2015. This was $0.421bn higher than at the same time last year.
- Net investment revenue was $0.446bn. This was $0.052bn less than last year and was reflective of net market values of investments over the last 12 months as well as the introduction of new investment options.
- Combined Accrued benefits for all defined benefit schemes managed by RBF totalled $6.304bn at 30 June 2015. The market value of Net Assets available to pay these benefits was $1.851bn, resulting in an Unfunded liability of $4.453bn.

CONCLUSIONS AND RECOMMENDATIONS

OVERALL CONCLUSION

There is no single indicator that adequately captures the state of the State's financial situation. This Report examined various aspects of the State's financial performance and position over the past four years and, where necessary, over a longer period. A starting point in assessing the State's finances, is our assumption that the State should live within its means, at least in the medium to longer term. It must be borne in mind when reading our Report that its focus is on historical financial performance up to 30 June 2015.

The State reported Underlying Net Operating Balance deficits each year since 2008-09. Seven years of deficits is in our view unsustainable. In the years up until June 2014, the gap between revenues and expenditures largely remained unchanged; however growth in revenue in 2014-15 saw this gap decrease. Evident from our analysis was that at various times during this seven year period action was taken to contain expenditure but this was not sustained.

This means that Government needs to continue to take action to contain expenditure or increase revenue or both and return the budget to surplus or at worst to break-even. This will not be an easy task considering the dependence on Australian Government funding and that employee-related costs are a sizeable component of expenditure.

Seven years of deficits resulted in a lower negative Net Debt position. Financial assets still exceeded financial liabilities at 30 June 2015, although by $532m compared to $982m in 2009.

Also of concern are the projected decline in returns from Government businesses and growing superannuation cash cost. These factors will need to be carefully managed.

OTHER CONCLUSIONS

- The dependence on Australian Government funding for 60% of the General Government Sector's (GGS) Total Operating Revenue represents a high fiscal risk to the State's budget. The inherent uncertainty associated with GST and other funding from the Australian Government was identified as a key risk by Treasury in its *Report to the Treasurer: Analysis of Budget Risks (April 2014)* (the Budget Risks Analysis Report). We concur with that assessment. Currently, Government is dealing with this risk by addressing expenditure, which needs to happen. However, attention also needs to be given to:
    - maximising revenues which may require revisiting Government's taxation strategy
    - re-assessing efficiency of existing service delivery. In this regard we note action taken to reduce FTE numbers but no explicit assessment as to whether or not these reductions will improve efficiency or negatively impact services
    - re-assessing existing programs
    - monitoring the outcomes of the Commonwealth Grants Commission 2015 Methodology Review because it may have a financial impact on the State budget. Changes to Australian Government funding arrangements, demographic or other structural factors considered in distribution of funding need to continue to be closely monitored and analysed by Treasury as part of managing the fiscal risk.
- Our analysis of returns provided by Government businesses to the State is that:
    - they contributed 19% of own-source revenue
    - the expected decline in these returns in particular from 2016-17 will impact the State's budget.
- The trend showed that expenditure growth declined until 2011-12, stabilised to June 2014 and then increased this year. However, expenditure growth was matched by Gross State Product (GSP) growth in current prices, equalling 2.7%. This is the second year in a row in which GSP growth in current prices exceeded or at least matched expenditure growth. However, expenditure growth exceeded the percentage increase in State Final Demand. A general principle is that, over time, expenditure growth should not exceed the growth of the economy. Government needs to continue to manage expenditure growth.

- The lower underlying Net Operating Balance (deficit) in 2014-15, along with lower expenditure growth, suggests the current and previous Governments were addressing the gap between revenues and expenditures to an extent although 'how', other than reducing jobs, is not explicitly evident. However, all costs were contained.
- The cumulative effect of demographic changes, such as a decrease in mortality rates, and the increase in taking retirement benefits as pensions rather than lump sums, combined with the gradual increase in the employer contribution rate up to 86.5% by 2019 will have a significant impact on the State budget. The capacity of the State to meet its future superannuation obligations will require close monitoring.
- Higher superannuation payments by Government businesses will impact on annual profits and subsequently returns to the Government.

RECOMMENDATIONS

Recommendation 1 — Page 31

We recommend Government consider including two targets in its Fiscal strategies:

- capital expenditure on existing assets to exceed depreciation on existing assets over an agreed time period generally longer than 12 months – we refer to this as the Asset Sustainability Ratio
- capital expenditure on new and existing assets to exceed depreciation on new and existing assets over an agreed time period generally longer than 12 months – we refer to this as the Asset Renewal Funding Ratio.

Recommendation 2 — 34

Government continue to manage expenditure growth to the point where it no longer exceeds growth in the State economy.

Recommendation 3 — 66

Treasury, in the Model Financial Statements:

- revisit its definition of Key Management Personnel (KMP) with the objective of ensuring relevant decision makers are included and preventing situations where agencies, other than for small agencies, contest that there is only one or a small number of KMP
- prohibit exclusions for reasons of 'so-called' confidentiality clauses in Workforce Renewal Incentive Programs (WRIPs) or redundancy payments
- broaden the requirements to all State entities (other than Government businesses to whom these requirements already apply).

Recommendation 4 — 68

In all cases where departments or other state entities (other than Government businesses, the University, local government or the Retirement Benefit Fund) control land and buildings, valuations be carried out by, or overseen by, the Valuer-General.

Recommendation 5

We recommend that government consider adoption of two ratios – the Asset Sustainability Ratio and the Asset Investment Ratio and set targets for each.

SUBMISSIONS AND COMMENTS RECEIVED

Copies of relevant Chapters were provided to relevant State entities in accordance with section 29(6) of the *Audit Act 2008.*

The comments and submission provided are not subject to audit nor the evidentiary standards required in reaching an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with those who provided a response or comment.

Department of Treasury and Finance

Recommendation 1

Treasury does not agree with the recommendation of splitting the current indicator (infrastructure investment exceeding depreciation) in to two separate measures for new and existing assets.

The Fiscal Strategy is a high level policy statement of the Government and the Strategic Action to which this measure relates is "Tasmanian Government infrastructure investment will maintain existing assets, respond to economic and population growth and reflect the changing needs of the community". This Action recognises that assets need to change to meet changing needs and this may include asset maintenance (routine maintenance which is expensed rather than capitalised); asset renewal (making capital improvements to existing assets) as well as asset replacement (decommissioning existing assets and replacing with new, more appropriate assets).

This means that it is not always appropriate to undertake capital improvements to existing assets. The first new target recommended would not take this into account. It would also not take into account that an existing asset may be being very well maintained on an ongoing basis and simply not require any asset renewal.

Consideration should also be given to the fact that the first recommended target may provide a perverse incentive to undertake asset renewal projects on existing assets even if this does not provide the best outcome. Changing methods of service delivery, or changing community needs based on demographic or other environmental changes should inform decisions about maintain/renew/replace options in relation to Government assets.

Both the recommended targets refer to measurement over a time period longer than 12 months. While Treasury recognises the validity of taking a longer term view of asset management, it considers that, as simply a part of making an assessment of progress towards the achievement of the Strategic Action, taking annual measurements is useful in ensuring that longer term goals are met.

Auditor-General's Response

While I concur with all of Treasury's comments, I remain of the view that two ratios and two targets provides better information because:

- the single ratio ignores the fact that current depreciation primarily relates to existing assets which is particularly relevant when construction may take place over more than one year
- high levels of investment in new assets in any 12 month period can result in an unrealistic result and allocation of expenditure between new and existing assets can be more explicit. For example, a decision can be made as to whether or not the current investment in the Royal Hobart Hospital represents new investment or existing investment.

Recommendation 2

I note your recommendation to revisit the definition of key management personnel with the objective of ensuring that relevant decision makers are included within this definition. I confirm that Treasury will refine the definition of key management personnel for 2015-16 reporting, in consultation with the Tasmanian Audit Office, for the purposes of inclusion within the Model Departmental Financial Statements.

I also note your recommendation that all land and buildings under the control of the General Government Sector entities be valued by, or the valuation overseen by, the Valuer-General. I confirm that Treasury will consider this recommendation, in consultation with the Tasmanian Audit Office and the Office of the Valuer-General.

TREASURER'S ANNUAL FINANCIAL REPORT

OVERALL CONCLUSIONS

The State's finances would appear to be improving as evidenced by:

- the low rate of growth in expenditure in the General Government Sector (GGS), suggesting Government may to be getting expenditure under control, although this was primarily in supplies and consumables and depreciation expenditure and not in other areas
- stronger rate of growth in revenues at a rate higher than the growth in expenditure. This was the first time in some years that this was the case.

However, the continued high reliance on revenues from the Australian Government remains a risk for Tasmania.

KEY POINTS

- Separate unqualified audit opinions were issued on the GGS and Total State Sector (Total State) financial statements and Public Account (PA) statements on 26 October 2015. The audits were completed with satisfactory results and no outstanding matters. This means that the statements presented fairly, in all material respects, the financial performance and position of the GGS, Total State and PA and were prepared in accordance with the prescribed financial reporting frameworks.
- Although the trend is improving, the GGS incurred net Underlying Operating Deficits in each of the past four years.
- The lower underlying Net Operating Balance (deficit) in 2014-15, along with lower expenditure growth, suggests the current and previous Governments were addressing the gap between revenues and expenditures to an extent.
- Funding from the Australian Government totalled 60% of operating revenue in 2014-15, consistent with a four-year average of 61%, demonstrating significant and on-going reliance by Tasmania on funding from the Australian Government.
- Returns from Government businesses represents a revenue risk for government as, in our view, it is unlikely that the level of dividends and tax equivalents collected in 2013-14 and 2014-15 can continue in the short term. Government recognised this in the Forward Estimates.
- In the current year, four Government businesses provided 96% of the total dividend, guarantee fees and income tax revenue. In contrast, seven Government businesses provided no returns during the four-year period under review.
- Our analysis showed that Operating revenue grew at a faster rate than Operating expenses. It also showed that expenditure growth was equal to the growth in Gross Domestic Product in current prices in 2014-15 but above the percentage change in the State Final Demand.
- The capacity of the State to meet its future superannuation obligations will require close monitoring. Payments this year totalled $419m (2013-14, $323m) which are expected to increase up to and including 2020-21.
- Total assets of the GGS and Total State Sector increased by $3.260bn and $3.884bn respectively since 2007 mainly due to increases in the value of land, buildings and infrastructure assets.
- During this period, GGS and Total State Sector liabilities increased by $4.372bn and $4.996bn, respectively primarily because:
  - the net unfunded defined benefit liability increased from $3.677bn to $7.151bn for the GGS and $4.214bn to $7.925bn for the Total State
  - at the Total State level, gross Borrowings increased from $5.070bn at 30 June 2007 to $5.526bn at 30 June 2015.

This Chapter contains the following recommendations:

Recommendation 1

We recommend Government consider including two targets in its Fiscal strategies:

- capital expenditure on existing assets to exceed depreciation on existing assets over an agreed time period generally longer than 12 months – we refer to this as the Asset Sustainability Ratio
- capital expenditure on new and existing assets to exceed depreciation on new and existing assets over an agreed time period generally longer than 12 months – we refer to this as the Asset Renewal Funding Ratio.

Recommendation 2

We recommend government continue to manage expenditure growth to the point where it no longer exceeds growth in the Tasmanian economy.

BACKGROUND

Scope

The Treasurer's Annual Financial Report (TAFR) includes the audited GGS and Total State financial statements and the PA statements. It also includes other information, such as an overview of the Fiscal Strategy and the Loan Council Outcome, which are not audited.

This Chapter provides an analysis of the GGS and Total State financial statements and of the PA statements. Comments should be read alongside the TAFR. The major focus of this Chapter is comparing 2014-15 results with the previous year and analysing trends over the past four years or a longer period where relevant.

Legislative requirements

Section 26E of the *Financial Management and Audit Act 1990* (FMAA) requires the Treasurer to prepare, each year, an annual financial report, which contains the results of the GGS and transactions within the PA and the PA's balances.

The Treasurer is required to prepare this annual financial report by no later than 31 October immediately following the financial year to which the report relates.

The FMAA does not require the Treasurer to prepare the Total State financial statements. These are prepared to ensure compliance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting.*

Financial reporting frameworks

The GGS and Total State financial statements are both prepared in accordance with Australian Accounting Standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting.* They incorporate the reporting requirements of the Australian Accounting Standards Board and the Uniform Presentation Framework (UPF), which is based on the reporting standards of the Australian Bureau of Statistics' (ABS) Government Finance Statistics framework. Explanations of the UPF Key Fiscal Aggregates are provided in notes to the financial statements and are not reproduced here.

The Total State financial statements consolidate all entities controlled by the State of Tasmania with segmented financial information provided for the GGS, Public Non-Financial Corporations (PNFC), Public Financial Corporations (PFC) and Total State levels. The consolidated level is after eliminating inter-sector transactions. Significant State entities that are not consolidated, because they do not meet the 'controlled' test in Australian Accounting Standards, are University of Tasmania, local government councils and joint authorities, Tasmanian Water and Sewerage Corporation Pty Ltd (TasWater) and the Retirement Benefits Fund (RBF).

General Government Sector

The GGS consists of all government departments and not-for-profit state entities controlled and mainly financed by government. Government departments are entities established by executive government processes that have legislative, judicial, or executive authority over other units and which provide goods and services to the community or to individuals on a non-market basis.

They also make transfer payments to redistribute income and wealth. Not-for-profit State entities are created for the purpose of producing or distributing goods and services and are not a primary source of income, profit or other financial gain for government.

Total State Sector

The Total State Sector includes all GGS, PNFC and PFC entities. PNFC entities are mainly engaged in the production of market goods and/or non-financial services. These entities have a variety of functions and responsibilities, are established in varying ways and also have different relationships with the Budget. PFC entities are mainly engaged in financial intermediation or provision of auxiliary financial services. In Tasmania, there are two organisations in the PFC Sector, the Tasmanian Public Finance Corporation (TASCORP) and the Motor Accidents Insurance Board (MAIB).

Public Account

The PA statements are a special purpose financial report prepared on a cash accounting basis, incorporating all transactions, be they operational or capital in nature, entered into by government departments from the Special Deposit and Trust Funds (SDTF) and Consolidated Fund. Explanations for applying this basis for preparing the PA statements are provided in Note 1 to the Statements and are not reproduced here.

Financial audit requirements

Section 16 of the *Audit Act 2008* (the Audit Act), requires the Treasurer, before 30 September in each year, to submit to the Auditor-General:

- statements reporting on the transactions within the PA during the immediately preceding financial year and the balances in the PA at the end of that financial year; and
- any statements to be prepared in accordance with the requirements of any written law. This addresses the audit of the GGS financial statements.

Results of 2014-15 audits

The Treasurer submitted the GGS financial statements and PA statements for audit on 29 September 2015 thus satisfying the statutory deadline. Final GGS and Total State financial statements were signed by the Treasurer and Secretary, Department of Treasury and Finance, on 23 October 2015.

Separate unqualified audit opinions were issued on the GGS and Total State financial statements and PA statements on 26 October 2015. The audits were completed with satisfactory results and no outstanding matters. This means that the statements present fairly, in all material respects, the financial performance and position of the GGS, Total State and PA and were prepared in accordance with the prescribed financial reporting frameworks.

Note

In preparing this Chapter, we amended the Statement of Comprehensive Income and Statement of Cash Flows by reclassifying certain revenue and expenditure items relating to Australian Government capital funding.

Net Operating Balance is the difference between revenue and expenses from transactions, excluding other economic flows, such as movements in fair values and gains or losses on sale of assets. Revenue from transactions includes funding for capital programs; however the corresponding outflow of such funding is not part of expenses from transactions. To better portray the financial performance of the State, we separated one-off capital funding transactions, items which are outside the normal course of operations and non-recurring items. We refer to the result before these items as the 'Underlying Net Operating Balance', which may differ from the Underlying Net Operating Balance disclosed in TAFR.

Dollar amounts presented in tables, the text and figures have been rounded.

This Report uses terms which may differ from the terminology adopted by TAFR.

Some material has been extracted from our other Reports to Parliament. Those reports are available on our website at *www.audit.tas.gov.au*.

Preliminary Outcome information was sourced from the 2014-15 *Preliminary Outcomes Report*.

GENERAL GOVERNMENT SECTOR

Statement of Comprehensive Income

	2014-15 Original Budget	2014-15 Preliminary Outcome	2014-15 Actual	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$m	$m	$m	$m	$m	$m
Total Revenue	4 874	5 143	5 101	4 816	4 617	4 528
Total Expenditure	5 250	5 186	5 212	5 075	4 984	4 876
UNDERLYING NET OPERATING BALANCE before:	**(376)**	**(43)**	**(111)**	**(259)**	**(367)**	**(348)**
One-off Australian Government Capital Funding	90	0	54	94	101	162
Macquarie Point Development Corporation start-up grant	0	0	0	0	(50)	0
NET OPERATING BALANCE	**(286)**	**(43)**	**(57)**	**(165)**	**(316)**	**(186)**
Plus Dividends declared but not yet received	0	0	0	61	0	0
Plus Other economic flows – Included in Operating result						
Other economic flows – net	(513)	(748)	(733)	(2 470)	777	(1 638)
OPERATING RESULT	**(799)**	**(791)**	**(790)**	**(2 574)**	**461**	**(1 824)**
Plus Other economic flows – Other movements in Equity						
Total Other equity movements	345	(85)	(22)	43	336	470
COMPREHENSIVE RESULT	**(454)**	**(877)**	**(812)**	**(2 531)**	**797**	**(1 354)**

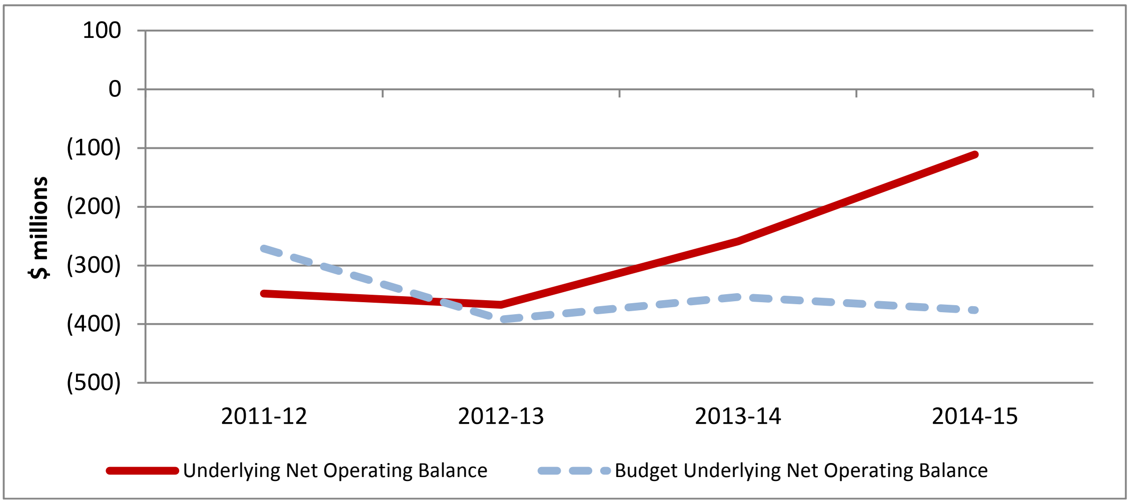
Note: Discrepancies between this report and TAFR are due to reallocation of some items of revenue and expenditure to better assist readers in interpreting recurrent financial performance and rounding.

Underlying Net Operating Balance

The GGS Underlying Net Operating Balance was a deficit of $111m in 2014-15. This was $148m, or 57.14%, lower compared to the deficit of $259m reported last year.

Figure 1 provides an overview of underlying results for the past four years. It shows that the GGS Underlying Net Operating Balance improved in 2013-14 and this trend continued in the current year.

Figure 1: Underlying Net Operating Balance (4-year trend)



Source Tasmanian Audit Office

The GGS incurred Net Underlying Operating Balance deficits in each of the past four years, with this year's deficit, $111m, being the lowest. The trend is moving in the right direction. Based on the 2015-16 Budget, it is forecast that the Underlying Deficit will continue to decrease next year, and move into a surplus the following year.

This year's Net Underlying Operating Balance deficit was better than the budget deficit of $286m, due to the receipt of revenue of $227m higher than the budget figure of $4.874bn. This was primarily due to higher than budgeted Grants income of $142m.

Net Operating Balance

After taking into account one-off Australian Government funding of $54m for capital projects, as indicated in Table 1, the GGS reported a Net Operating Balance deficit of $57m. This was $108m lower than the deficit of $165m reported last year.

The lower deficit was primarily due to Grant income increasing by $201m, to $3.079bn, while Grant expense increased by only $99m, to $1.147bn.

Table 1 provides a breakdown of one-off capital funding provided by the Australian Government over the last four years:

Table 1: Australian Government One-Off Capital Funding

	2014-15	2013-14	2012-13	2011-12
	$m	**$m**	**$m**	**$m**
Nation Building and Jobs Plan				
Building the Education Revolution	0	0	0	2
Social Housing	0	0	5	5
Roads and Rail	40	66	54	57
Royal Hobart Hospital Redevelopment	0	0	0	20
Water for the Future	14	28	42	28
Macquarie Point Railyards/Brook Street Pier	0	0	(50)	50
Total	**54**	**94**	**51**	**162**

Source: Tasmanian Audit Office

The table indicates that capital funding from the Australian Government is trending downward. Funding in recent years centred on road and rail infrastructure and co-funding the construction of various irrigation schemes.

Operating Result

The Operating Result was a deficit of $790m in 2014-15, a $1.784bn improvement on the $2.574bn deficit reported in 2013-14. It was arrived at after adjusting the Net Operating Balance for net Other Economic Flows totalling $733m that impact the Operating Result rather than Equity. Other Economic Flows are changes in the value of assets and liabilities that do not result from transactions. For example, gains or losses on actuarial re-measurement of the defined benefit superannuation liability, movements in investments in government businesses or asset write-offs.

The prior year was significantly impacted by de-recognition of the GGS's investment in GBEs and SOCs, $1.645bn. This included a change to the classification of TasWater, $1.798bn, as a local government sector entity for reporting purposes by the ABS, effective from 1 July 2013. The prior year also included $388m, representing the fair value of housing assets transferred to the non-government sector. Without these changes, the 2013-14 result would have been a deficit of $658m. When adjusted for this year's value of housing assets transferred, $133m, the current year would have resulted in a deficit of $657m, comparable to the prior year adjusted figure.

Items included in this year's net Other Economic Flows were:

- a decrease in the carrying amount of the GGS's investment in GBEs and SOCs of $149m reflecting a reduction in net assets of these entities
- an increase in the superannuation liability, $388m, due to revised actuarial assumptions, discussed later in this Report
- Other losses, $189m, which included public housing properties transferred to non-government organisations for no consideration under the Better Housing Futures program.

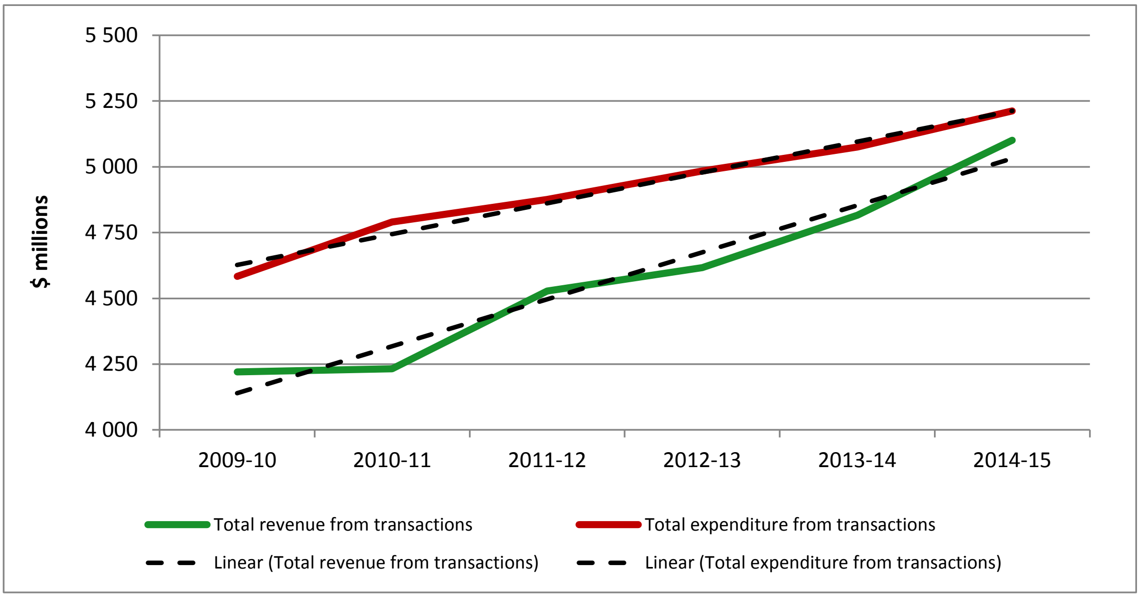
Comprehensive Result

The 2014-15 Comprehensive Result was a deficit of $812m and was arrived at after adjusting the Operating Result for other economic flows that are in the nature of Equity. These items totalled $22m and included net revaluation decrements of $41m offset by other non-owner movements in equity of $19m.

Analysis of operating revenue and expenditure

Figure 2 provides an overview of revenue and expenditure from transactions over the past six years. It excludes one-off Australian Government capital funding.

Figure 2: Revenue and Expenditure from Transactions (six-year trend, not inflation adjusted)



Source: Tasmanian Audit Office

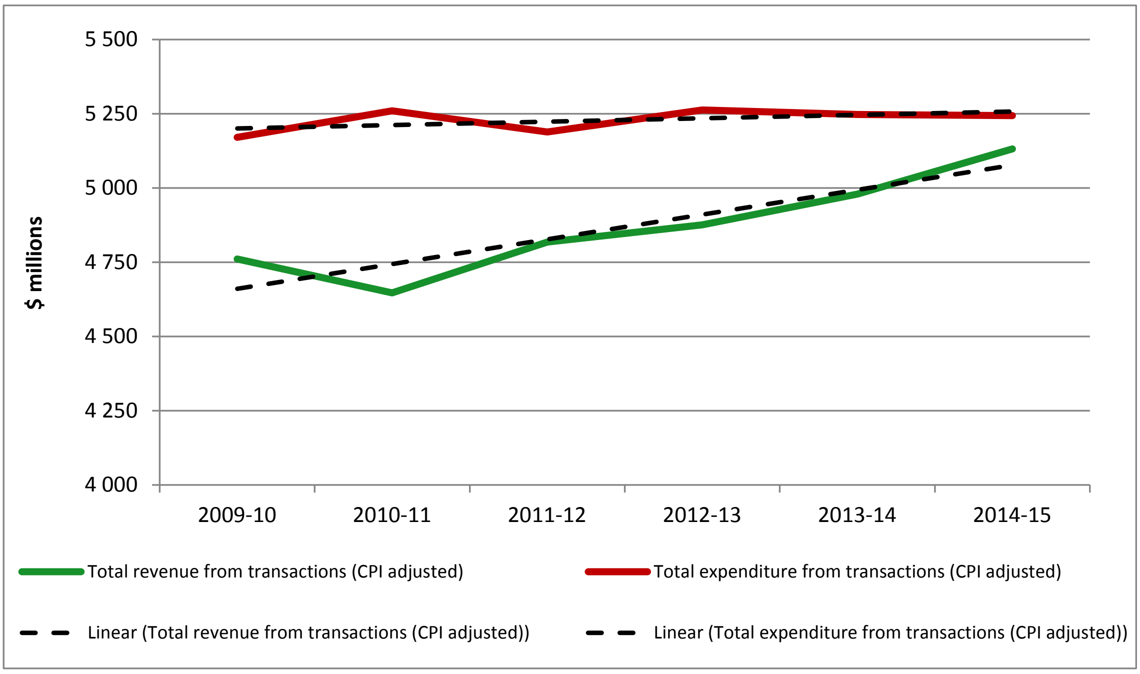
Figure 2 shows that revenue grew by 21% since 2009-10 while expenditure increased at a slower rate of 14% over the same period. Net Underlying Operating Balance deficits were reported in each of the six years and totalled $2.006bn. However, the gap between expenditure and revenue narrowed steadily over the past four years, with the variance as at 30 June 2015 down to $111m, being the Underlying Net Operating Balance referred to earlier.

Government has set a number of fiscal strategies to assist in improving the financial position of the State. Strategic Action 1 is that annual growth in GGS operating expenses is to be lower than the long-term average growth in revenue.[1]

Recorded in TAFR was that the actual long term average growth in revenue was 4.6%, compared to the growth in expenditure of 2.7%.[2] On this basis, the Strategic Action 1 was achieved, with revenue increasing by 5.9% in 2014-15, whereas expenditure increased by 2.7%, confirmed by our analysis.

Figure 3 provides the same information but adjusted for movements in the Consumer Price Index (CPI).

Figure 3: Revenue and expenditure from transactions – CPI adjusted (six-year trend)



Source: Tasmanian Audit Office; CPI data was sourced from the ABS.

Figure 3 shows that, when adjusted for CPI, expenditure increased steadily by 1.4% over the six-year period. Revenue, on the other hand, while showing greater volatility, increased by 7.8% over the same period.

Evident from both Figures 2 and 3 is that the gap between revenue and expenditure is reducing.

Revenue was volatile in the two years until 2011-12 with the drop in 2010-11 due to a reduction in GST revenue arising from weaker consumption and dwelling investment in the years following the global financial crisis. To a degree, the reduction in GST revenue was offset by economic stimulus measures brought in by the Australian Government in response to the crisis.

1 *2014-15 Budget Paper No.1, Page 3.3*

2 *2014-15 Treasurer's Annual Financial Report, Page 17*

However, because the majority of the stimulus funding was of a capital nature or transfer payments, these revenue sources did not benefit the Underlying or Operating Results.

Since June 2012, revenue increased steadily, while expenditure growth was lower resulting in reducing deficits.

The lower Underlying Net Operating Balance (deficit) in 2014-15, along with lower expenditure growth, suggests the current and previous Governments were addressing the gap between revenues and expenditures to an extent although 'how', other than reducing jobs, is not explicitly evident. However, all costs were contained as evidenced by:

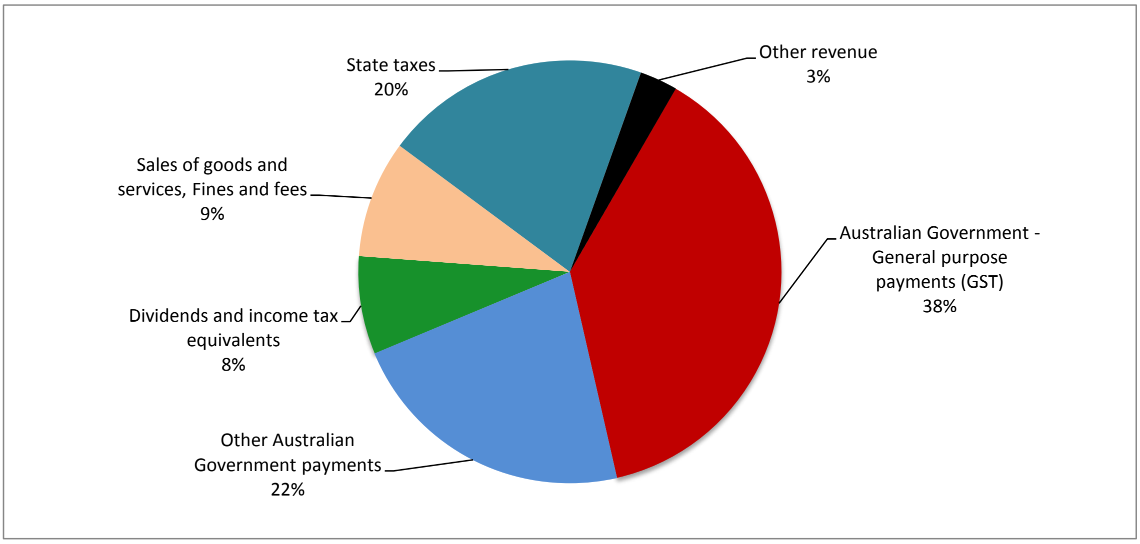
- employee costs would appear to be being brought under control, increasing by only 1.7% (inclusive of redundancy related costs)
- other than Grant and subsidy expenses, other costs remained relatively unchanged compared to 2013-14
- however, Grant and subsidy expenses increased by 9%. A significant reason for the increase was payment on 30 June 2015 of two quarters of Financial Assistance Grants to Councils of $35.895m. This amount was included in Revenue.

Movements in revenues and expenditures are now discussed separately.

Revenue

GGS revenue, excluding one-off Australian Government capital funding, totalled $5.101bn in 2014-15. This was $285m, or 5.9%, higher compared to last year. The increase was mainly as a result of higher general purpose grant payments (GST), increased State taxes and returns from Government businesses, in the form of dividends and income tax equivalents. (Figure 4 shows the composition of GGS total revenue in 2014-15.)

Figure 4: Sources of GGS revenue (excluding one-off Australian Government capital funding)



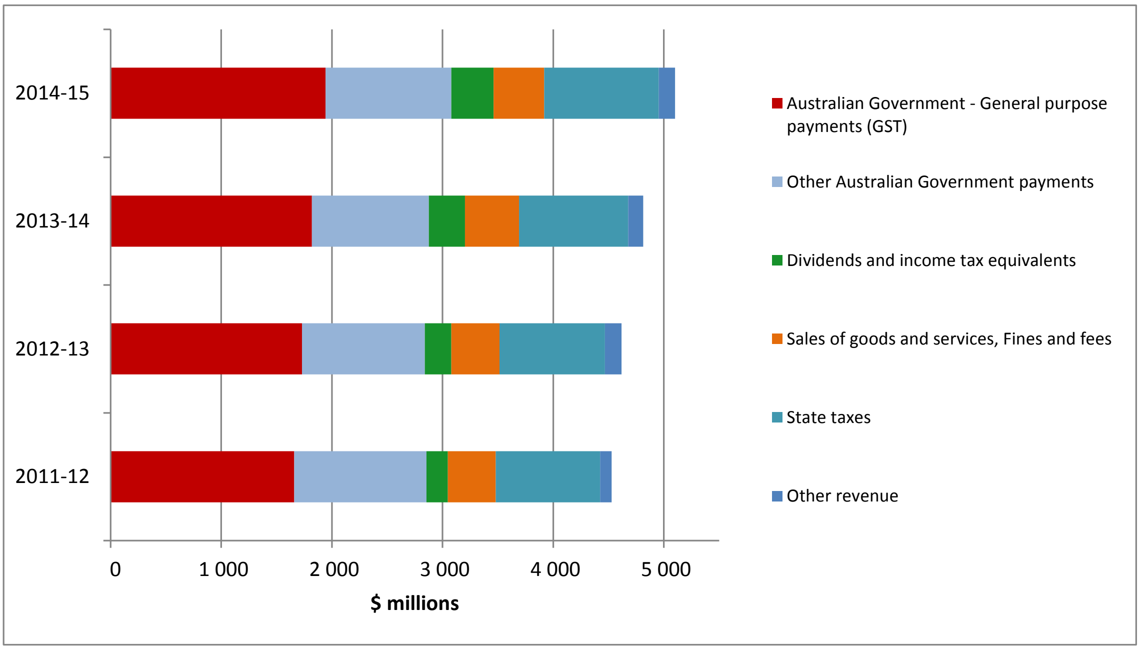
Source: Tasmanian Audit Office

Note: Discrepancies between this Report and TAFR are due to reallocation of some items of revenue to better assist readers in interpreting recurrent financial performance. For example, fines and regulatory fees are included within revenue from Sales of goods and services and royalty income within State taxes.

Similar to previous years, funding from the Australian Government represented the majority of GGS revenue. Other Australian Government payments, which comprised Specific Purpose Payments, National Partnerships Payments and other grants and subsidies received were the second highest sources of revenue. Overall, funding from the Australian Government totalled 60% of operating revenue in 2014-15. This was fairly consistent with a four-year average of 61% and demonstrates the significance reliance by Tasmania on funding from the Australian Government.

Figure 5 shows the composition of GGS revenue, excluding one-off Australian Government capital funding, over the past four years.

Figure 5: GGS revenue sources (4-year trend)



Source: Tasmanian Audit Office

As shown in Figure 5, GST receipts steadily rose over the period, averaging an annual growth of 4.2%. In 2014-15, GST receipts rose by 6.8% to S1.943bn (2013-14, 2.7% to $1.819bn). Other Australian Government payments fluctuated from year to year, depending on the level of specific project, facilitation or reward payments under National Partnership Agreements and other grants and subsidies.

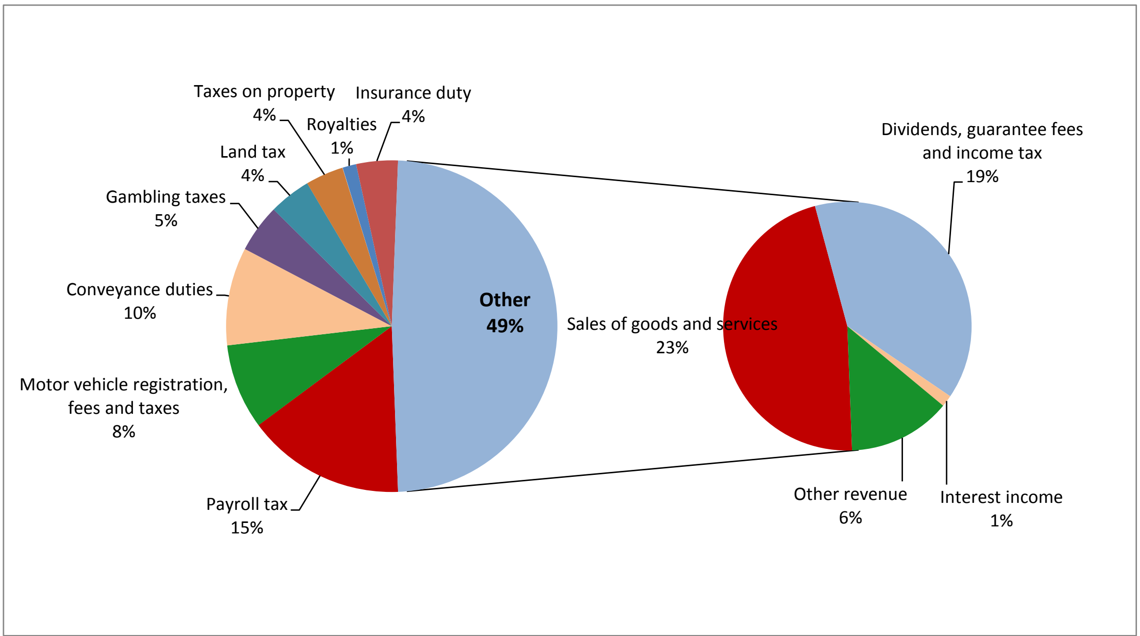
In 2014-15 State Taxation revenue increased by 4.8% to $1.035bn (3.5% to $988m). Increased rates of conveyance and other duties, MAIB premiums, tax on payroll and motor vehicles were the main contributing factors. However, dividends and income tax equivalent revenue from Government businesses increased by 17.5% to $382m in 2014-15 (35.4% to $325m).

This means that this source of revenue represented 7.5% of Total Revenue in 2014-15 (6.8% in 2013-14) compared with only 5.2% in 2012-13 and 4.3% in 2011-12. This represents a revenue risk for Government as, in our view, it is unlikely that this level of dividends and tax equivalents can continue in the short term. Government has recognised this in the Forward Estimates.

The dependence on Australian Government funding for 60% of the GGS's total operating revenue represents a high fiscal risk to the State's budget as does dependence on revenues from Government businesses, which is discussed further in Figure 6. The inherent uncertainty associated with GST and other funding from the Australian Government was identified as a key risk by Treasury in its Budget Risks Analysis Report. While that report is now more than 12 months old, the risk remains and we concur with Treasury's assessment.

Figure 6 illustrates the composition of Government's own-source revenue raised through taxes and by non-tax means, for example sale of goods and services, fines and regulatory fees, and dividends in 2014-15.

Figure 6: Sources of GGS Own-Source Revenue



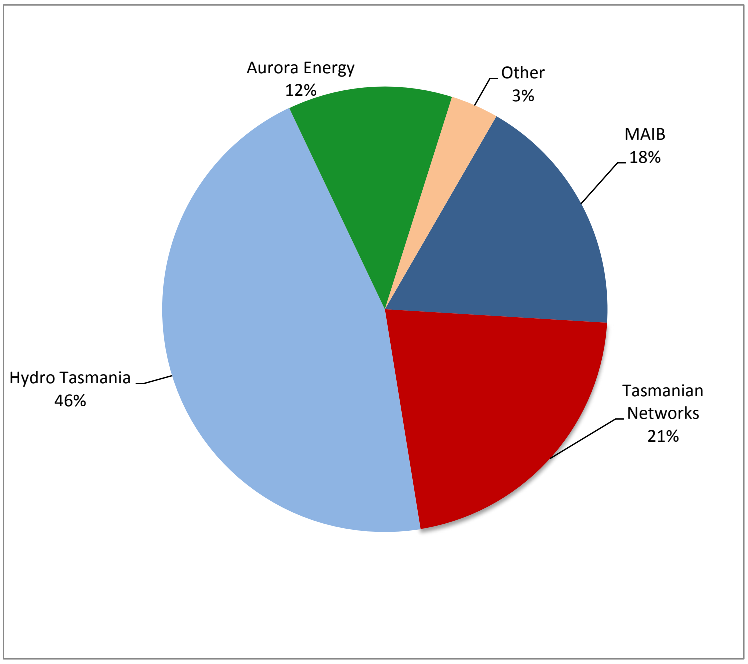
Source: Tasmanian Audit Office

GGS own-source revenue represented 39.2% of total GGS Revenue. Of this, State-based taxes accounted for more than half of the State's own-source revenue, although the share of total GGS revenue has steadily decreased over the past four years, from 56.4% in 2011-12 to 51.2% in the current year. This decline was a direct result of the rise in GST receipts. In dollar terms, own-source revenue actually increased by $348m over the period.

Figure 6 also highlights that payroll tax was the single largest State based tax, followed by Conveyance duties and Motor vehicle registration, fees and taxes.

Revenue from Sales of goods and services and Returns from Government businesses accounted for 23% and 19%, respectively, of the State's other own-source revenue. Figure 7 shows (in percentage terms) the highest dividend, guarantee fee and income tax equivalent-paying Government businesses over the past four years.

Figure 7: Sources of Dividends, Guarantee Fees and Income Tax Equivalents Revenue (four years)



Source: Tasmanian Audit Office

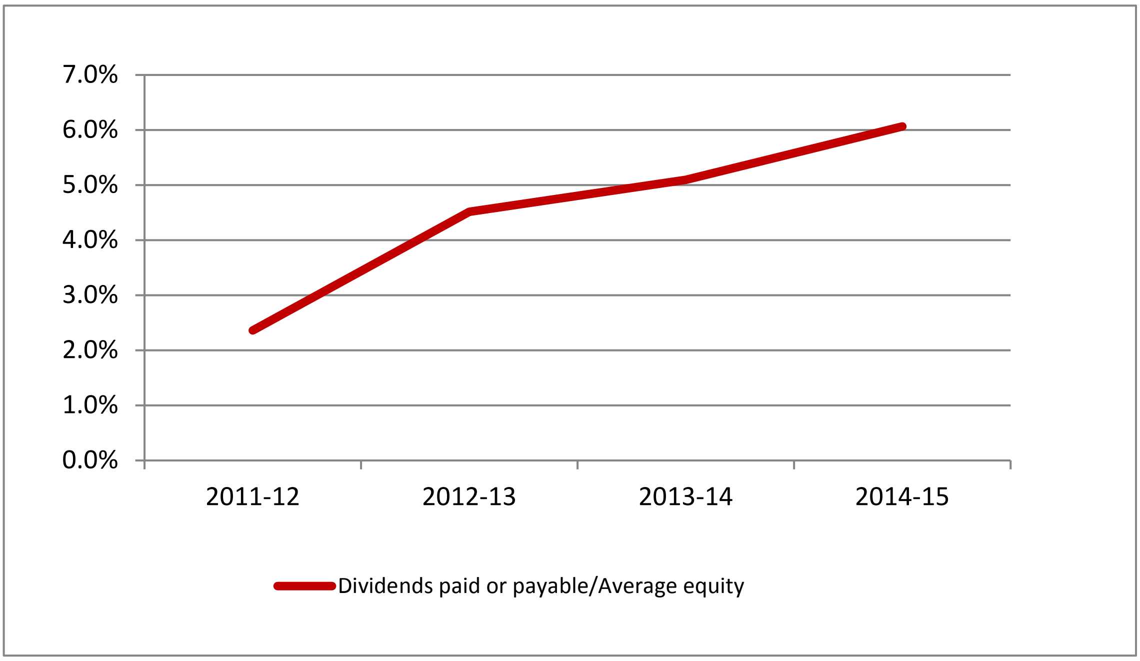
Figure 7 illustrates that MAIB and the three electricity businesses (Aurora Energy, Hydro Tasmania and Tasmanian Networks) provided the highest returns to the State. Over the last four years, MAIB paid $221m and the electricity businesses combined (which included Transend Networks Pty Ltd in years up to 30 June 2014), paid $988m in dividends, guarantee fees and income tax equivalents.

The following businesses provided no returns during the four-year period under review: Forestry, Metro, Port Arthur Historic Site Management Authority, Tasmanian Irrigation, TT-Line[3], TasRail and Tasracing.

Government's equity investment in its portfolio of businesses totalled $4.381bn at 30 June 2015. This is a significant investment and there is an expectation that these businesses will provide adequate financial returns and value to their ultimate shareholder, the Tasmanian Community. On average, based upon dividends paid or payable, Government businesses returned distributions totalling 4.5% of equity for the last four years.

Figure 8 shows the annual return on equity invested in Government businesses over the period, calculated as dividends paid or payable divided by average equity.

Figure 8: Return on equity



Source: Tasmanian Audit Office

Figure 8 confirms our earlier observations of increasing dividends in recent financial years, which is discussed further in Figure 9.

Government's Strategic Action 4 outlined that Government businesses will be required to deliver services to Tasmanians at the lowest sustainable cost, while also providing an appropriate financial return to Government. At 30 June 2015, return on equity was noted as 6.06% (2013-14, 4.38%), the highest return in the past four years. The risk free bond rate, calculated as the average yearly yield on Australian Government 10 year bonds, is often referred to as a minimum benchmark. Given that the risk free bond rate at 30 June 2015 was 3.01%, this Strategic Action would appear to be achieved.

3 *Dividends were forgone by the shareholders to allow TT-Line to generate cash reserves to assist in financing future vessel replacement and/or refurbishments.*

Table 2: Dividends Paid or Payable

	2014-15	2013-14	2012-13	2011-12
	$'000s	**$'000s**	**$'000s**	**$'000s**
Motor Accidents Insurance Board	147 692	44 570	23 219	6 140
Tasmanian Networks Pty Ltd*	63 200	21 000	28 686	25 900
Hydro-Electric Corporation	25 000	118 576	116 058	50 685
Aurora Energy Pty Ltd	27 600	40 000	25 000	16 000
Tasmanian Public Finance Corporation	10 512	2 346	7 629	6 445
Public Trustee	0	262	0	151
TOTAL	**274 004**	**226 754**	**200 592**	**105 321**

** Results in the years prior to 2014-15 relate to Transend Networks Pty Ltd*

Source: Tasmanian Audit Office

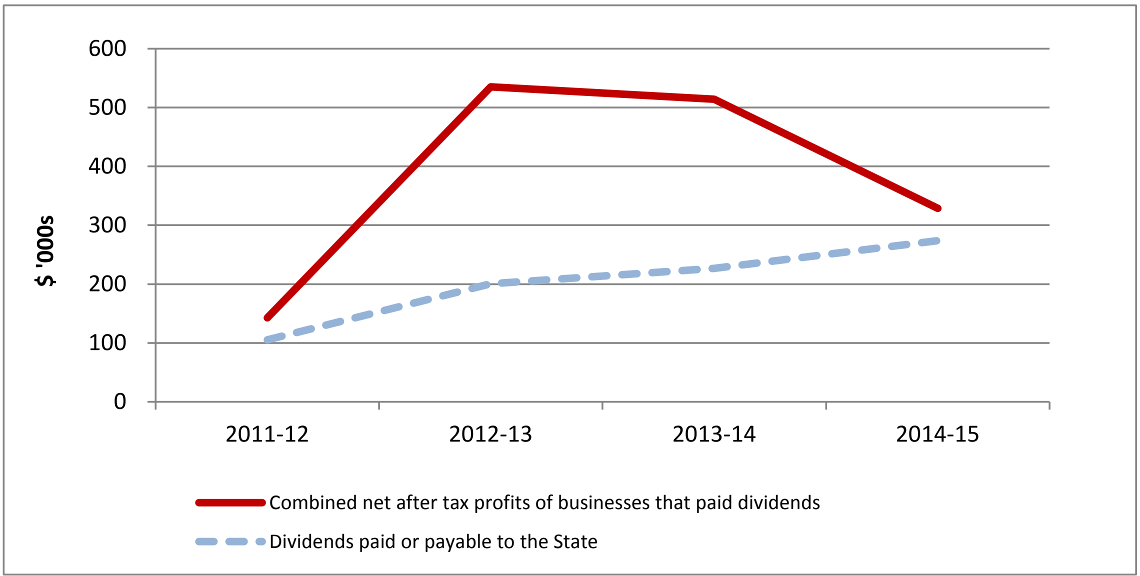
Note: Dividends in this table are based on the year the profit was earned rather than the year in which they were declared. This is different to the base on which dividends are recognised as revenue in the TAFR.

Return on equity improved in recent years largely due to higher dividends from Hydro Tasmania, Tasmanian Networks and MAIB as shown in Table 2.

However, in the current financial year, MAIB's dividend included a special dividend of $100m and Hydro Tasmania's high dividends in 2012-13 and 2013-14 resulted from carbon price related revenues earned in those two financial years.

Figure 9 compares dividends paid or payable by Government businesses with their combined net profits over the relevant periods. Entities that did not pay any dividends are excluded.

Figure 9: Comparison of Dividends with Combined Net Profits



Source: Tasmanian Audit Office

On an accrual basis, Government businesses returned average dividends of around $202m per year over the past four years. As shown in Figure 9, there was a significant increase in 2012-13, when dividends paid or payable almost doubled to $201m. In 2014-15, dividends paid or payable totalled $274m which was $47m or 21% more than in the previous year.

The growth in dividends over the past three years was initially driven by returns from Hydro Tasmania, whose underlying profits increased considerably after the introduction of carbon pricing in June 2012, with the subsequent repeal of the carbon price legislation in July 2014 negatively impacting Hydro's returns this year as expected. This was more than offset, however, by the significant increase in dividends paid by MAIB, via the special dividend of $100m noted previously, and Tasmanian Networks, which increased by $42m.

Our analysis of dividends provided by Government businesses is that:

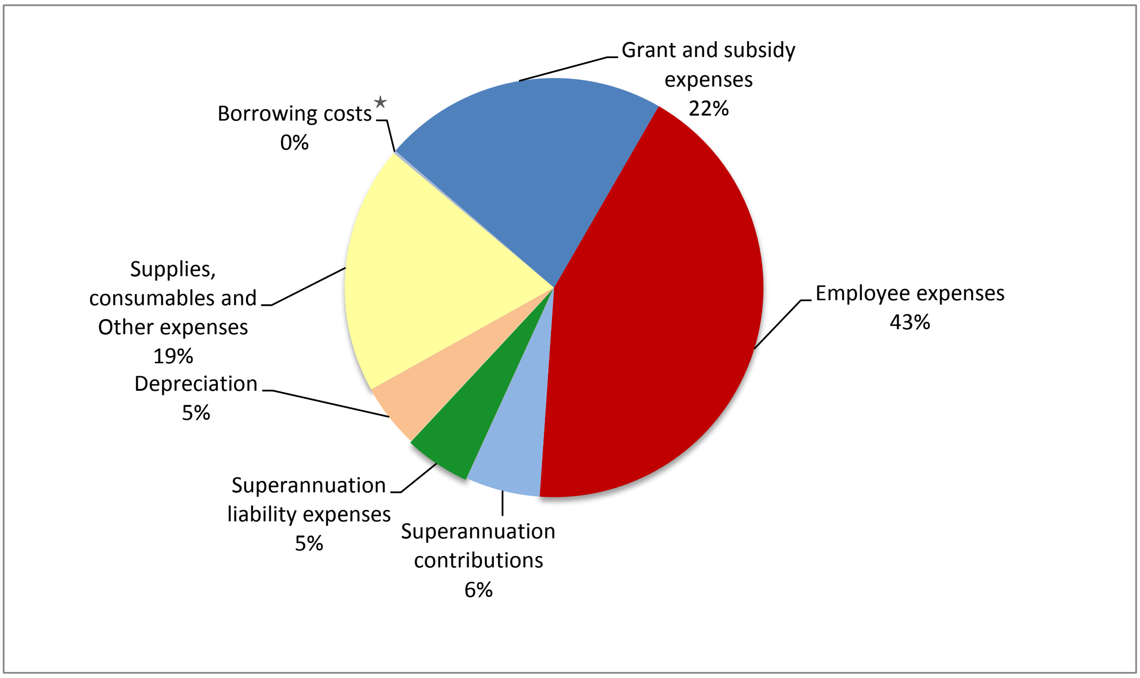
- their contribution to own-source revenue was high at 19% (refer to Figure 7)
- profits generated is declining and Government should anticipate lower dividends in particular from 2015-16.

Further details about the financial performance of government businesses are outlined in *Report of the Auditor-General No. 5 of 2015-16 Auditor-General's Report on the Financial Statements of State entities Volume 2 Government Businesses 2014-15* tabled on 17 November 2015, which can be found on our website at: *www.audit.tas.gov.au*.

Expenditure

GGS expenditure totalled $5.212bn in 2014-15, higher by $137m, or 2.7%, compared to last year. Figure 10 shows the composition of total expenditure in 2014-15.

Figure 10: GGS Expenditure



Source: Tasmanian Audit Office

** Borrowing costs were $11m (2013-14, $12m).*

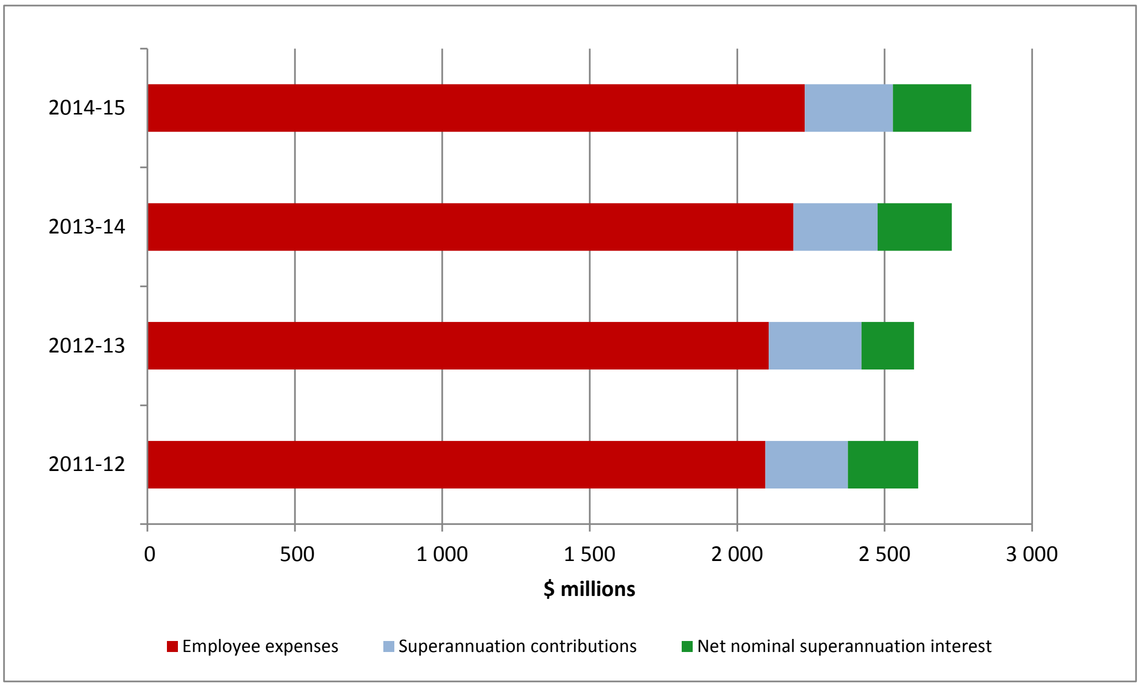
Note: Discrepancies between this Report and TAFR are due to reallocation of some items of expenditure to better assist readers in interpreting recurrent financial performance.

As in previous years, GGS expenditure was dominated by expenditure relating to employees, which accounted for over half of Total Expenses. As shown in Figure 10, combined employee costs[4] represented 53.6% of total expenditure in 2014-15 (2013-14, 53.8%).

Figure 11 shows the movement in employee related expenditure over the last four years.

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

Figure 11: Employee costs (four-year trend)



Source: Tasmanian Audit Office

Note: In the TAFR, terms Superannuation contributions and Superannuation liability expenses are not used. Instead, these are referred to respectively as Superannuation and Nominal superannuation interest expense.

Figure 11 shows that Employee expenses[5], which primarily comprised salaries and wages, increased by 6.3% over the four-year period. Employee expenses increased by 3.9% in 2013-14, but slowed to 1.7% in the current year.

Slower growth in this year's increase in Employee expenses reflected a decrease in the number of public servants, as shown in Figure 12, offset by annual salary indexation. *The Public Sector Unions Wages Agreement 2013* provides for an annual indexation of 2% for its duration until December 2015.

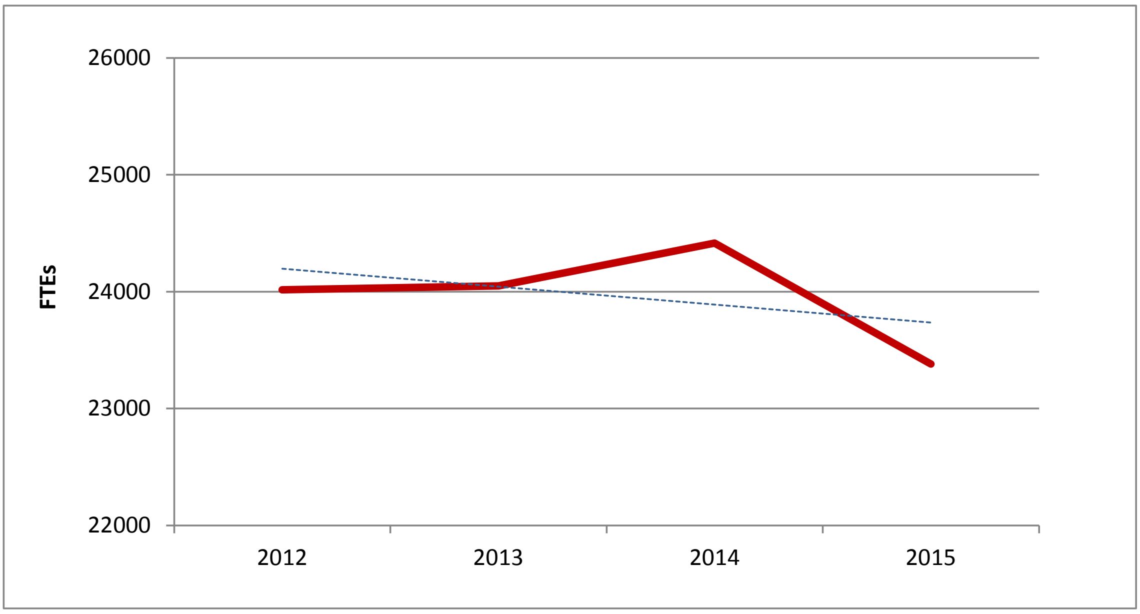
Government's Strategic Action 6 states that public sector efficiency, productivity and financial transparency will be improved. Although productivity is hard to measure, in particular at a GGS level, the State Budget 2014-15 outlined that reducing Employee expenses at a GGS level would be an appropriate measure. As noted previously, employee costs as a percentage of total costs decreased slightly from 53.8% to 53.6%. The current year figure was inflated by a number of Workforce Renewal Incentive Program (WRIP) and Targeted and Negotiated Voluntary Redundancy (TNVR) packages offered to GGS employees, as part of saving strategies. Total separation payments for departments and other GGS entities, including Tasmanian Health Organisations and TasTAFE, equalled $40.365m. Without these payments, Employee expenses would have been lower than last year at 52.8% of total costs.

These figures show that the Government is making progress to achieving Strategic Action 6.

5 *Separation payments have not been excluded from any of the years of analysis.*

Figure 12 shows the movement in FTEs employed by Government departments, Tasmanian Health Organisations and TasTAFE[6], which primarily make up the GGS, over the past four years.

Figure 12: Departmental and GGS FTEs



Source: Tasmanian Audit Office

Note: FTE information was sourced from various places including annual reports and payroll records. Only GGS with a significant number of staff were included in the table above, which includes TasTAFE, State Fire Commission and the THOs. Hence, it does not purport to be a complete analysis of GGS FTEs.

Figure 12 indicates a decrease in departmental and GGS FTEs in 2015. Most GGS entities contributed to this, with the highest declines at:

- Department of State Growth - the amalgamation of the Departments of Economic Development, Tourism and the Arts and Infrastructure, Energy and Resources to form the Department of State Growth, with some staff transferring to other entities, such as Tourism Tasmania, as part of the restructure, resulted in a reduction of 144 FTEs.
- Department of Education – a reduction of 152 FTEs
- Department of Health and Human Services – a reduction of 233 FTEs
- Tasmanian Health Organisations – a combined reduction of 144 FTEs.

In total, FTEs decreased by 1 035 in 2014-15.

Capital expenditure

Government's Strategic Action 5 aims at ensuring that Tasmanian Government infrastructure investment will maintain existing assets, respond to economic and population growth and reflect the changing needs of the community. This action notes that infrastructure investment exceeding depreciation is the most appropriate measure to use.

As at 30 June 2015, GGS depreciation was reported as being $259m, while infrastructure investment totalled $277m. This shows that for the 2014-15 financial year, this target, at the GGS level, was achieved. However, while a useful measure, it is less than perfect because:

- the bulk of an annual depreciation charge relates to existing assets
- the infrastructure investment of $277m is not split between expenditure on new versus existing assets.

A better measure is one where expenditure on existing assets exceeds depreciation on existing assets. Doing so provides an indication as to how well existing infrastructure is being maintained.

This is discussed further on page 78.

6 *Our workings are based on the average FTEs over a financial year. We have consistently used average FTEs because this is reflective of the cost over a twelve month period.*

Recommendation 1

We recommend Government consider including two targets in its Fiscal strategies:

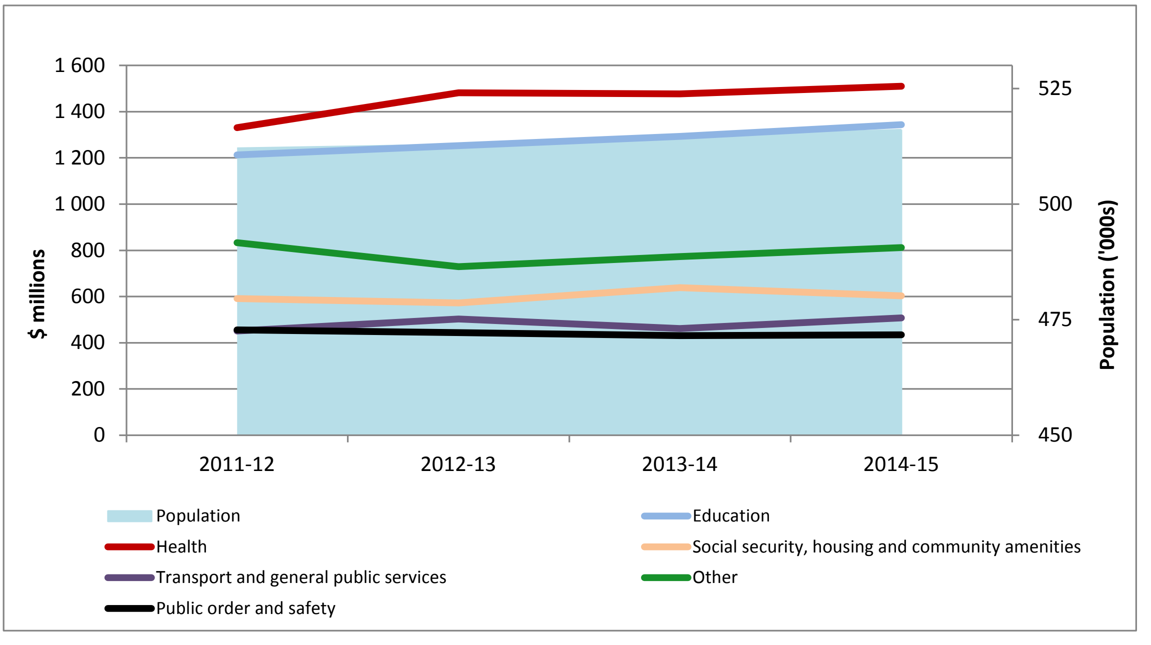
- capital expenditure on existing assets to equal depreciation on existing assets over an agreed time period generally longer than 12 months – we refer to this as the Asset Sustainability Ratio
- capital expenditure on new and existing assets to exceed depreciation on new and existing assets over an agreed time period generally longer than 12 months – we refer to this as the Asset Renewal Funding Ratio.

General Government expenses by function

TAFR includes details of general government recurrent expenses by function reported in accordance with the Government Purpose Classification, which is based on ABS classifications.

Figure 13 depicts graphically recurrent expenditure incurred over the past four years by function, unadjusted for CPI, compared to growth in population.

Figure 13: Government Expenses by Function



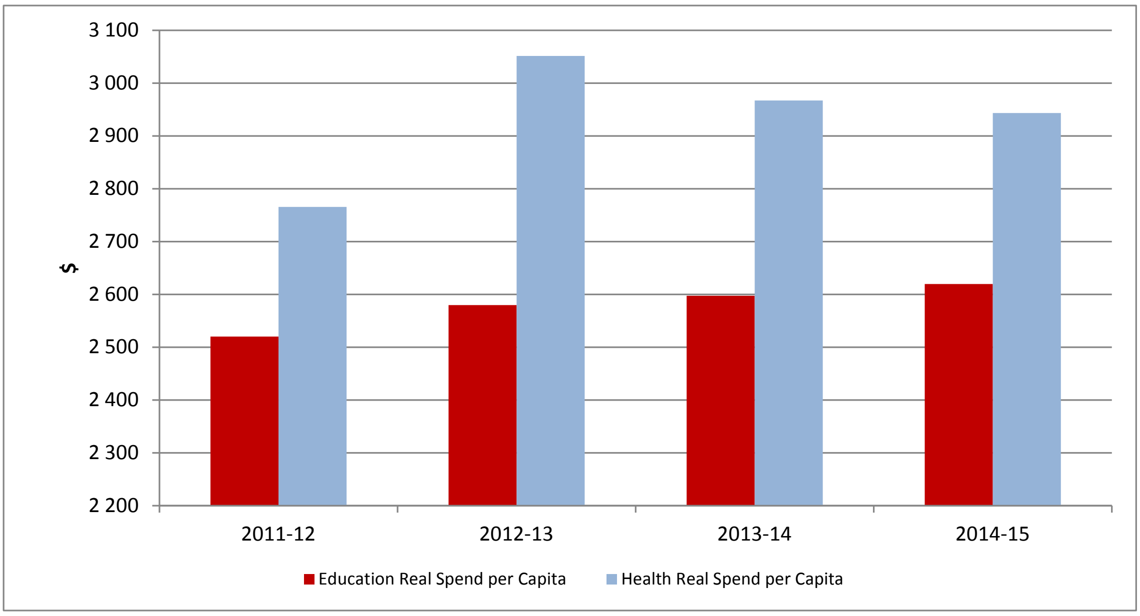
Source: Tasmanian Audit Office

Note: Other includes Recreation and culture, Fuel and energy, Agriculture, Forestry, Fishing and hunting, Mining and mineral resources, Other economic affairs (tourism and area promotion, labour and employment and other), Superannuation liability expenses and Other purpose expensess.

Figure 13 highlights that the majority of GGS expenditure was spent on health, 29% (2013-14, 29%), and education, 26% (26%). This means that, in total, expenditure on health and education absorbed 55% of the State budget this year, consistent with last year.

Figure 14 shows average spend per capita on health and education, using 2011-12 as benchmark.

Figure 14: Health and Education Average Spend per capita



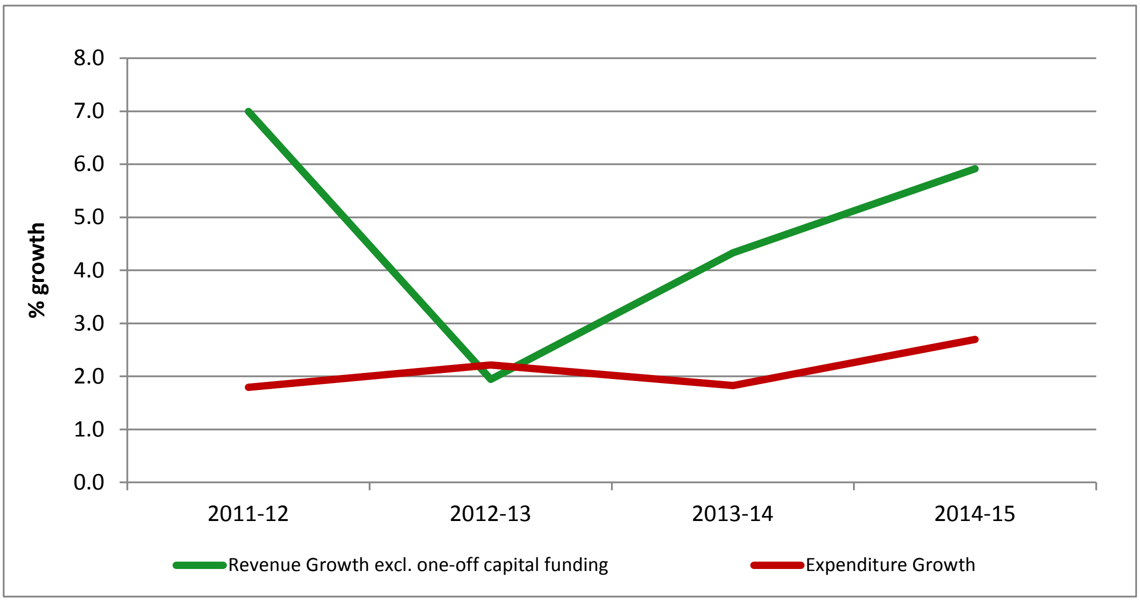
Source: Tasmanian Audit Office

If we adjust expenditure for CPI, spending on health per capita increased by 6.4%, while spending on education per capita increased by 4.0% between 2011-12 and 2014-15. Health funding per capita remained consistent with the prior year, decreasing by 0.8%, after a significant decrease of 2.8% in 2013-14. Education funding per capita was also consistent with the prior year, increasing by 0.9% in the current year.

Comparison of operating revenue and expenditure with gross state product

Figure 15 analyses growth in operating revenue and expenditure over the past four years. Operating revenue and expenditure excluded one-off Australian Government capital funding and the establishment grant paid to Macquarie Point Development Corporation in 2012-13.

Figure 15: GGS Revenue and Expenditure Growth (%)



Source: Tasmanian Audit Office

Figure 15 shows that, for the past two years, revenue growth exceeded expenditure growth.

Overall, total GGS operating expenditure grew by 6.6% over the past four years. In real terms, expenditure reduced marginally by 0.2%. Population increased by 0.8% to 516 100[7] over the period until March 2015. The cost of the GGS was $10 099 per capita in 2014-15, which was $579, or 6%, more than the cost of $9 519 per capita in 2011-12 (CPI adjusted).

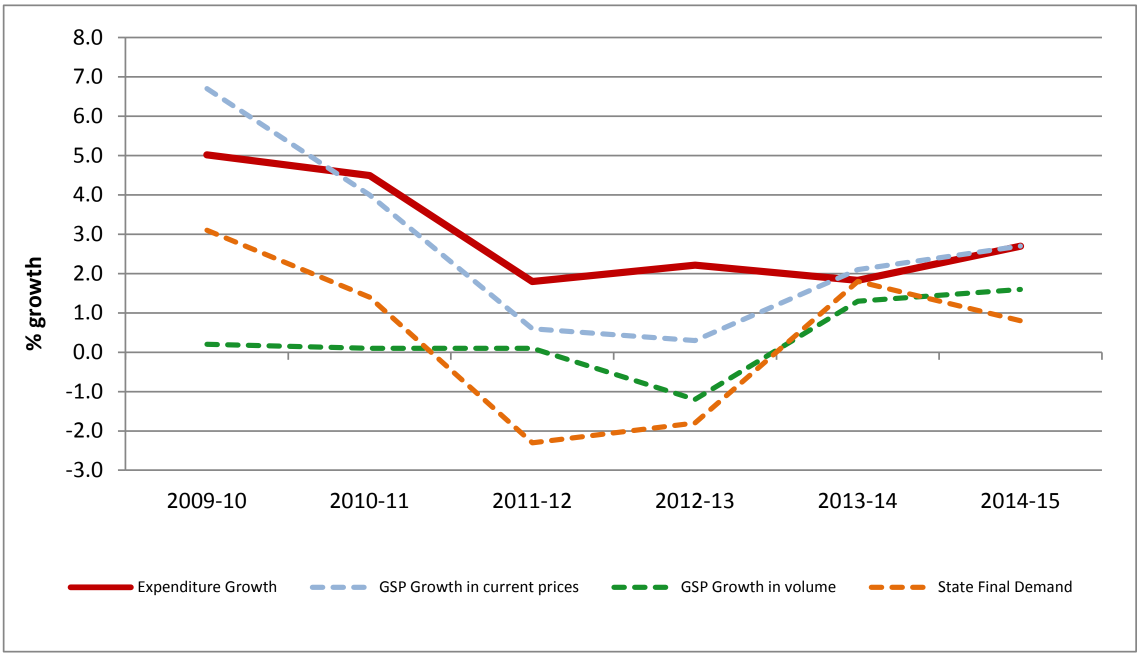
Operating revenue grew 6.0% in 2014-15. The growth in revenue from the prior year was primarily driven by a 7% increase in Australian Government - General purpose payments (GST) and a 4% increase in own-source revenue, mainly dividends and income tax equivalents, payroll tax and conveyance duties.

Operating expenses grew by 2.7% in 2014-15, the highest increase in the four years of the analysis. This year's growth was mainly driven by a 9% increase in Grant and subsidy expenses driven partly by the early payment of two quarters of 2016 Financial Assistance Grants to Councils. There was also a 4% reduction in Supplies, consumables and Other expenses, a 5% reduction in Depreciation, and an 8% reduction in Borrowing costs.

7 *3101.0 - Australian Demographic Statistics, March 2015, Australian Bureau of Statistics, Estimated resident population at the end of March quarter 2015.*

Figure 16 shows the trend in expenditure growth over the past six years against the value added by economic production in the State as measured by Gross State Product (GSP)[8]. At the national level the equivalent concept is Gross Domestic Product (GDP). Included in the graph for the first time is State Final Demand (SFD)[9], an additional comparative measure.

Figure 16: Trend in expenditure growth



Source: Tasmanian Audit Office; GSP figures sourced from ABS

GSP rates are revised and reissued annually by the ABS, indicating the results reported here should be read with caution.

The trend showed that expenditure growth declined until 2011-12, stabilised to June 2014 and then increased this year. However, expenditure growth was matched by GSP growth in current prices, equalling 2.7%. This is the second year in a row in which GSP growth in current prices exceeded or at least matched expenditure growth. GSP in volume (i.e. real) terms[10] was 1.6% in 2014-15, an improvement on last year's GSP which was 1.2%.

The trend in GSP indicated that growth in the State economy is occurring, however only recently the level of expenditure growth has matched the GSP growth. A general principle is that, over time, expenditure growth should not exceed the growth of the economy. Therefore, in line with the steps taken to date, Government needs to continue to manage expenditure growth.

In the graph, SFD is expressed as a percentage change from the previous year. It is obtained by summing government final consumption expenditure, household final consumption expenditure, private gross fixed capital formation and the gross fixed capital formation of public corporations and general government. The graph shows that expenditure growth exceeded the percentage increase in SFD of 0.8% in 2014-15.

Recommendation 2

We recommend Government continue to manage expenditure growth to the point where it no longer exceeds growth in the Tasmanian economy.

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8 GSP is the total market value of goods and services produced in a State or Territory within a given period, after deducting the cost of goods and services used up in the production process, but before deducting allowances for the consumption of fixed capital. We used the GSP in current prices to compare the growth in GGS expenditure and GSP growth in volume terms to illustrate the growth in the State's economy after adjusting for movements in prices.

9 SFD is another measure of economic activity, although it is not a measure of the value of production activity occurring within the State because it excludes sales made to buyers who use them as inputs to a production activity, export sales and sales that lead to accumulation of inventories.

10 The chain volume (i.e. real prices) measures of GSP are derived by revaluing current price and income-based estimates of GSP, using deflators which are compiled using the available data on the composition of expenditure on state production and movements in associated prices.

Statement of Financial Position

	2015 Original Budget	2015 Preliminary Outcome	2015 Actual	2014 Actual	2013 Actual	2012 Actual
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Total Assets	17 800	17 541	17 683	18 185	20 024	19 901
Total Liabilities	7 440	9 001	9 069	8 855	8 232	8 835
Net Assets	**10 360**	**8 540**	**8 614**	**9 330**	**11 792**	**11 066**
Net Worth	10 360	8 540	8 614	9 330	11 792	11 066
Net Financial Worth	(915)	(2 213)	(2 210)	(1 627)	570	175
Net Financial Liabilities	(5 247)	(6 628)	(6 591)	(6 158)	(5 605)	(6 123)
Net Debt	(188)	(533)	(532)	(208)	(220)	(409)

Source: Tasmanian Audit Office

Net Worth, also referred to as Net Assets, decreased to $8.614bn at 30 June 2015. The decrease of $716m reflected the Comprehensive deficit, $812m, less net equity contributions from Government businesses, $96m, which included transfer of land from Forestry Tasmania recorded at $131m.

Net Financial Worth decreased further to $2.210bn (2014, negative $1.627bn) meaning that, for the second consecutive year, Total Liabilities exceeded Total Financial Assets of $6.859bn ($7.227bn). The decrease was mainly attributable to the upward valuation of Superannuation liabilities, $528m, lower Equity in GBE's and SOC's of $149m and lower other financial assets, $119m.

Net Financial Liabilities increased by $433m to $6.591bn at 30 June 2015 in line with the increase in the unfunded superannuation liability, partly offset by lower Borrowings. Borrowings totalled $802m at 30 June 2015 and included a decrease in the overnight borrowing of $345m, to $575m. The decrease in Borrowings, $347m, was better than the budgeted decrease of $129m.

The GGS showed a negative Net Debt position in all of the past four years because financial assets exceeded financial liabilities in each of those years with Net Debt being $532m at 30 June 2015. The position was lower compared to the budgeted Net Debt of $188m and the level of negative Net Debt continued to improve since June 2013.

Table 3 shows the Statement of Financial position for the past nine years.

Table 3: Net Assets (2007-2015)

	2015 Actual	2014 Actual	2013 Actual	2012 Actual	2011 Actual	2010 Actual	2009 Actual	2008 Actual	2007 Actual
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Total Assets	17 683	18 185	20 024	19 901	18 573	19 031	16 781	16 114	14 423
Total Liabilities	9 069	8 855	8 232	8 835	6 081	5 966	5 131	4 733	4 697
Net Assets	**8 614**	**9 330**	**11 792**	**11 066**	**12 492**	**13 065**	**11 650**	**11 381**	**9 726**
Net Worth	8 614	9 330	11 792	11 066	12 492	13 065	11 650	11 381	9 726
Net Financial Worth	(2 210)	(1 627)	570	175	2 033	2 136	1 447	1 476	789
Net Financial Liabilities	(6 591)	(6 158)	(5 605)	(6 123)	(4 145)	(3 814)	(2 658)	(2 241)	(2 789)
Net Debt	(532)	(208)	(220)	(409)	(416)	(748)	(982)	(1 031)	(408)

Source: Tasmanian Audit Office

Table 3 shows that after Net Worth peaked in 2010 (largely due to inclusion of regional water corporations) it steadily decreased since then represented by a combination of Operating Deficits, decreasing assets and increasing liabilities. Major movements were:

- the cumulative impact of Operating Deficits over this period which totalled $2.596bn
- for assets, equity in GBEs and SOCs decreased by $1.569bn, primarily due to the reclassification of TasWater as a Local Government Sector entity of $1.798bn, effective at 1 July 2013. However, over the period of review, Total Assets primarily went up due to:
  - asset transfers from Forestry Tasmania
  - capital expenditure
  - asset revaluations.
- for liabilities, the increase was almost entirely due to superannuation obligations which increased by $2.291bn over this period.

Net Debt fluctuated significantly during this nine-year period but remained negative throughout because financial assets always exceeded financial liabilities. However, it was at its lowest in 2014, $208m. The improvement at 30 June 2015, $532m, was due to higher cash holdings in SDTF accounts.

Cash

Since 30 June 2013 Government re-introduced funding of any overdraft or shortfall in SDTF accounts by a temporary overnight borrowing which totalled $575m at 30 June 2015 (30 June 2014, $920m). The effect of this was to gross up Government's cash holdings to at least equal the balance of accounts in the SDTF. This was the reason why cash on hand at 30 June 2015 was $1.282bn ($1.309bn).

Investment in Government Businesses

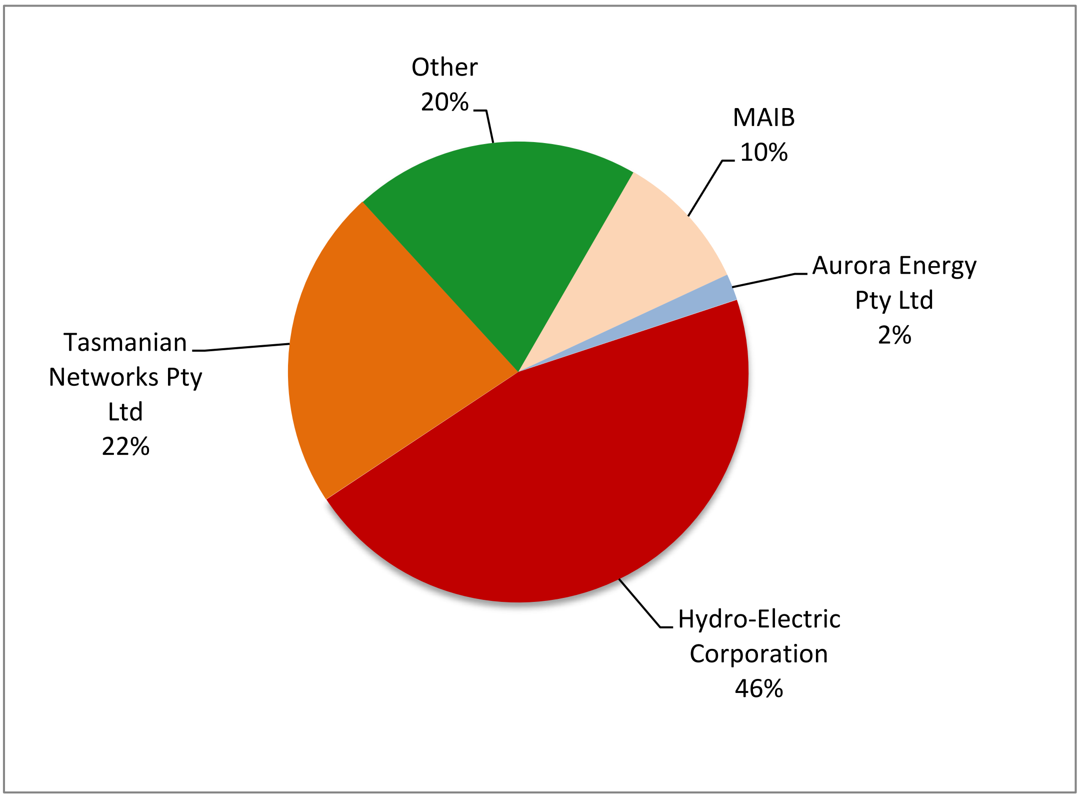
The State's equity in Government businesses totalled $4.381bn at 30 June 2015, $149m less than at 30 June 2014. This drop was mainly due to offsetting factors including:

- The decision taken by the Board of TasNetworks to value assets transferred to it by Transend Networks Pty Ltd on 1 July 2014 on an earnings rather than depreciated replacement cost basis which resulted in a decrement of $225m.
- This was exacerbated in TasNetworks by a return of capital of $20m and acceptance of Hydro Tasmania debt totalling $205m during the year. These decreases were offset by corresponding increases in equity for Hydro Tasmania, $247m and Forestry, $29m.

- However, by 30 June 2015, TasNetworks' equity increased to $1.016bn, represented by its comprehensive surplus generated in 2014-15 of $168m.
- Equity decreased by $80m and $44m in Tasmanian Irrigation and MAIB respectively.

Figure 17 compares the Net Assets of Government businesses at 30 June 2015.

Figure 17: Net Assets of Government Businesses

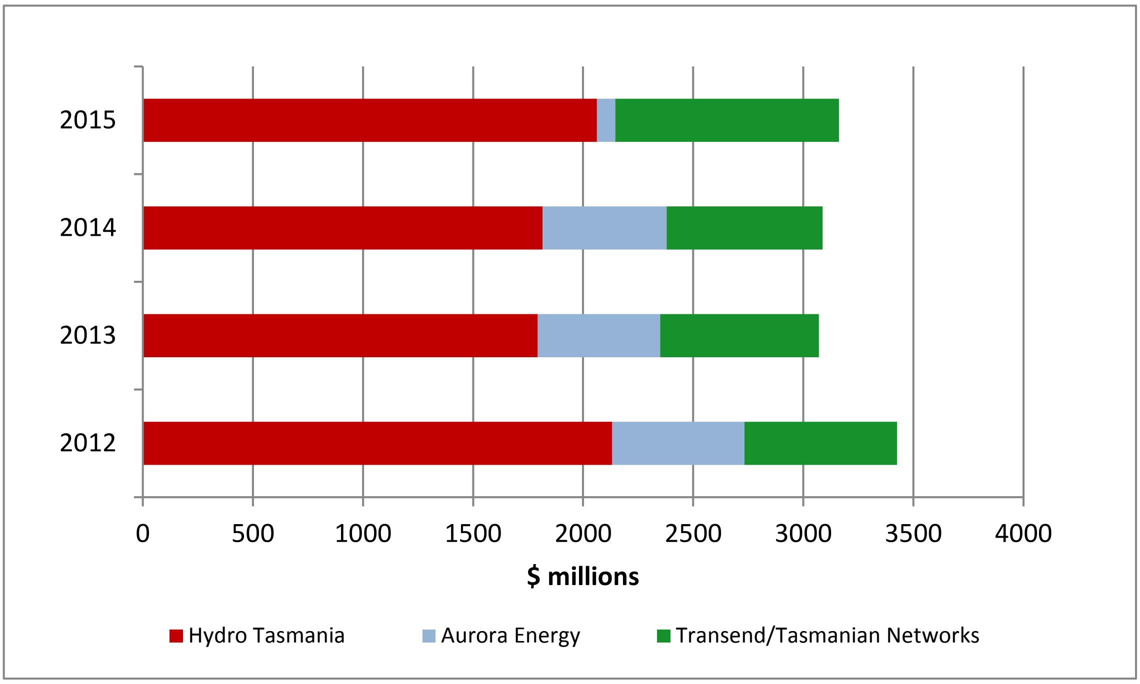


Source: Tasmanian Audit Office

Figure 17 shows that electricity businesses represented a significant investment for the State at 70% of total Net Assets, with Hydro Tasmania having the largest share of 46%.

Figure 18 illustrates the movements in electricity business Net Assets over the past four years.

Figure 18: Net Assets of Electricity Businesses (4-year trend)



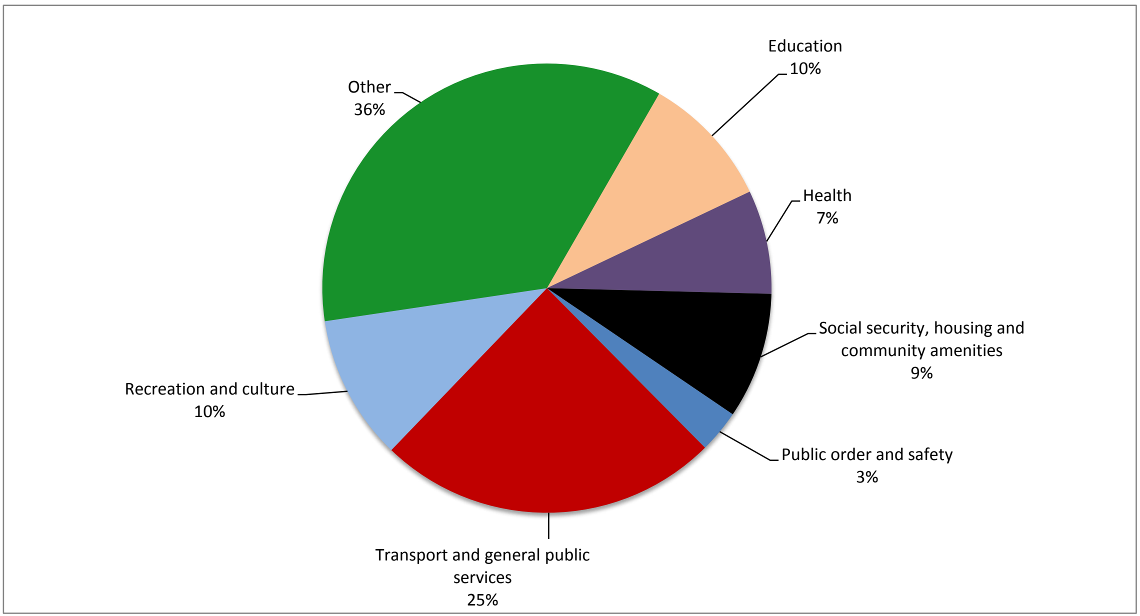
Source: Tasmanian Audit Office

The reduction in Aurora Energy's Net Assets in 2015 reflected the amalgamation of Aurora Energy (distributions) with Transend Networks (transmission), together forming Tasmanian Networks. The increase in Hydro Tasmania's Net Assets in 2015 predominately was the result of revaluation and impairment reversals of $232m and the equity transfer of $205m.

General Government Assets by Purpose

Figure 19 depicts GGS asset balances classified according to their function at 30 June 2015, excluding equity investments in Government businesses.

Figure 19: GGS Assets by Function (excluding Equity Investments in PNFCs and PFCs)



Source: Tasmanian Audit Office

Note: Other includes Fuel and energy, Agriculture, forestry, fishing and hunting, Mining and mineral resources, Other economic affairs.

Figure 19 highlights that the majority of assets were in the Transport and general public services category, 25%, followed by Education, 10%, Recreation and culture, 10% and Social security, housing and community amenities, 9%. This was consistent with previous years, although the transfer of housing properties under the Better Housing Futures program resulted in a decrease in the value of assets classified under Social security, housing and community amenities. Since the program commenced three years ago, over 3 896 properties valued at $584m were transferred to community housing organisations.

Legal title over these properties is retained by the Director of Housing, however the tenancy and property management have been transferred to community housing providers, Housing Choices and Centacare Evolve Housing. Given that the Director of Housing no longer exercises control over these assets nor receives future economic flows arising from these assets, they are no longer recognised in the Statement of Financial Position, but are included as a contingent asset in the notes to the Financial Statements.

Defined Benefit Superannuation Liability

At 30 June 2015, the unfunded liability was net $7.151bn (30 June 2014, net $6.623bn).

The superannuation liability comprised the following defined benefit schemes and arrangements:

- Retirement Benefit Fund (RBF) Contributory Scheme, net $7.076bn (net $6.546bn)
- Parliamentary Superannuation Schemes (Parliamentary Superannuation Fund and Parliamentary Retiring Benefits Fund) administered by the RBF Board, net $17m (net $19m)
- Judges Contributory Pensions, net $43m (net $42m)
- Housing Tasmania superannuation liability, net $13m (net $14m), is recognised in the financial statements of the Department of Health and Human Services (DHHS)

- Tasmanian Ambulance Service Superannuation Scheme (TASSS), net $2m (net $2m), administered by the RBF Board, with the liability recognised in the financial statements of the DHHS.

The increase in the liability of $528m in 2014-15 was caused by a combination of:

- an increase in the present value of the superannuation liability of $663m, primarily made up of:
    - changes in financial assumptions, $489m, which mainly reflected a change in the discount rate from 4.10% at 30 June 2014 to 3.70% at 30 June 2015. Because of the inverse relationship between the discount rate and the valuation of the liability, the liability will increase when the discount rate falls
    - current service cost and interest costs of $148m and $329m, respectively
    - offset by benefits paid of $375m.
- an increase in the fair value of Plan assets of $135m, which included:
    - actual return on plan assets less interest income, $145m
    - employer contributions of $274m
    - offset by the benefits paid as noted previously.

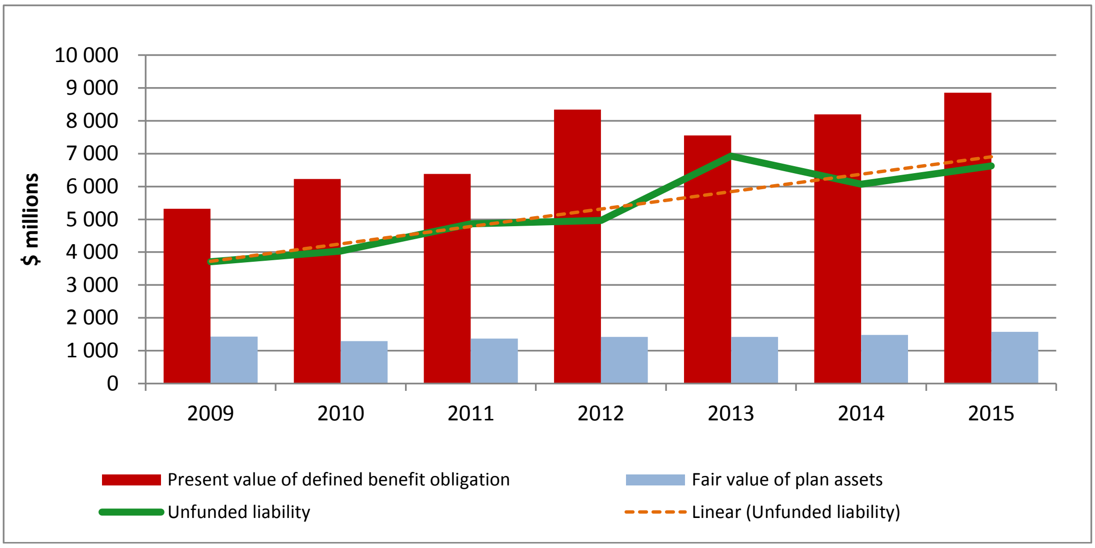
Government's Strategic Action 2 aims to ensure that General Government debt and defined benefit superannuation liabilities will be managed to ensure the combined annual servicing cost is less than six per cent of General Government cash receipts. During 2014-15, the total of borrowing costs and defined benefits superannuation expense amounted to $159m. This figure equated to 2.88% of GGS cash receipts, which means that, for the 2014-15 financial year, the target was achieved.

The State Actuary undertook a triennial review of the RBF's Contributory Scheme at 30 June 2013. The review was completed in late 2013 and recommended an increase in employer contributions towards benefits paid to 78.5% from 1 July 2014, with annual increases of 2.0% thereafter until 2019. The increases in employer contributions aims at ensuring that the RBF Contributory Scheme will have sufficient assets to meet its obligations. The State Actuary also assessed the two Parliamentary funds, recommending additional contributions so that the schemes are fully funded.

The next triennial reviews are due as at 30 June 2015 for the Tasmanian Ambulance Service Superannuation Scheme (TASSS) and State Fire Commission Superannuation Scheme (SFCSS) and 30 June 2016 for the RBF Contributory Scheme and the two Parliamentary schemes.

Figure 20 below shows movements in the unfunded liability, being the difference between the present value of the defined benefit obligation and fair value of plan assets.

Figure 20: Unfunded Superannuation Liability (7-year trend)

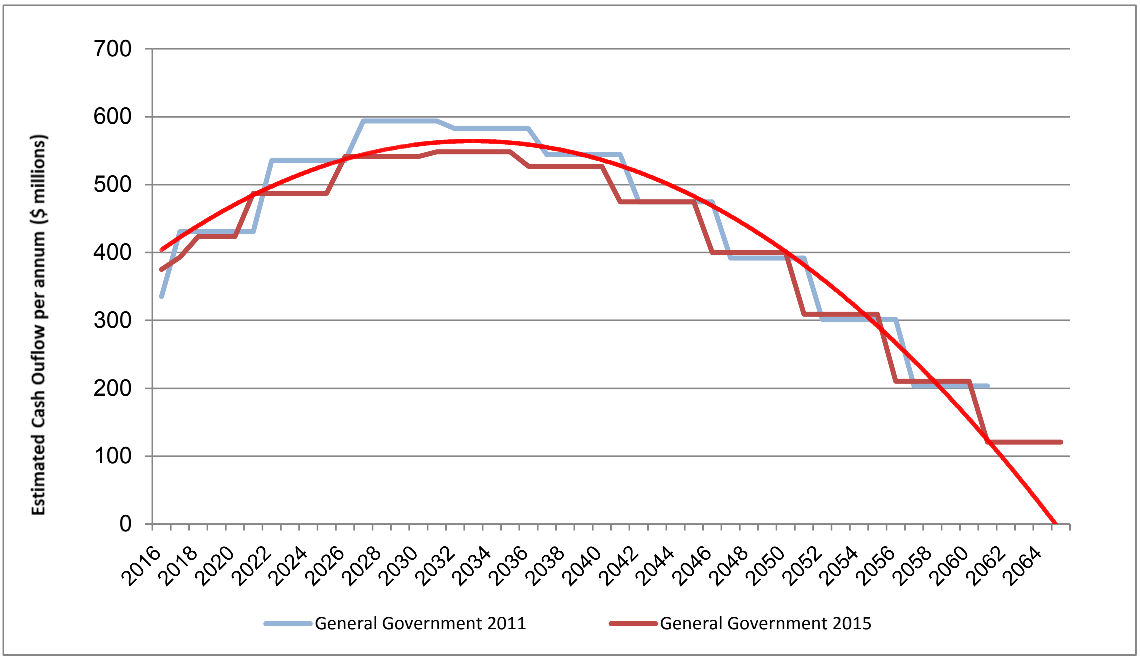


Source: Tasmanian Audit Office

The graph illustrates the trend of increasing the amount of the State's obligation arising from current and former members of unfunded or partially funded public sector defined benefit superannuation schemes, all of which are now closed to new membership. As these schemes are unfunded or partially funded, the State is ultimately responsible for meeting obligations of the schemes. Superannuation payments are met on an emerging costs basis from the Consolidated Fund.

Figure 21 illustrates the expected nominal (un-discounted) cash outflows required to meet the emerging cost of superannuation benefits payable to members as estimated at 30 June 2015. The estimated cash outflows represent the total cost of benefits payable. However, these estimates do not take into account the current arrangement where a proportion of pension costs and lump sum payments are met by the RBF Board from investments proceeds.

Figure 21: Undiscounted Defined Benefit Superannuation Cash Outflows (2016–2064)

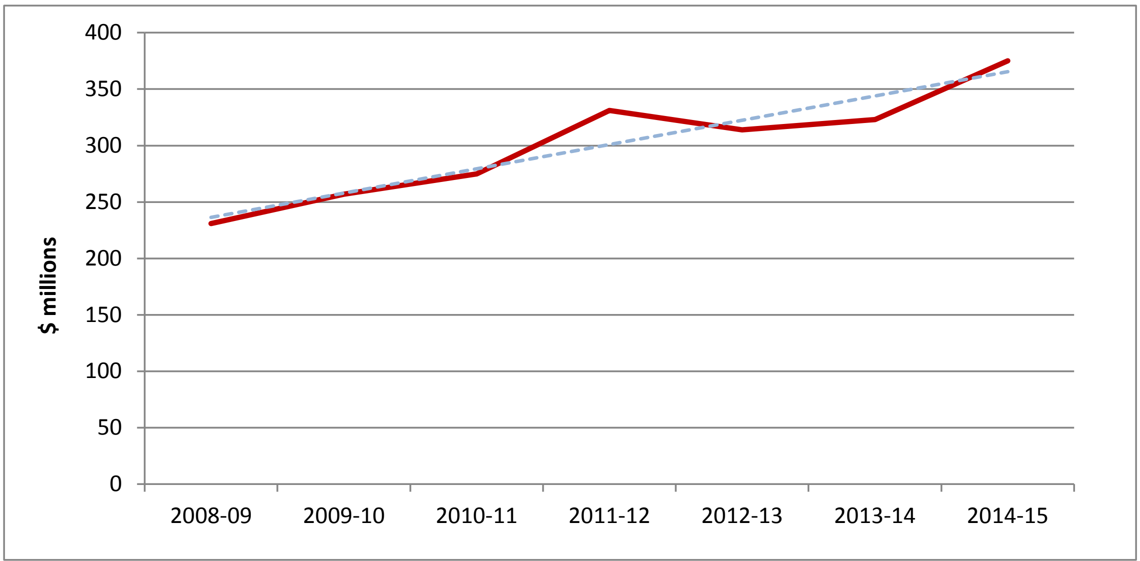


Source: Tasmanian Audit Office

Figure 21 shows that cash required to meet defined benefit pensions and lump sum payments will peak approximately between fifteen to twenty years from now at around $550m per annum (or $443m per annum using the current 80.5/19.5 funding arrangement). However, the analysis indicates that superannuation payments will start increasing significantly much sooner. For example, the payments are estimated to increase by 30% between now and 2021.

Figure 22 illustrates the increase in benefits paid over the past seven years. The information was obtained from actuary reports and includes all GGS defined benefit schemes and arrangements. The RBF Contributory Scheme accounted for 97% of all benefits paid.

Figure 22: Benefits Paid (seven-year trend)



Source: Tasmanian Audit Office

The graph shows a steady increase in superannuation benefits paid in the last seven years. Over this period, benefits paid increased by 62% from $231m in 2008-09 to $375m in the current year.

GGS expects to make a contribution of $284m to the RBF in 2015-16 (2014-15, $244m).

The cumulative effect of demographic changes, such as a decrease in mortality rates, and the increase in taking retirement benefits as pensions rather than lump sums, combined with the gradual increase in the employer contribution rate up to 86.5% by 2019 will have a significant impact on the State budget.

The capacity of the State to meet its future superannuation obligations will require close monitoring.

Statement of Cash Flows

	2014-15 Original Budget	2014-15 Preliminary Outcome	2014-15 Actual	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$m	$m	$m	$m	$m	$m
Cash at the Beginning of the Year	**1 312**	**1 308**	**1 308**	**1 298**	**1 252**	**628**
Net Cash flows from (used in) operating activities	384	497	536	241	(27)	131
Net cash flows (used in) investing activities	(427)	(175)	(213)	(257)	(157)	(124)
Net cash flows from (used in) financing activities	(230)	(348)	(349)	26	230	617
Net increase (decrease) in cash held	(272)	(25)	(26)	10	46	624
Cash at the End of the Year	**1 041**	**1 283**	**1 282**	**1 308**	**1 298**	**1 252**

Source: Tasmanian Audit Office

Note: The establishment grant paid to Macquarie Point Development Corporation in 2012-13, $50m, was excluded from operating activities and reallocated to investing activities for the purpose of this analysis.

Cash held by the GGS decreased by $26m to $1.282bn at 30 June 2015. The balance included an overnight loan of $575m (2014, $920m) from TASCORP on 30 June 2015 in order to gross up cash holdings to at least equal the estimated balances of accounts in the SDTF.

If this transaction was eliminated, combined cash held by the GGS would have decreased to $707m (2014, $388m) and borrowings would decrease to $227m ($229m). The main components of cash flows in 2014-15 were:

- Operating cash surplus of $536m ($241m). Reasons for the increase in operating cash flow amounts reflected increases in receipts from grants and dividend, tax and rate equivalents receipts
- investment in non-financial assets, net $167m ($175m), driven predominantly by capital programs in health, infrastructure and social housing
- net outflows for equity injections, $35m ($82m), into Government businesses, comprising contributions to Tasmanian Railway, $21m, and Tasmanian Irrigation, $14m. Net advances of $11m ($0m) were also paid in 2014-15
- cash used in financing activities, $349m, comprising mainly the drop in the overnight borrowing amount by $345m and the annual instalment in respect of the Commonwealth housing debt of $7m.

The composition of cash held is detailed under the PA statements section of this Chapter.

PUBLIC ACCOUNT

Background

When reviewing the commentary below, it needs to be borne in mind that the PA statements are reported on a cash basis meaning that there is no distinction between receipts or payments of a capital or operating nature and borrowings received or paid.

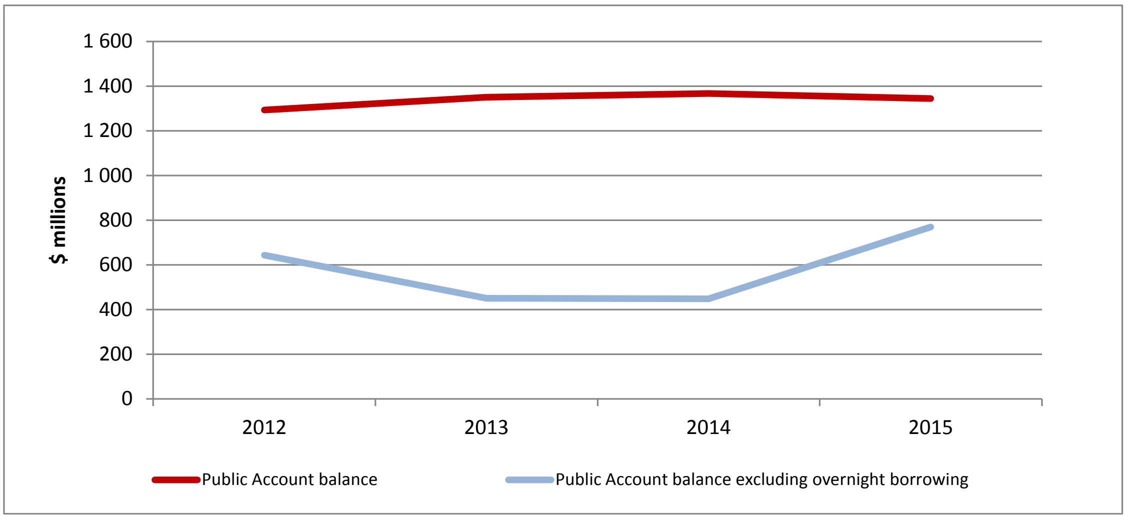
SDTF consisted of various accounts established by the Treasurer. The majority of these accounts represented departmental operating accounts, where funds appropriated from the Consolidated Fund by the annual Appropriation Act are deposited. In addition, operating accounts can retain funds that are approved by the Treasurer as retained revenue.

Other accounts in the SDTF include trust funds, whole-of-government, business unit accounts and accounts established under legislation.

Cash Balance

Figure 23 shows the total cash held by the GGS at the end of June for the last four years.

Figure 23: Cash Balance (four-year trend)

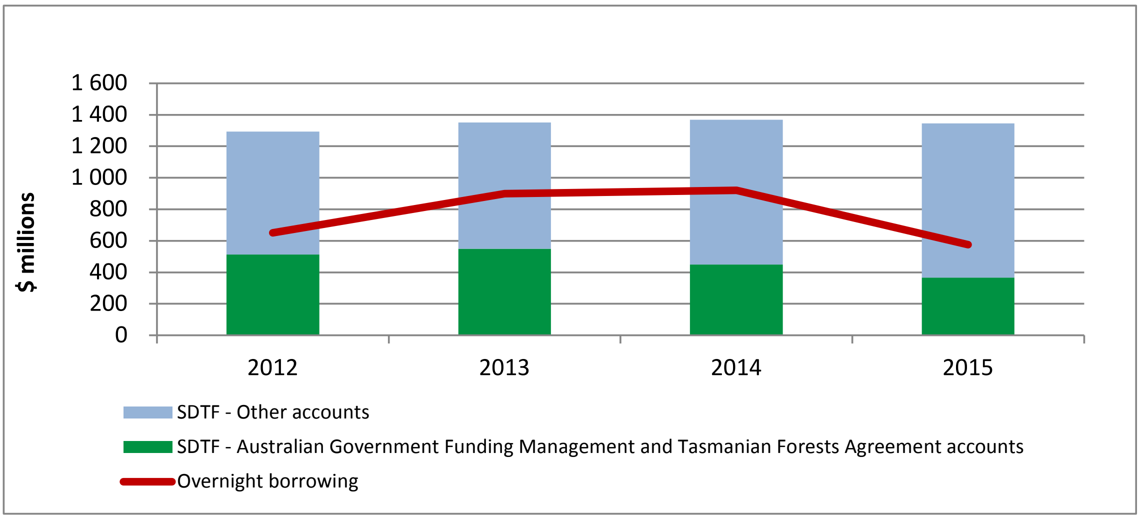


Source: Tasmanian Audit Office

As shown in Figure 23, cash held in the PA totalled $1.345bn at 30 June 2015 (30 June 2014, $1.368bn). Included in the balance was the overnight loan of $575m ($920m), which was repaid on 1 July 2015. If the overnight loan were eliminated, the cash balance would be $770m ($448m).

Figure 24 shows the composition of the Public Account by separating the Australian Government Funding Management and Tasmanian Forests Agreement accounts from other SDTF accounts.

Figure 24: Public Account Composition



Source: Tasmanian Audit Office

The balance of cash and deposits in the PA of $1.345bn at 30 June 2015 ($1.368bn) comprised $367m of Australian Government funds ($449m) and $978m in other SDTF accounts ($919m). The balance of Australian Government funds included unspent monies held in:

- Tasmanian Forests Agreement Account, $13m, for implementation of the Tasmanian Forests Intergovernmental Agreement (TFIA)
- Australian Government Funding Management Account, $354m, which included unspent funding of $190m ($190m) for the redevelopment of the Royal Hobart Hospital.

The SDTF balance in each of the years under review included an overnight loan from TASCORP. The effect of this arrangement was to gross up Government's cash holdings to at least equal the balance of accounts in the SDTF at 30 June. The amount of overnight borrowing decreased this year, from $920m in 2014 to $575m in 2015, as a result of the Consolidated Fund Surplus of $345m, which is available to repay debt.

Consolidated Fund Outcome

	2014-15 Original Budget	2014-15 Preliminary Outcome	2014-15 Actual	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Receipts						
Australian Government sources	2 407	2 476	2 476	2 302	2 171	2 831
State sources	1 729	1 791	1 791	1 523	1 347	1 447
Total	**4 136**	**4 267**	**4 267**	**3 825**	**3 518**	**4 278**
Expenditure						
Recurrent services	3 721	3 773	3 773	3 640	3 609	4 103
Works and services	159	149	149	175	166	317
Total	**3 881**	**3 922**	**3 922**	**3 815**	**3 775**	**4 420**
Consolidated Fund Outcome	**255**	**345**	**345**	**10**	**(257)**	**(142)**

Source: Tasmanian Audit Office

Consolidated Fund Outcome was a surplus of $345m in 2014-15, compared to a small surplus of $10m in 2013-14. The improvement of $335m reflected higher receipts, $442m, partly offset by increased expenditure, $107m, all discussed previously in the Statement of Comprehensive Income section of this Chapter.

The Consolidated Fund Surplus was $90m higher than the surplus in the original Budget. This was primarily due to Australian Government sources of receipts increasing by $69m, State sources exceeding budget by $62m, offset by recurrent expenditure increasing by $52m.

TOTAL STATE SECTOR

Statement of Comprehensive Income

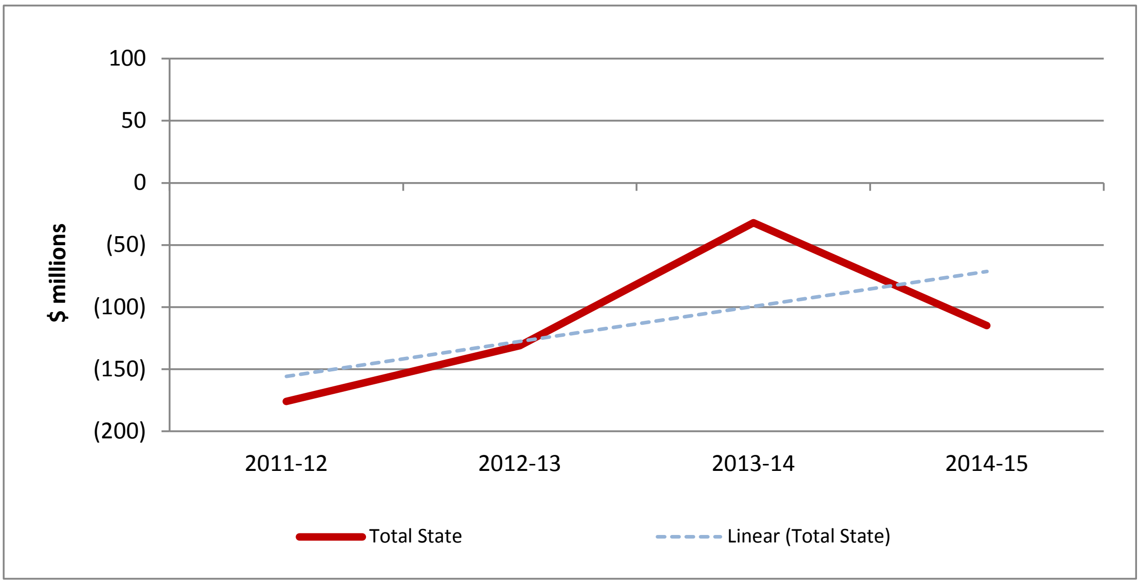
	2014-15	2013-14	2012-13	2011-12
	$m	**$m**	**$m**	**$m**
Total Revenue	7 950	8 394	8 330	7 774
Total Expenditure	8 065	8 426	8 461	7 950
Underlying Net Operating Balance before:	**(115)**	**(32)**	**(131)**	**(176)**
One-off Australian Government Capital Funding	54	94	101	162
Net Revenue from discontinued operations	0	0	0	15
Net Operating Balance	**(60)**	**63**	**(29)**	**1**
Plus Other economic flows – Included in Operating result				
Other economic flows – net	(601)	(945)	729	(2 368)
Operating Result	**(661)**	**(883)**	**700**	**(2 367)**
Plus Other economic flows – Other movements in Equity				
Total Other equity movements	(55)	(1,579)	25	941
Comprehensive Result	**(716)**	**(2 462)**	**725**	**(1 426)**

Source: Tasmanian Audit Office

Underlying Net Operating Balance

Total State Underlying Net Operating Balance was a deficit of $115m in 2014-15. This was an $83m increase on last year's deficit of $32m. Figure 25 shows underlying results for the past four years.

Figure 25: Total State Underlying Net Operating Balance (four-year trend)

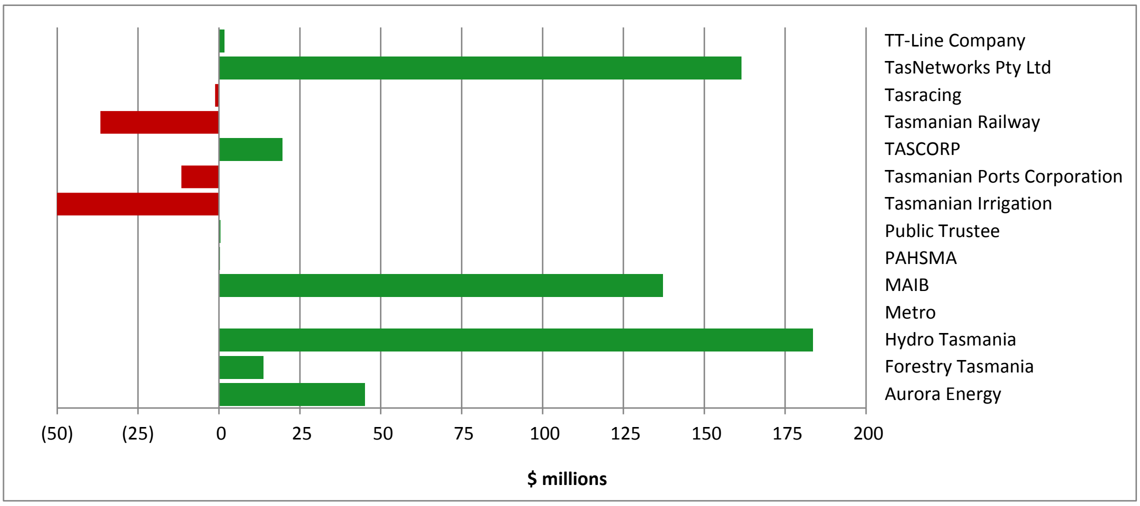


Source: Tasmanian Audit Office

The larger deficit in 2014-15 was due to a significant decrease in Sales of goods and services of $714m, which included a decrease for Hydro Tasmania of $511m. This reduction exceeded the decrease in Supplies and consumables and other expenses of $471m, which was significantly influenced by a decrease in cost of sales, $455m, related mainly to both Hydro, $279m, and Aurora Energy, $144m. Both Total State and GGS reported Net Underlying Operating Balance deficits in each of the past four years.

Figure 26 shows the Net Underlying Operating Balance disaggregated into GGS, PFC and PNFC sectors, before inter-sector eliminations.

Figure 26: Profit (Loss) Before Income Tax (2014-15)



Source: Tasmanian Audit Office

Note: Public Trustee $0.435m, PAHSMA $0.211m, Metro $0.050m.

Figure 26 illustrates that Hydro Tasmania, MAIB and TasNetworks reported the strongest results. Both Tasmanian Railway and Tasmanian Irrigation reported the largest losses due to impairment losses.

Operating result

Total State Operating Result for 2014-15 was a deficit of $661m, compared to a deficit of $883m in the prior year. This year's result was impacted by actuarial losses on the State's superannuation liability, $426m, caused by changes in financial and demographic assumptions discussed previously in the Defined Benefit Superannuation Liability section.

Table 4: Net Assets (2007-2015)

	2015	2014	2013	2012	2011	2010	2009	2008	2007
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Total Assets	26 069	26 665	27 929	28 706	28 216	26 377	25 280	23 854	22 186
Total Liabilities	17 455	17 335	16 137	17 640	15 724	13 312	13 630	12 472	12 459
Net Assets	**8 614**	**9 330**	**11 792**	**11 066**	**12 492**	**13 065**	**11 650**	**11 382**	**9 727**
Net Worth	8 614	9 330	11 792	11 066	12 492	13 065	11 650	11 382	9 727
Net Financial Worth	(10 523)	(10 008)	(9 945)	(11 042)	(8 867)	(8 276)	(7 036)	(6 377)	(6 333)
Net Financial Liabilities	10 523	10 008	9 945	11 042	8 867	8 276	7 037	6 378	6 333
Net Debt	415	410	973	1 201	1 309	961	407	311	680

Source: Tasmanian Audit Office

Over the nine year period shown above, Net Worth, also referred to as Net Assets, decreased by $1.113bn. This movement was primarily due to increased total liabilities of $4.996bn, with superannuation liabilities making up $3.711bn of this.

The increase in total assets over the nine-year period principally related to increases in land and buildings assets and infrastructure assets of $1.250bn and $1.719bn respectively.

In the current year, Net Worth decreased by $0.716m to $8.614bn, in line with the Comprehensive Result. The movement primarily reflected actuarial losses on the State's superannuation liability and asset revaluation movements.

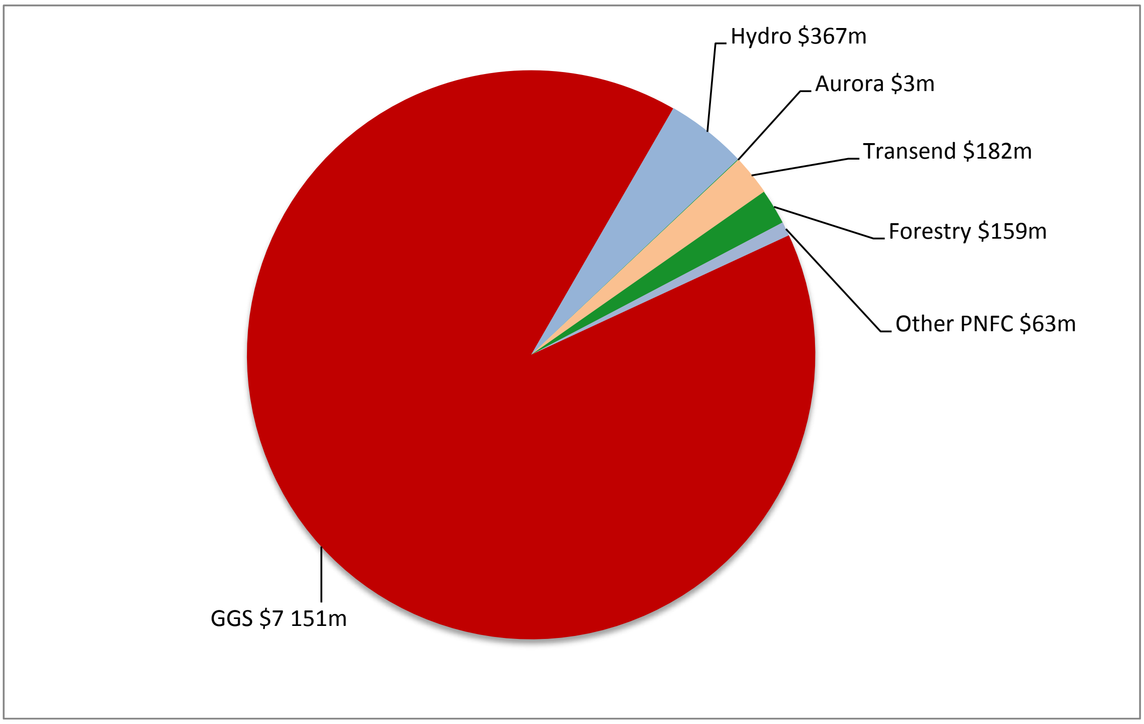
Net Financial Liabilities were $10.523bn at 30 June 2015, which was $0.515m higher than last year. The unfunded defined benefit superannuation liability represented the majority of Net Financial Liabilities at 75% (2014, 74%).

Borrowings at 30 June 2015 were $5.526bn ($5.949bn), and comprised largely of borrowings held by TASCORP. Borrowings were higher in 2014 because of TASCORP's need to fund refinancing of client advances, $600m, which occurred in July that year.

Defined Benefit Superannuation Liability

A number of Government businesses have current and former employees who are members of the RBF Contributory Scheme, which is a closed defined benefit superannuation scheme. As the scheme is partially funded, these entities, and ultimately the State, are responsible for meeting obligations of the scheme as they relate to their employees. Overall, the Total State unfunded superannuation liability was $7.925bn at 30 June 2015 (2013-14, $7.358bn). Figure 27 breaks down the obligation between GGS and Government businesses that have members in the defined benefit schemes administered by the RBF Board.

Figure 27: Net Defined Benefit Superannuation Liabilities



Source: Tasmanian Audit Office

Figure 27 shows that the GGS sector accounted for 90% of the Total State's defined benefit superannuation liability. Both the GGS and Government businesses now meet the emerging costs associated with the defined benefit schemes as and when they arise.

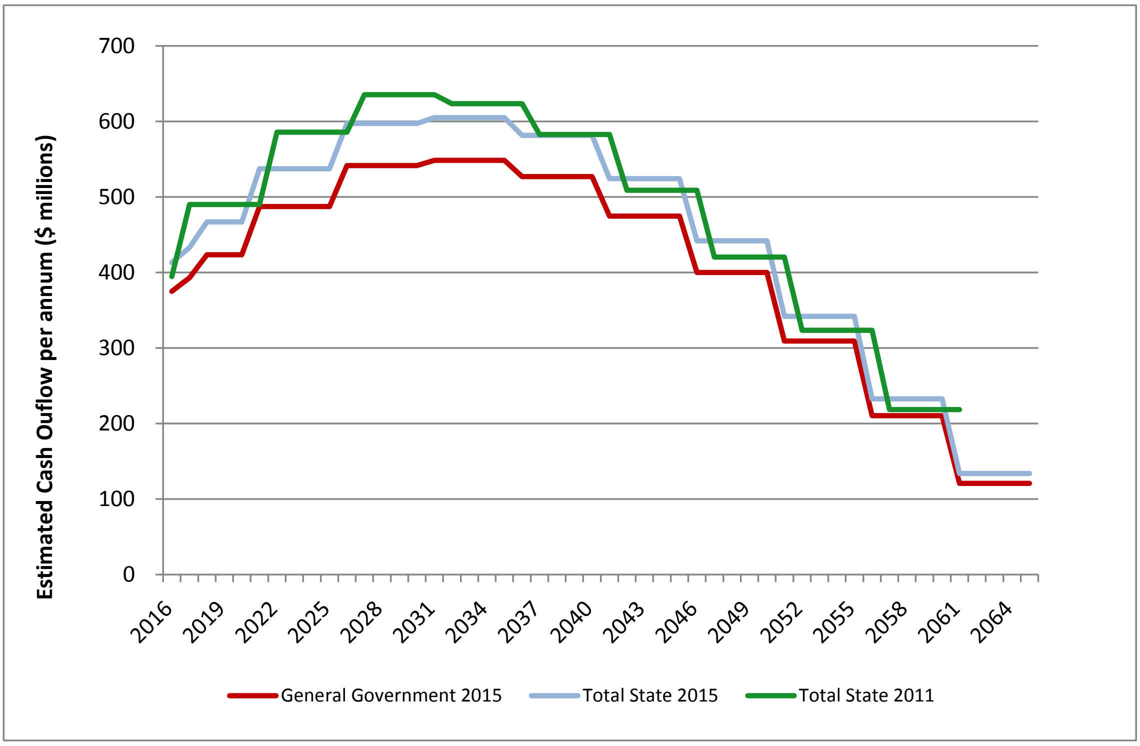
Government businesses are for-profit entities and, in accordance with AASB 119 *Employee Benefits*, must value the superannuation liability using high quality corporate bond rates. Not-for-profit public sector entities must continue to use market yields on government bonds in accordance with the requirement of AASB 119 as must the Treasurer when preparing TAFR.

The corporate bond rates were higher than the government bond rates at 30 June 2015. The average discount rate based on corporate bonds was 4.80%, compared to the average discount rate based on government bonds of 3.70% (2013-14, 4.10%).

Because of an inverse relationship between the discount rate and the valuation of the liability, the application of the lower government bond rates resulted in a higher defined benefit superannuation liability. Changes in the calculation of defined benefit superannuation liabilities for government businesses are discussed in detail in the Report of the Auditor-General No. 5 of 2015-16 Auditor-General's Report on the Financial Statements of State entities, Volume 2 – Government Businesses 2014-15.

Figure 28 illustrates the expected nominal (un-discounted) cash outflows required to meet the emerging cost of superannuation benefits payable to members as estimated at 30 June 2015. The estimated cash outflows represent the total cost of benefits payable. However, these estimates do not take into account that a proportion of the full liability is met by the RBF Board from investments.

Figure 28: Undiscounted Defined Benefit Superannuation Cash Outflows (2015 – 2064)



Source: Tasmanian Audit Office

Figure 28 shows cash required to meet defined benefit pensions and lump sum payments will peak approximately between fifteen to twenty years from now. Higher superannuation payments by Government businesses will impact on annual profits and subsequently returns to the Government.

GGS Statement Of Comprehensive Income

	2014-15 Original Budget	2014-15 Preliminary Outcome	2014-15 Actual	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$m	$m	$m	$m	$m	$m
Revenue						
Grants	2 938	3 128	3 079	2 878	2 840	2 854
Taxation	983	1 007	1 009	957	925	888
Sales of goods and services	354	357	363	395	346	310
Fines and regulatory fees	103	94	95	94	88	90
Interest income	16	15	15	14	21	27
Dividend, tax and rate equivalent income	343	368	382	325	240	194
Other revenue	137	175	159	153	157	165
Total Revenue	**4 874**	**5 143**	**5 101**	**4 816**	**4 617**	**4 528**
Expenditure						
Employee expenses	2 137	2 220	2 229	2 191	2 107	2 096
Superannuation contributions	268	301	299	285	315	279
Net nominal superannuation interest	283	266	266	252	178	239
Depreciation	287	253	259	273	246	242
Supplies, consumables and Other expenses	1 115	1 003	1 002	1 014	1 114	994
Borrowing costs	11	11	11	12	14	14
Grant and subsidy expenses	1 148	1 133	1 147	1 048	1 010	1 012
Total Expenditure	**5 250**	**5 186**	**5 212**	**5 075**	**4 984**	**4 876**
Underlying Net Operating Balance before:	(376)	(43)	(111)	(259)	(367)	(348)
One-off Australian Government Capital Funding	90	0	54	94	101	162
Macquarie Point Development Corporation start-up grant	0	0	0	0	(50)	0
Net Operating Balance	(286)	(43)	(57)	(165)	(316)	(186)
Plus Dividends declared but not yet received	0	0	0	61	0	0
Plus Other Economic Flows – Included in Operating Result						
Gain (loss) on sale of non-financial assets	11	(2)	(7)	(4)	(4)	(6)
Revaluation of equity investment in GBEs/SOCs	(348)	(115)	(149)	(1 645)	(124)	135
Movements in Superannuation liability	0	(389)	(388)	(377)	986	(1 796)
Gain on sale of TOTE Tasmania Pty Ltd	0	0	0	0	0	89
Other gains (losses)	(177)	(242)	(189)	(444)	(81)	(60)
Other Economic Flows – Net	**(513)**	**(748)**	**(733)**	**(2 470)**	**777**	**(1 638)**
OPERATING RESULT	**(799)**	**(791)**	**(790)**	**(2 574)**	**461**	**(1 824)**

	2014-15 Original Budget	2014-15 Preliminary Outcome	2014-15 Actual	2013-14 Actual	2012-13 Actual	2011-12 Actual
Plus Other Economic Flows - Other Movements in Equity						
Revaluations of non-financial assets	341	(80)	(41)	42	332	425
Other non-owner movements in equity	4	(5)	19	1	4	45
Total Other Equity Movements	**345**	**(85)**	**(22)**	**43**	**336**	**470**
COMPREHENSIVE RESULT	**(454)**	**(877)**	**(812)**	**(2 531)**	**797**	**(1 354)**
KEY FISCAL AGGREGATES						
Net Operating Balance	**(286)**	**(43)**	**(57)**	**(165)**	**(316)**	**(186)**
Less Net Acquisition Of Non-Financial Assets						
Purchase of non-financial assets	401	236	277	292	198	371
Less Sale of non-financial assets	33	56	56	23	55	52
Less Depreciation	287	253	259	273	246	243
Net Acquisition Of Non-Financial Assets	**81**	**(74)**	**(39)**	**(4)**	**(103)**	**76**
FISCAL BALANCE	**(367)**	**31**	**(18)**	**(161)**	**(213)**	**(262)**

GGS Statement of Financial Position

	2015 Original Budget	2015 Preliminary Outcome	2015 Actual	2014 Actual	2013 Actual	2012 Actual
	$m	$m	$m	$m	$m	$m
Assets						
Financial assets						
Cash and deposits [a]	1 041	1 283	1 282	1 309	1 298	1 252
Investments [b]	78	52	52	49	48	53
Equity in GBE's and SOC's [c]	4 332	4 415	4 381	4 530	6 175	6 298
Other equity investments	15	16	17	11	8	6
Receivables	304	309	322	406	306	340
Other financial assets	755	713	805	923	967	1 061
Total Financial Assets [d]	**6 525**	**6 788**	**6 859**	**7 227**	**8 802**	**9 010**
Non-financial Assets						
Land and buildings	5 830	5 625	5 686	5 842	6 165	6 026
Infrastructure	4 634	4 317	4 333	4 291	4 274	4 095
Plant and equipment	231	258	233	245	215	213
Heritage and cultural assets	485	466	478	466	461	450
Investment property	12	2	2	12	11	12
Intangible Assets	35	39	43	44	38	36
Assets held for sale	11	19	17	25	22	20
Other non-financial assets	37	25	32	32	36	39
	11 275	**10 753**	**10 824**	**10 957**	**11 222**	**10 891**
Total Assets	**17 800**	**17 541**	**17 683**	**18 185**	**20 024**	**19 901**
Liabilities						
Borrowings [e]	931	802	802	1 149	1 126	896
Superannuation	5 448	7 151	7 151	6 623	6 073	6 925
Employee entitlements	562	589	596	574	544	531
Payables	91	82	140	114	91	101
Other liabilities	409	377	380	395	398	382
Total Liabilities [f]	**7 440**	**9 001**	**9 069**	**8 855**	**8 232**	**8 835**
Net Assets	**10 360**	**8 540**	**8 614**	**9 330**	**11 792**	**11 066**
Equity						
Accumulated surplus	5 435	4 138	4 173	4 848	7 351	6 940
Asset revaluation reserve	4 925	4 402	4 441	4 482	4 441	4 126
Other reserves	0	0	0	0	0	0
Total Equity	**10 360**	**8 540**	**8 614**	**9 330**	**11 792**	**11 066**
Net Worth	**10 360**	**8 540**	**8 614**	**9 330**	**11 792**	**11 066**
Net Financial Worth [(d-f)]	**(915)**	**(2 213)**	**(2 210)**	**(1 627)**	**570**	**175**
Net Financial Liabilities [(f-d+c)]	**5 247**	**6 628**	**6 591**	**6 158**	**5 605**	**6 123**
Net Debt [(e-a-b)]	**(188)**	**(533)**	**(532)**	**(208)**	**(220)**	**(409)**

GGS Statement of Cash Flows

	2014-15 Original Budget	2014-15 Preliminary Outcome	2014-15 Actual	2013-14 Actual	2012-13 Actual	2011-12 Actual
	$m	$m	$m	$m	$m	$m
Cash Flows From Operating Activities						
Cash Inflows						
Taxation	983	999	1 000	956	919	876
Sales of goods and services	354	361	375	400	345	294
Grants received	3 028	3 057	3 088	2 880	2 840	2 853
Dividend, tax and rate equivalents	577	583	583	377	207	211
Fines and regulatory fees	103	91	91	93	90	98
Interest received	16	14	14	14	20	29
Other receipts	306	368	368	335	327	389
	5 367	**5 471**	**5 519**	**5 055**	**4 748**	**4 750**
Cash Outflows						
Employee entitlements	(2 129)	(2 209)	(2 213)	(2 185)	(2 109)	(2 077)
Superannuation	(397)	(420)	(419)	(362)	(347)	(335)
Supplies and consumables	(1 097)	(1 009)	(953)	(977)	(1 008)	(950)
Grants and subsidies paid	(1 148)	(1 124)	(1 144)	(1 051)	(1 074)	(1 007)
Borrowing costs	(11)	(10)	(11)	(12)	(14)	(14)
Other payments	(200)	(202)	(243)	(227)	(223)	(236)
	(4 982)	**(4 974)**	**(4 983)**	**(4 814)**	**(4 775)**	**(4 619)**
Net Cash Flows From (used in) Operating Activities	**384**	**497**	**536**	**241**	**(27)**	**131**
Cash Flows From Investing Activities						
Net Cash Flows used in Investment in Non-Financial Assets						
One-off Australian Government Capital Funding	0	54	54	94	101	162
Macquarie Point Development Corporation start-up grant	0	0	0	0	(50)	0
Purchases of non-financial assets	(400)	(236)	(277)	(292)	(198)	(371)
Sales of non-financial assets	37	56	56	23	56	52
	(364)	**(125)**	**(167)**	**(175)**	**(91)**	**(157)**

	2014-15 Original Budget	2014-15 Preliminary Outcome	2014-15 Actual	2013-14 Actual	2012-13 Actual	2011-12 Actual
Net Cash Flows used in Investment in Financial Assets for Policy Purposes						
Equity injections	(43)	(44)	(35)	(82)	(72)	(72)
Proceeds on disposal of equity in TOTE Tasmania Pty Ltd	0	0	0	0	0	104
Net advances paid	(21)	(6)	(11)	0	4	1
	(63)	**(50)**	**(46)**	**(82)**	**(68)**	**33**
Net Cash Flows from Investment in Financial Assets for Liquidity Purposes						
Net purchase of investments	1	0	0	(1)	2	(1)
	1	**0**	**0**	**(1)**	**2**	**(1)**
Net Cash Flows (used in) Investing Activities	(427)	(175)	(213)	(257)	(157)	(124)
Cash Flows from (used in) Financing Activities						
Net borrowing	(230)	(348)	(348)	23	230	626
Other financing	0	0	(1)	3	0	(9)
Net Cash Flows from (used in) Financing Activities	**(230)**	**(348)**	**(349)**	**26**	**230**	**617**
Net Increase (Decrease) in Cash Held	**(272)**	**(25)**	**(26)**	**10**	**46**	**624**
Cash at the Beginning of the Year	**1 312**	**1 309**	**1 308**	**1 298**	**1 252**	**628**
Cash at the End of the Year	**1 041**	**1 283**	**1 282**	**1 308**	**1 298**	**1 252**
KEY FISCAL AGGREGATES						
Net Cash from Operating Activities	**385**	**551**	**536**	**241**	**(27)**	**131**
***plus* Net Cash from Investments in Non-Financial Assets**	**(364)**	**(179)**	**(167)**	**(175)**	**(91)**	**(157)**
CASH SURPLUS/ (DEFICIT)	**21**	**372**	**368**	**66**	**(118)**	**(26)**

Total State Statement of Comprehensive Income

	2014-15	2013-14	2012-13	2011-12
	$m	**$m**	**$m**	**$m**
Revenue				
Grants	3 085	2 882	2 836	2 865
Taxation	970	902	867	832
Sales of goods and services	3 428	4 142	4 145	3 568
Fines and regulatory fees	91	89	84	89
Interest income	159	173	184	232
Dividend, tax and rate equivalent income	40	30	44	35
Other revenue	176	176	170	153
Total Revenue	**7 950**	**8 394**	**8 330**	**7 774**
Expenditure				
Employee expenses	2 612	2 607	2 547	2 529
Superannuation contributions	349	330	365	323
Superannuation liability expenses	296	281	200	272
Depreciation	560	576	614	591
Supplies, consumables and Other expenses	2 989	3 479	3 545	3 007
Borrowing costs	226	250	282	341
Grant and subsidy expenses	1 033	903	908	887
Total Expenditure	**8 065**	**8 426**	**8 461**	**7 950**
Underlying Net Operating Balance before:	**(115)**	**(32)**	**(131)**	**(176)**
One-off Australian Government Funding	54	94	101	162
Net Revenue from discontinued operations	0	0	0	15
Net Operating Balance	**(60)**	**63**	**(29)**	**1**
***Plus* Other economic flows - Included in Operating Result**				
Gain (loss) on sale of non-financial assets	(8)	(5)	(5)	(18)
Movements in Superannuation liability	(426)	(391)	1 101	(1 988)
Gain on sale of TOTE Tasmania Pty Ltd	0	0	0	89
Other gains (losses)	(166)	(550)	(367)	(451)
Other Economic Flows - Net	**(601)**	**(945)**	**729**	**(2 368)**
Operating Result	**(661)**	**(883)**	**700**	**(2 367)**
***Plus* Other Economic Flows - Other Movements in Equity**				
Revaluations of non-financial assets	(155)	104	32	860
Other Non-Owner Movements In Equity	100	(1 683)	(7)	81
Total Other Equity Movements	**(55)**	**(1 579)**	**25**	**941**
Comprehensive Result	**(716)**	**(2 462)**	**725**	**(1 426)**
KEY FISCAL AGGREGATES				
Net Operating Balance	**(60)**	**63**	**(29)**	**1**
***Less* Net Acquisition of Non-Financial Assets**				
Purchase of non financial assets	670	855	821	1 040
Less Sale of non financial assets	64	32	72	129
Less Depreciation	560	576	614	591
Net acquisition of non-financial assets	**45**	**248**	**135**	**320**
FISCAL BALANCE	**(105)**	**(185)**	**(164)**	**(319)**

Total State Statement of Financial Position

	2015	2014	2013	2012
	$m	$m	$m	$m
Assets				
Financial Assets				
Cash and deposits [a]	522	512	234	244
Investments [b] [1]	4 590	5 027	4 153	4 199
Equity investments [2]	122	118	185	132
Receivables	828	830	881	942
Other financial assets [3]	870	840	739	1 081
Total Financial Assets [c]	**6 932**	**7 327**	**6 192**	**6 598**
Non-financial Assets				
Land and buildings	5 984	6 151	6 517	6 373
Infrastructure	11 676	11 793	13 885	14 220
Plant and equipment	495	494	450	430
Heritage and cultural assets	488	466	461	450
Biological assets	153	86	105	148
Investment property	17	26	26	27
Goodwill	19	19	19	51
Intangible assets	194	123	109	109
Assets held for sale	18	25	24	142
Other	93	155	141	158
Total Non-Financial Assets	**19 137**	**19 338**	**21 737**	**22 108**
Total Assets	**26 069**	**26 665**	**27 929**	**28 706**
Liabilities				
Borrowings [d]	5 526	5 949	5 360	5 644
Superannuation	7 925	7 358	6 786	7 748
Employee entitlements	690	670	660	635
Payables	421	441	417	501
Other liabilities	2 893	2 917	2 914	3 112
Total Liabilities [e]	**17 455**	**17 335**	**16 137**	**17 640**
Net Assets	**8 614**	**9 330**	**11 792**	**11 066**
Equity				
Accumulated surpluses	3 346	3 915	6 525	5 830
Asset revaluation reserves	5 225	5 380	5 276	5 260
Other reserves	43	35	(9)	(24)
Total Equity	**8 614**	**9 330**	**11 792**	**11 066**
Net Worth	**8 614**	**9 330**	**11 792**	**11 066**
Net Financial Worth [(c-e)]	**(10 523)**	**(10 008)**	**(9 945)**	**(11 042)**
Net Financial Liabilities [(e-c)]	**10 523**	**10 008**	**9 945**	**11 042**
Net Debt [(d-a-b)]	**415**	**410**	**973**	**1 201**

1 - Majority of Investments represented Tascorp loan advances and securities.

2 - Equity investments primarily related to MAIB and Hydro investments.

3 - Other financial assets included Basslink related financial assets.

Total State Statement of Cash Flows

	2014-15	2013-14	2012-13	2011-12
	$m	$m	$m	$m
Cash Flows from Operating Activities				
Cash Inflows				
Taxation	967	908	861	823
Sales of goods and services	3 560	4 254	4 075	3 486
Grants received	3 091	2 880	2 839	2 859
Dividend, tax and rate equivalents	40	30	47	34
Fines and regulatory fees	88	89	86	98
Interest received	219	177	172	229
Other receipts	496	498	540	635
	8 460	**8 836**	**8 620**	**8 164**
Cash Outflows				
Employee entitlements	(2 423)	(2 491)	(2 468)	(2 443)
Superannuation	(474)	(422)	(416)	(411)
Supplies and consumables	(3 321)	(3 627)	(3 478)	(3 001)
Grants and subsidies paid	(1027)	(910)	(914)	(882)
Borrowing costs	(268)	(282)	(313)	(446)
Other payments	(367)	(389)	(410)	(419)
	(7 880)	**(8 121)**	**(7 999)**	**(7 602)**
Net Cash Flows from Operating Activities	**580**	**715**	**621**	**562**
Cash Flows from Investing Activities				
Net Cash Flows from Investment in Non-Financial Assets				
One-off Australian Government Funding	54	94	101	162
Purchases of non-financial assets	(670)	(855)	(821)	(1 040)
Sales of non-financial assets	64	32	72	128
	(552)	**(729)**	**(648)**	**(750)**
Net Cash Flows from Investment in Financial Assets for Policy Purposes				
Equity injections	1	(5)	0	0
Proceeds on disposal of equity in TOTE	0	0	0	104
Net advances paid	(284)	88	4	1
	(283)	**83**	**4**	**105**
Net Cash Flows from Investment in Financial Assets for Liquidity Purposes				
Net (purchase) realisation of investments	847	(394)	(183)	623
	847	**(394)**	**(183)**	**623**
Net Cash Flows From (used in) Investing Activities	**12**	**(1 040)**	**(827)**	**(22)**
Cash Flows from (used in) Financing Activities				
Net borrowing	(512)	608	(238)	(956)
Other financing	(1)	3	(21)	(29)
Net Cash flows from (used in) financing activities	**(513)**	**611**	**(259)**	**(985)**
Net Increase (decrease) in Cash Held	**79**	**286**	**(465)**	**(445)**
Cash at the Beginning of the Year	**1 617**	**1 331**	**1 796**	**2 241**
Cash at the End of the Year	**1 696**	**1 617**	**1 331**	**1 796**

	2014-15	2013-14	2012-13	2011-12
KEY FISCAL AGGREGATES				
Net Cash from Operating Activities	634	810	721	724
plus Distributions Paid as Dividends	0	0	(21)	(20)
plus Net Cash from Investments in Non-Financial Assets	(606)	(823)	(748)	(912)
CASH SURPLUS/(DEFICIT)	28	(14)	(48)	(208)

AUDIT SUMMARY - GOVERNMENT DEPARTMENTS

SNAPSHOT

- Each Department submitted its financial statements within the statutory deadline.
- All audits were completed satisfactorily and on time with unqualified audit reports issued in all instances.
- Government Departments incurred a combined Underlying Deficit of $139.003m but a combined Comprehensive Surplus of $304.716m due principally to Administrative restructure income of $465.734m recorded within the Department of State Growth. This income eliminates when preparing the Treasurer's Annual Financial Report.
- The main contributors to the Underlying deficit of $139.003m were by the Departments of:
    - State Growth, $81.757m
    - Education, $27.062m
    - Primary Industries, Parks, Water and Environment, $12.586m.
- Deficits of this magnitude should not be regarded as unusual or alarming because Departments are not funded for depreciation. To illustrate this, in State Growth's case, depreciation for the year totalled $85.731m.
- Department of Health and Human Services (DHHS) recorded a Net Deficit of $102.820m primarily due to the final transfer of properties in Stage 2 of the Better Housing Futures (BHF) Program within Housing Tasmania, which involved the transfer of 1 196 properties in the north of the State, worth $132.921m. Over the three years ended 30 June 2015, 3 917 properties valued at $478.006m were transferred under this initiative.
- The eight departments had combined Net Assets to the value of $9.175bn.
- Disclosure of remuneration earned by key management personnel was introduced this year. We supported the transitional arrangements agreed to and applaud these new disclosures but recommended further refinement of the disclosure requirements.
- As part of Government's cost savings strategies, 811 employees (not FTE) took up the Workforce Renewal Incentive Program (WRIP), Targeted Negotiated Voluntary Redundancy (TNVR) packages or other separation arrangements costing $31.091m.
- Departments employed an average of 14 440 full time equivalent positions for the 2014-15 financial year, with average staff costs of $0.097m. This was 597 fewer FTEs which, at an average cost of $0.097m per FTE suggest savings per annum of $58.006m.
- Education undertook a revaluation of land and building during 2014-15, with a total net decrement of $113.228m recorded. Audit work on this revaluation identified the need for valuations of departmental and other government land and buildings to be valued on a more consistent basis.
- During Education's revaluation, land and building assets reported at $15.179m were identified as still being recorded on its asset register but had previously been disposed of requiring correction this year.
- At 30 June 2015, DHHS recognised capital work in progress for buildings totalling $117.483m of which, $51.709m related to the Royal Hobart Hospital (RHH) Project. To date, DHHS capitalised approximately $141.760m of capital works as part of this project and it estimated that the spend to-date represents 22% of the project.

- As a result of the *Forest Management Act 2013*, the *Tasmanian Forest Agreement Act 2013* and the *Forestry (Rebuilding the Forest Industry) Act 2014*, net land and associated assets transferred from Forestry Tasmania to Department of Primary Industries, Parks, Water and Environment (DPIPWE) in 2013-14 and 2014-15 totalled $280.648m and represented 581 357 hectares of land.
- However, roads assets related to this land have still to be brought to account. DPIPWE anticipates that it will take several years for all of these roads to be identified and valued accurately.
- During the year, five significant assets; Parliament Square Davey Street, former Hayes Prison Farm, Jane Franklin Hall, former Claremont Primary School and the former Mt Faulkner Primary School, were sold by Treasury through the Crown Lands Administration Fund.
- A sales contract with a property group was negotiated for the redevelopment of Parliament Square, which included conditions to ensure Government's long term interest in the site is protected. The property was sold for $8.115m, equal to its carrying value in Treasury's financial records. Development of the site is expected to take up to four years.
- Although all audits were completed satisfactorily, a number of issues were identified for reporting to management. In this regard we noted that, in general, the number of audit findings across Departments reduced. However, audit findings dealing with accounting controls in payroll and expenditure systems, and around cash and bank reconciliations, remain common. In this Chapter, we provide details of moderate and high risk audit findings.
- Education provided grants to the private school sector totalling $273.147m this year.

This Chapter includes the following recommendations:

3. That Treasury, in the Model Financial Statements:
    - revisit its definition of key management personnel (KMP) with the objective of ensuring relevant decision makers are included and preventing situations where agencies, other than for small agencies, contest that there is only one or a small number of KMP
    - prohibit exclusions for reasons of 'so-called' confidentiality clauses in WRIPs or redundancy payments
    - broaden the requirements to all State entities (other than government businesses to whom these requirements already apply).
4. That, in all cases where departments or other state entities (other than government businesses, the University, local government or the Retirement Benefit Fund) control land and buildings, valuations be carried out by, or overseen by, the Valuer-General. This is not to say that the private sector should be excluded. The intention behind our recommendation is that publicly owned land and buildings be revaluated in a consistent manner.
5. We recommend that Government consider adoption of two ratios – the Asset Sustainability Ratio and the Asset Investment Ratio and set targets for each.

INTRODUCTION

Government Departments are established by order of the Governor under the provisions of the *State Service Act 2000* (SSA). Ministerial responsibility for Departments is assigned under the provisions of the *Administrative Arrangements Act 1990.*

This Chapter provides summarised financial information for all Departments as at 30 June 2015 being the Departments of:

- Education (DoE)
- Health and Human Services (DHHS)
- Justice (DoJ)
- Police and Emergency Management (DPEM)
- Premier and Cabinet (DPAC)
- Primary Industries, Parks, Water and Environment (DPIPWE)
- State Growth
- Treasury and Finance (Treasury), including Finance-General.

Unless otherwise stated, these entities are collectively referred to as Departments.

As a result of the *State Service (Restructuring) Order (no.2) 2014* (the Order), effective 1 July 2014, the name of the Department known as the Department of Infrastructure, Energy and Resources (DIER) changed to State Growth. The Department of Economic Development, Tourism and the Arts (DEDTA) was amalgamated with SG.

In addition, the Order required that:

- part of DoE known as Skills Tasmania was amalgamated with State Growth
- part of State Growth known as Tourism Tasmania was transferred to the State authority established as Tourism Tasmania
- Part of State Growth known as Sport and Recreation Tasmania was amalgamated with DPAC.

The financial results discussed are derived from the audited financial statements of each department. The reporting framework for departments is prescribed through Treasurer's Instructions issued under the *Financial Management and Audit Act 1990* (FMAA) and the requirements of Australian Accounting Standards. Full (unabridged) financial statements are required to be published as part of each department's annual report which must be tabled in Parliament by 31 October following the end of the financial year; at which time they become public documents.

Departments are required to present financial statements in accordance with the Model Departmental Financial Statements developed by the Department of Treasury and Finance, which requires the inclusion of original budget information, on the face of the statements, along with explanations for variations against budget provided in the notes. Budget information must also be disclosed under AASB 1055 *Budgetary Reporting.* While the budget information reported is not subject to audit, we have ensured that the information reported agrees to the original Budget Papers. In the case of the Statement of Financial Position explanations also include variations between the current and prior year.

In all cases our audits concluded that departments completed their financial statements in accordance with Australian Accounting Standards. However, in our analysis of each department's financial performance we have, if necessary, reallocated certain revenue or expenditure items to better assist readers to interpret financial performance.

KEY AREAS OF AUDIT ATTENTION

For the Departments under review, some of the key areas of focus were:

<table>
<tr><th>Description of area</th><th>Audit approach</th></tr>
<tr><td>
Education
DoE's Property, plant and equipment portfolio exceeded $1 billion. DoE recorded its land and buildings at fair value, with a full revaluation occurring in 2014-15, conducted by the Valuer-General.
Key potential risks identified were:

Valuation of land and buildings, including the use of a utility factor for school buildings.
Timely transfer from capital works in progress.
Accuracy of depreciation charges.
Reconciliation of the fixed asset register to the general ledger.

</td><td>
As part of audit procedures:

All movements and closing balances were reconciled.
A detailed analytical review over depreciation was calculated.
Year-end capital works in progress were verified for correct treatment.
The valuation methodology for fair value was confirmed, ensuring it was applied correctly and in accordance with AASB13 Fair Value Measurement and internal policies.
Discussions were held with the Valuer-General to assess the reasonableness of the key underlying assumptions to the valuation.

Testing of the valuation was completed satisfactorily, with no issues identified.
</td></tr>
<tr><td>
Health and Human Services
DHHS consolidated the activities and assets of Housing Tasmania and hence included all of its rental dwellings and vacant land. These assets are measured at fair value, based on information provided by the Valuer-General, including indices in years between revaluations. The size of the housing portfolio increases the risk that the financial statements may be materially misstated.

The Department budgeted to undertake significant capital works in 2014-15, with $106.295m budgeted to be spent from the Capital Investment Program, and $37.992m from the Special Capital Investment Fund (SCIF). The Department did not reach this level of expenditure however, with some significant delays in the RHH project and other projects.
</td><td>
We agreed land and buildings to the Valuer-General's advice and ensured that all properties were recognised.
We also verified significant additions and disposals in the year to supporting documentation.
Testing identified that there were no significant issues with the fair values determined and the valuations fairly presented.

Testing identified that work in progress and asset additions were accounted for accurately. Completed assets transferred to the Tasmanian Health Organisations (THOs) were also verified.
Asset reconciliations were also completed with no issued identified.
</td></tr>
</table>

Description of area	Audit approach
Justice	
DoJ administered fees and fines which were collected on behalf of other Government and local government instrumentalities through the FIND system. There is a risk that revenue may not be correctly recorded or receipted and that receivables may be overstated.	As a result of these risks, substantive procedures around debtors' balances were undertaken, including a review of interfaces and reconciliations between the FIND system and the general ledger. Testing was completed satisfactorily, as was the verification of the provision for impairment and debtor write-offs.
Primary Industries, Parks, Water and Environment	
The Department administered a complex and large asset register. Over the past few years, the Department has been reconciling asset sub-systems to the asset register, with the process still in progress. As a result, as in previous years, the Department identified assets which were not previously recognised. DPIPWE also undertook asset revaluations each year, either via indexation or a full revaluation process. Hence, given the level of asset valuation and identification, this increases the risk of material misstatement of the financial statements.	To review these processes, we confirmed that the accounting treatment of newly identified assets complied with accounting standards, in particular AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Calculations and underlying assumptions supporting fair values of assets, including the verification of indices, were confirmed, with other significant movements in assets during the year agreed to supporting documentation. The reconciliation between the asset register and the general ledger was also undertaken, with no issues identified.
State Growth	
Due to the Departmental change and restructuring noted previously, State Growth needed to effectively integrate people, systems, processes and accounting policies to fully deliver the benefits of the new Department. State Growth continued to operate two separate primary general ledgers in 2014-15, which added to the complexity of the audit. The existing accounting systems for each division of the Department remain, with a move to implement new systems in 2015-16. Furthermore, the creation of State Growth resulted in selected assets, liabilities, rights and obligations being transferred to it on 1 July 2014 from DEDTA and Skills Tasmania.	The changes outlined were monitored, with the impact on State Growth's processes and systems documented as part of our update of systems documentation and walkthrough testing. Due to the use of the two accounting systems, balances and transactions in both systems were audited and the consolidation process at year end was confirmed, ensuring that final balances were accurately recorded and any inter-entity transactions were appropriately eliminated. Finally, it was confirmed through the financial statement verification process that State Growth accurately recorded the assets and liabilities transferred to it on 1 July 2014 and complied with the requirements outlined in the Order.

Description of area	Audit approach
State Growth undertook a number of significant capital expenditure programs to upgrade and maintain its road network. With large capital expenditure and asset changeovers, the risk of misstatement of assets increases.	To address this risk, the following tests were undertaken: • performed detailed testing of asset additions and asset revaluations during the year • performed detailed testing of capital works in progress • reviewed commitments for capital expenditure at 30 June 2015 • reviewed State Growth's impairment assessments. All testing was completed satisfactorily, with no issues noted.
Indexation of roads and bridges was performed by the Asset Management Branch of State Growth for fair value of those assets at 30 June 2015. A full revaluation of roads was performed in 2012-13. A formal valuation of bridges is due to be performed in 2016-17. Indexation of land under roads, within road reserves and rail corridor land, was performed by the former DIER using applicable average rateable values per hectare or square meter provided by the Valuer-General for fair value of those assets as at 30 June 2014. State Growth changed their accounting policy to apply these rates every five years to annual avoid volatility of results. The different types of infrastructure assets, combined with the different valuation approaches, increase the risk of misstatement of asset values and related depreciation charges.	Audit tasks undertaken included: • reviewed the indices used to record the various infrastructure assets, to ensure they were appropriate for the purpose • reviewed the calculations of indexed values and the accounting treatment of movements in those values • ensured that key judgements and assumptions were adequately disclosed • evaluated the Valuer-General's applicable average rateable values for land under roads to identify if there were any material adjustments that were not accounted for. Testing was completed satisfactorily, with no issues identified.

Description of area	Audit approach
Treasury and Finance Treasury administers the Government's unfunded defined benefit superannuation liability. The liability is determined by the State Actuary and its calculation is subject to numerous assumptions. Changes in market conditions, discount rate and other key assumptions all impact on the value of the unfunded superannuation. Treasury also manages the Tasmanian Risk Management Fund. The liability for outstanding insurance claims is determined by an actuary. The estimation of outstanding claims involves judgment and is subject to complex calculations.	To confirm these balances, inputs provided to the actuary were verified as accurate and the work of the actuary was assessed, including reasonableness of the assumptions used. Due to the specialised nature of actuarial valuations, an external specialist was engaged to assist in the review. This process occurs every three years, providing assurance that the methodology and assumptions used are appropriate. In addition to verification of the superannuation liability, the review also verified the disclosures in the notes to the financial statements for compliance with accounting standards, specifically, AASB 119 *Employee Benefits*. Audit work was completed satisfactorily, with no issues outstanding.
Across all Departments – Key Management Personnel remuneration disclosures As noted later on this page, revised Model Financial Statements required KMP disclosures for the first time.	Our audit procedures aimed at ensuring consistent application of how key management was determined by Departments and then ensuring disclosures complied with these requirements.

AUDITS OF THE 2014-15 STATEMENTS

Each Department submitted their financial statements within the statutory deadline. All audits were completed satisfactorily and on time with unqualified audit reports issued in all instances.

ACROSS SECTOR KEY DEVELOPMENTS

Key Management Personnel Disclosures

As part of the Treasurer's Model Accounts, Departments were instructed to complete key management personnel disclosures for the first time this year. Treasury's objectives included the need for greater transparency and accountability.

Treasury had identified that the disclosure of key management personnel remuneration should be in compliance with the requirements of AASB 124 *Related Party Disclosures*, and with Treasurer's Instruction 206, and would assist in the Government's policy initiative to increase accountability and to improve the transparency of financial management activities. However, concerns were raised by some entities regarding privacy provisions in the *Personal Information Protection Act 2004*. To address this, an exemption was provided by the Attorney-General. The exemption included not only Departments, but all entities listed in Schedules 1 and 2 of the FMAA.

A number of modifications were made to the planned disclosures. As a transitional measure, disclosure requirements for termination payments, which were subject to binding confidentiality agreements, were allowed to be disclosed in the aggregate, without disclosing individual names, titles or other specific information. A further transitional measure, for the current year only, did not require disclosure of 2013-14 comparative information.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of each department, directly or indirectly.

Types of remuneration to be disclosed within the notes for the financial statements included short-term benefits, such as salary, motor vehicle and other non-monetary benefits, and long-term benefits such as long service leave and superannuation obligations.

Completion of this note disclosure is in compliance with the requirements of AASB 124 and is similar to the disclosures required to be completed by Government Business.

Audit work concluded that Departments complied with the new requirements. We supported the transitional arrangements agreed to and applaud these new disclosures which should now be fine-tuned as noted in our recommendation below.

Recommendation 3

That Treasury, in the Model Financial Statements:

- revisit its definition of key management personnel (KMP) with the objective of ensuring relevant decision makers are included and preventing situations where agencies, other than for small agencies, contest that there is only one or a small number of KMP
- prohibit exclusions for reasons of 'so-called' confidentiality clauses in WRIPs or redundancy payments
- broaden the requirements to all State entities (other than government businesses to whom these requirements already apply).

Redundancy and WRIP program

As part of Government's cost savings strategies, a number of Workforce Renewal Incentive Program (WRIP) and Targeted and Negotiated Voluntary Redundancy (TNVR) packages were offered to Departmental staff. The extent of WRIP's and redundancies offered within Departments varied, depending on the level of targeted cost savings.

Audit testing included obtaining redundancy listings from each Department, reviewing them for reasonableness, agreeing samples to supporting information and reconciling figures to the payroll systems and general ledgers. Compliance with the requirements of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* was also reviewed, with no issues identified.

Discussion in this Chapter provides details of the WRIP and TNVR packages offered and accepted at selected departments. For those departments not discussed, being Treasury, DPAC and DPEM, separations totalled 37 employees, which included WRIPs and TNVRs.

Table No. 5 summarises separations in 2014-15 and amounts paid.

Table 5: Separations

Department	WRIP	TNVR	Transfers	Total Separations	Amount $'000s
Education	405	0	15	420	8 890
Health and Human Services	19	105	4	128	8 188
Justice	25	29	7	61	4 027
Primary Industries, Parks, Water and Environment	27	39	7	73	2 543
State Growth	13	70	9	92	5 086
Police and Emergency Management	0	0	0	0	0
Premier and Cabinet	5	27	0	32	2 038
Treasury and Finance	4	1	0	5	319
TOTAL	**498**	**271**	**42**	**811**	**31 091**

OTHER KEY DEVELOPMENTS AT A DEPARTMENTAL LEVEL

During our audit of departments, the following entity specific key developments were also noted:

Education

Student First reform

The State and Australian Governments are delivering on its commitment to Students First (previously referred to as 'Gonski') funding and education reforms, providing the full $134m of additional State funding over the scheduled six years ($98m for the government sector and $36m for the non-government sector) ending in 2020. This reform is aimed at providing additional State and Australian Government funding levels and is aimed at providing funding for schools on the basis of need; enable workforce redevelopment; support an improved and more consistent level of information technology access and platforms across schools; and provide funding for program areas that continue and extend State and Australian Government reforms around quality teaching, quality learning and empowered leadership.

DoE commenced this reform by applying an additional $12.9m into its Fairer Funding Model component of the School Resource Package and was increased by a further 5% for the 2015 school year.

It is relevant to note that part of the Australian Government increase offsets funding that was previously provided through National Partnership Program funding.

Land and buildings valuation

DoE undertook a valuation of land and building during 2014-15, with a total net decrement of $113.228m recorded. The valuations were completed by the Office of the Valuer-General and resulted in:

- a signification decrease of $169.395m in the value of land of which $31.299m was recorded as a loss on revaluation with the remainder extinguishing the balance in the Asset Revaluation Reserve
- an increase of $56.167m in the value of buildings which was taken to the Asset Revaluation Reserve.

The majority of DoEs building assets were valued based on depreciated replacement cost. With specialised School Buildings a utility factor was applied to classroom assets to reflect the service capacity of the asset if the asset was required to be replaced. The utility was calculated by considering the current enrolment compared to the total capacity of the building. The value of these buildings would have increased by $204.125m due to an increase in construction costs, however the impact of the utility factor discussed above resulted in the value of school buildings only increasing by $56.167m.

A difficulty that we, the Valuer-General and management, experienced when testing these valuations was comparing the approach adopted with that applied by a different valuer when school land and buildings were last revalued. This proved difficult due to lack of information. We tested the current revaluations and were satisfied that the work done by the Valuer-General was persuasive and amounts recorded were fairly stated.

However, this work identified the need for valuations of departmental and other government land and buildings to be valued on a more consistent basis and that this could be achieved by involving the Valuer-General in all such valuations.

Recommendation 4

In all cases where departments or other state entities (other than government businesses, the University, local government or the Retirement Benefit Fund) control land and buildings, valuations be carried out by, or overseen by, the Valuer-General. This is not to say that the private sector should be excluded. The intention behind our recommendation is that publicly owned land and buildings be revaluated in a consistent manner.

Prior year error adjustment

During the 2014-15 revaluation a number of land and building assets were identified as still being recorded on DoE's asset register that had previously been disposed of. These assets were disposed of over a number of years ago, dating back to 2005, and had a total written down value of $15.179m. The impact of this error was corrected by DoE by amending comparative figures in compliance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.*

Savings strategies implemented

DoE adopted the following saving strategies this year:

- reduced teaching staff numbers
- merged Learning Services North and Learning Services North West into a single service
- moved IT Support in schools into a more streamlined model
- restructured the Corporate Services Division.

WRIP payments for 2014-15 totalled $8.890m, with 405 staff members receiving such payments during the 2014-15 year. No TNVR packages were offered during the year, however, a small number of transfers to other agencies also occurred, as reflected in the previous table.

Health and Human Services

Capital expenditure

DHHS budgeted to undertake significant capital works in 2014-15, with $106.295m budgeted to be spent from the Capital Investment Program, and $37.992m from the Special Capital Investment Fund. Major items budgeted included:

- RHH Women's & Children's Project, $30.864m
- State-wide Cancer Services, $23.463m
- SCIF - Royal Hobart Hospital, $19.136m
- SCIF - Glenorchy - Tier Three Community Health Services Facility, $5.000m
- Housing New Projects (Housing related - not DHHS), $21.013m
- Church St Youth Accommodation (Housing related - not DHHS), $7.300m.

However, at the end of June 2015, it recorded capital expenditure of only $69.820m. While each of the projects above were still in progress, delays in all projects, significant at the Royal Hobart Hospital precinct, reduced the actual spend. At 30 June 2015, DHHS recognised capital work in progress for buildings totalling $117.483m of which, $51.709m related to the RHH project.
To 30 June 2015, DHHS has capitalised approximately $141.760m of capital works as part of the RHH project, hence DHHS estimate that total spend represents 22% of the project.

Redundancy and WRIP program

A number of WRIP and TNVR packages were offered to DHHS staff. Nineteen WRIPs and 105 TNVRs were taken up to June 2015, in addition to a small number of staff transfers. Separation payments for these reductions totalled $8.187m.

Only a small number of separations occurred at Ambulance Tasmania and Housing Tasmania.

Corporate Restructure

As part of the budget savings strategies initiated by DHHS, a consolidation of corporate staff across all of its activities was in progress at 30 June 2015, which also included Housing Tasmania staff. As a result of this consolidation, we noted a significant reduction in staff numbers, which was verified in conjunction with the redundancy and WRIP program discussed above.

Justice

Major developments this year included:

- Continuation of the Prison Infrastructure and Redevelopment Program (PIRP). Prison buildings and structures increased by $12.835m resulting in capital Work in Progress decreasing by $6.650m to $7.038m. This project was essentially complete at year end.
- In August 2012 the Hayes Prison Farm was placed on the market for sale and classified as an Asset held for sale. At the end of the prior year, the asset was valued at $3.300m, requiring a revaluation write down of $0.405m. Hayes Prison Farm was sold during the current year for net proceeds of $2.206m, with $2.085m collected in the Crown Land Administration Fund (CLAF) and returned to DoJ as an additional Appropriation, with the balance used to offset sale costs. A loss on sale of $1.195m was recorded by DOJ, which included the Hayes Prison Farm as well as other asset sales.

Redundancy and WRIP program

A number of WRIP and TNVR packages were offered to Justice staff. Twenty-five WRIPs and 29 TNVRs were taken up to June 2015, in addition to a small number of staff transfers, that were specific to managing positions within the State Service program.. Payments relating to these separations totalled $4.026m.

Primary Industries, Parks, Water and Environment

Forestry Land Transfer

As a result of the *Forest Management Act 2013* and the *Tasmanian Forest Agreement Act 2013*, certain Forestry Tasmania assets and liabilities were transferred to the DPIPWE in 2013-14 as follows:

- land assets valued at $120.238m
- assets on transferred land valued at $29.309m.

However, roads assets related to this land were not brought to account. Parks and Wildlife Services (PWS) staff commenced the identification and valuation of these roads in accordance with DPIPWE's valuation methodology. This methodology included identification of road assets on a sample basis, as DPIPWE expects it will take several years for all of these roads to be identified and valued accurately. We accepted this approach and tested valuations with no issues raised.

Further parcels of land totalling 359 802 hectares were transferred to DPIPWE in 2014-15 as a result of the *Forestry (Rebuilding the Forest Industry) Act 2014*, which commenced on 22 October 2014. This land is now managed by Crown Land Services within the PWS, and was brought to account as Contributed Equity of $131.101m during 2014-15.

Audit testing of the land transfer was completed satisfactorily. However, we noted that Buildings and Infrastructure assets (walking tracks, roads and other infrastructure), now under DPIPWE's management were not captured, valued and recognised in 2014-15. As for road assets, these assets will not be valued until 2015-16 or later. Based on an inability to reliably value these assets by 30 June 2015, we accepted the delayed recognition of these assets.

Significant Asset Sales through the Crown Land Administration Fund (CLAF) Program

During the year, five significant assets; Parliament Square Davey Street, former Hayes Prison Farm, Jane Franklin Hall, former Claremont Primary School and the former Mt Faulkner Primary School, were sold by Treasury through the CLAF program. As these assets were not previously DPIPWE's assets, they were recorded as revenue within its Statement of Comprehensive Income, expensed as a transfer to Administered Funds and transferred to the Consolidated Fund as an expense in the Schedule of Administered Income and Expenses.

We reviewed and verified the accounting entries completed and noted that appropriate disclosures were made in both DPIPWE's Controlled and Administered Financial Statements.

Redundancy and WRIP program

A number of WRIP and TNVR packages were offered to DPIPWE staff. At 30 June 2015, 27 WRIPs and 39 TNVRs were taken up, in addition to a small number of staff transfers, that were specific to managing positions within the State Service program. Total separations payments for these reductions amounted to $2.543m.

Treasury and Finance

Parliament Square

A sales contract with a property group was negotiated for the redevelopment of Parliament Square, which included conditions to ensure Government's long term interest in the site is protected. The property was sold for $8.115m, equal to its carrying value in Treasury's financial records. Development of the site is expected to take up to four years.

State Growth

Department Restructure

As mentioned previously, this was the first year of State Growth's operations. A number of specific issues relating to the restructure were detailed in the 'key areas of audit attention' section earlier in this Chapter.

Redundancy and WRIP program

A number of WRIP and TNVR packages were offered to staff, with 13 WRIPs and 70 TNVRs being accepted. A small number of transfers to other agencies also occurred, bringing the total separations through these programs at 92 employees. These cost of these separations amounted to $5.086m.

Police and Emergency Management, Treasury and Premier and Cabinet

There were no significant key developments noted in the conduct of these audits.

Details of WRIPS, TNVRs and resignations and associated payments are included in the table earlier in this Chapter.

KEY FINDINGS

Although all audits were completed satisfactorily, a number of issues were identified for reporting to management. In this regard we noted that, in general, the number of audit findings across Departments reduced. However, audit findings dealing with accounting controls in payroll and expenditure systems, and around cash and bank reconciliations, remain common. In this part of this Chapter, we provide details of moderate and high risk audit findings.

Low risk items are usually dealt with at management level and followed up during the course of the next audit, as will each of the issues noted below. All of these matters were discussed with management and reported to respective Secretaries and Risk Management and Audit Committees (or equivalent) that are addressing or have addressed these matters.

Education

There were two high risk findings. These related to explanations for variances in bank reconciliations and control weaknesses within specific schools. Briefly:

- When testing bank reconciliations we noted a number of unexplained variances. This issue was reported in the prior year. However, we acknowledged significant improvement in reducing a number of unmatched items in bank reconciliations. At 30 June 2015, an un-reconciled amount remained in the Expenditure Account, with a discrepancy of $0.143m.
- A number of controls weaknesses were identified in a rotational visit to a high school. Management acknowledged matters raised and are in the process of addressing concerns noted.

In addition, several other audit findings regarded as moderate risk were reported as follows:

- lack of an overall risk management plan
- surplus online banking user accounts, increasing the potential for fraudulent access to DoE's bank accounts
- lack of segregation of duties around procurement of goods and services
- excess employee leave balances
- purchasing control authorisation weaknesses were identified when testing a sample of expenditure payments
- controls weaknesses identified in expenditure and other processing systems during a primary school audit visit
- concerns regarding the effectiveness of general computer controls, such as password controls, provisioning and deletion of users and a lack of documented security policies
- weakness in DoE's procedures for processing disposals within its assets register.

Health and Human Services

Matters came to our attention during our audit of the Shared Services[1] section of DHHS and in the testing of computer information system general and application controls. These matters included:

- concerns over the lack of stringent controls around provisioning and deleting of non-administration users
- weaknesses noted in access controls for deletion of administration users in the Patient Administration System (iPM)
- delays in reconciling unmatched transactions in the bank reconciliation of the Collections Account, however audit acknowledges that significant improvements had been made since the issue was first raised
- inconsistent use of the fortnightly payroll checklist
- issues around timesheet testing for THOs were noted, where sometimes timesheets were either not accurate, clear, or submitted on a timely basis
- a number of control issues identified in the testing of termination payments, including the lack of independent review of termination cover sheets in a small number of cases and one example of a delay noted in the processing of an employee's termination payment.

These items have either been addressed, are in the process of being addressed or compensating controls were identified to address the risks.

A number of matters raised in the prior year were also followed up, with some still in the process of being addressed.

Justice

Two moderate risk audit findings were raised during the audit which were:

- Trust Account T404 Prisoner Earnings Trust Account had not been reconciled for a considerable period of time
- for the sample selected, termination checklists used for the processing of termination payments were not being authorised and reviewed in all cases.

Primary Industries, Parks, Water and Environment

New Point of Sale (POS) System within Parks Shops

A POS system at each of the PWS sites was introduced in October/November 2014. We completed a review of the new system, including documentation, identification of key controls, testing of key controls and completion of substantive tests. Testing was completed satisfactorily, however, an issue relating to the timeliness of banking at remote sites was noted in our interim management letter.

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1 The Shared Services section provides various 'back-office' functions to DHHS and to the three Tasmanian Health Organisations. As a result, our findings related to Shared Services were also provided to management of the THOs and to the THS.

During our rotational testing of controls and operations at National Parks Shop sites, it was found that one site was holding excessive amounts of cash on site, undertaking banking depending on the balance of cash within the safe, rather than based on a specific timeframe or other such arrangement. As a result, the shop was exposed to a risk for potential fraud or loss and was not complying with Treasurer's Instructions. DPIPWE noted this finding and advised that all current cash collection arrangements would be reviewed with a view to formalising arrangements with third party collection providers.

State Growth

Un-reconciled variance in the bank reconciliation at 30 June 2015 of the former Department of Economic Development, Tourism and the Arts (DEDTA)

During our review of bank reconciliation at 30 June 2015, we noted an un-reconciled variance of $0.235m. Management acknowledged this and were investigating this variance.

Managing Abt Railway's preparation of financial statements and the audit process

Abt Railway Ministerial Corporation's (Abt Railway) financial reporting obligations are the same as for all other State entities including the need to submit complete financial statements for audit within 45 days of 30 June. To facilitate completion of the financial statements and audit of State Growth, it is essential that Abt Railway meet this timeframe with its audit needing to be completed prior to that of State Growth.

Although financial statements were received by the due date, delays in processing corrections to these statements delayed the completion of the audit by the statutory deadline of 28 September 2015. As a result, the audit opinion was not issued until 30 September 2015. Management of State Growth agreed to address this in 2015-16.

CIS information and testing

Testing of Computer Information Systems (CIS) could not be completed due to our information requirements not being provided or information provided to us being insufficient. As a result, audit risks were addressed by undertaking higher levels of manual testing. However, this is an inefficient method of auditing, which is time consuming for the auditor and management. This is being addressed.

Loans - audited financial statements

When testing loan advances we noted State Growth gets copies of generally unaudited financial statements when assessing the recoverability of loans. Hence, there is no independent confirmation of the accuracy of information received to make decisions about the recoverability and annual impairment of loans. Where possible, audited financial statements should be obtained to assist in this process.

Creditors cut-off

A review of creditor payments after year end revealed invoices totalling $2.845m which were not correctly accrued at 30 June 2015.

Although these amounts were not material to the final balance, State Growth should ensure that all invoices near year end are examined to ensure they are accounted for in the correct year.

Roads depreciation and assessment of useful lives

When testing depreciation of roads we noted that a number of roads were fully depreciated, but still in use meaning they still have service potential. We recommended that management review the useful lives of roads, including those that have been fully depreciated, on an annual basis to ensure roads are being depreciated over appropriate time periods.

Police and Emergency Management, Treasury and Premier and Cabinet

We identified no audit findings for inclusion in this Chapter.

FINANCIAL ANALYSIS

Financial results in 2014-15

Table 6 summarises the financial results and position of departments (including their consolidated entities) for 2014-15[2]:

Table 6: Financial Results and Position

	Underlying Surplus (Deficit)	Net Surplus (Deficit)	Comprehensive Surplus (Deficit)	2015 Net Assets	2014 Net Assets
	$'000s	**$'000s**	**$'000s**	**$'000s**	**$'000s**
Economic Development	0	0	0	0	493 455
Education	(27 062)	(42 652)	(124 184)	1 346 843	1 472 211
Health and Human Services	(4 928)	(102 820)	(103 221)	1 499 579	1 602 800
Infrastructure, Energy and Resources	0	0	0	0	4 191 788
Justice	1 385	6 471	4 271	137 753	133 482
Police and Emergency Management	(7 746)	(5 972)	(5 972)	142 341	149 091
Premier and Cabinet	(4 869)	(4 867)	(4 867)	27 656	4 082
DPIPWE	(12 586)	52 301	58 139	1 346 475	1 165 862
State Growth	(81 757)	1 956	481 986	4 675 731	0
Treasury and Finance	(1 440)	(1 436)	(1 436)	(2 258)	(822)
Total	**(139 003)**	**(97 019)**	**304 716**	**9 174 120**	**9 211 949**

Underlying Surplus (Deficit)

The Underlying Result noted in the table may differ from the results presented by Departments in their financial statements because we have made changes in an effort to better explain financial performance. For example, in arriving at DoE's Underlying Result, we excluded a loss on sale of Non-financial Assets and impairment resulting in a lower Underlying Deficit in our table. We recorded these transactions in the Net Surplus/(Deficit).

Departments recorded a combined Underlying Deficit of $139.003m during 2014-15, with DoE and State Growth incurring significant deficits. However, when depreciation is taken into account, the overall position is an Underlying Surplus of $55.485m which is consistent with depreciation not being funded.

In DoE's case, the Underlying Deficit of $27.062m, lower than the prior year deficit of $41.122m, was influenced by revenue and expenditure variations from the prior year including:

- a variance in timing of expenditure from the school resource package and external funding within schools. Revenue to schools exceeded expenditure for the financial year by $13.900m. The variance reflected the timing of instalments to schools and expenditure patterns which fluctuate over the course of the calendar year. A better reflection of a school's position is not known until the end of each calendar year

2 *Amounts reported include controlled entities. For example, Health and Human Services includes Housing Tasmania and Ambulance Tasmania.*

- a decrease in Depreciation expense of $3.942m
- an increase in non-capital program funded asset related expenditure of approximately $10.000m generally charged to maintenance costs
- higher loss on the disposal of fixed assets of $6.011m
- higher employee benefits of $17.844m, mainly due to an increase in the value of long service leave liabilities.

State Growth's Underlying Deficit of $81.757m was in line with our expectation because it included depreciation of $85.731m. Depreciation was high almost entirely due to State Growth being responsible for the State's road network.

Grants and Subsidies expenditure is State Growth's most significant expense. Almost half of this expense, $208.605m, relates to Vocational Education Training (VET) delivery, amounting to $102.147m. Supplies and consumables of $92.463m was also a major expense category which included $55.586m for maintenance of the State's road network.

Net Surplus (Deficit)

The main difference between Underlying Deficits and Net Deficits related to the impact of capital items and non-recurring operational items. Significant deficits were recorded by DHHS and DoE, offset by a net surplus at DPIPWE.

The $102.820m Net Deficit incurred by DHHS was due to the final transfer of properties in Stage 2 of the Better Housing Futures program within Housing Tasmania, which involved the transfer of 1 196 properties in the North of the State, worth $132.921m.

The Net Deficit of $42.652m recorded by DoE included the Underlying Deficit of $27.062m and the write-down of land assets, processed as an item of other economic flows in the Statement of Comprehensive Income, of $31.301m. This was offset by capital grants of $15.711m.

The Net Surplus recorded by DPIPWE of $52.301m was primarily influenced by:

- assets being brought to account at fair value, either through the CLAF, $25.363m, or
- recognition of new DPIPWE infrastructure assets, $19.505m and recognition of Crown Land, $7.615m.

Despite the significant Underlying Deficit, State Growth reported a Net Surplus of $1.956m, due primarily to capital grants received of $97.541m, which was a mix of capital funding via appropriation and capital grants from the Australian Government.

Comprehensive Surplus (Deficit)

The total Comprehensive Surplus of $304.761m differs significantly from the Net Deficit because:

- State Growth's result included the financial impacts of its administrative restructure, which was taken directly to equity, but shown as part of other comprehensive income. The net adjustment for the restructures, noted as at 1 July 2014, amounted to $465.734m.
- DoE's result was principally due to a decrease in its asset revaluation reserve of $81.532m. While the valuation of buildings increased by $56.167m, this was offset by a valuation decrement of DoE's land assets of $138.096m.

Net Assets

Net Assets reduced by $37.829m from the position at 30 June 2014 due to:

- reduction recorded by DoE of $125.369m, caused primarily by the write-down in land values discussed earlier
- DHHS noted a $103.221m reduction, due principally to the BHF transfers.

These decreases were offset by the increase of $180.613m recorded by DPIPWE, due to the equity contribution of $131.101m recorded from Forestry Tasmania land transfers, its comprehensive surplus of $58.139m, offset by transfers to Tasmanian Irrigation Pty Ltd, through the Water Infrastructure Fund, of $8.627m.

Budget to Actual Analysis

An analysis of the financial results of these entities for 2014-15, compared to their budgeted results, is noted in Table 7:

Table 7: Financial Results to Budget

	Budgeted Revenue	Actual Revenue	Budgeted Expenditure	Actual Expenditure	Budgeted Underlying Surplus (Deficit)	Actual Underlying Surplus (Deficit)
	$'000s	**$'000s**	**$'000s**	**$'000s**	**$'000s**	**$'000s**
Education	932 291	937 582	986 957	964 644	(54 666)	(27 062)
Health and Human Services	1 307 374	1 274 733	1 327 459	1 269 623	(20 085)	(4 928)
Justice	158 451	169 853	165 787	168 468	(7 336)	1 385
Police and Emergency Management	199 408	211 012	203 207	218 758	(1 799)	(7 746)
Premier and Cabinet	129 703	134 140	137 996	139 009	(8 293)	(4 869)
DPIPWE	178 341	186 447	189 620	199 033	(20 079)	(12 586)
State Growth	425 682	379 184	486 758	460 941	(48 920)	(81 757)
Treasury and Finance	46 644	47 555	46 426	48 995	218	(1 440)
Total	**3 377 894**	**3 340 506**	**3 544 210**	**3 469 471**	**(160 960)**	**(139 003)**

Overall, Departments recorded an Underlying Deficit that was $21.957m better than the budgeted expectation. Commentary below focusses on major movements only.

Education

The decrease in DoE's expenses against budget was primarily due to $47.410m lower than estimated expenditure in supplies and consumables expenditure, offset by an increase in employee expenses of $14.064m. The reduction in estimated expenditure for supplies and consumables was due to lower expenditure for National Partnership Programs, an increase in capitalised expenditure plus some cost reallocations. Higher employee expenses were mainly due to an increase in long service leave and annual leave entitlements and separation payments.

Health

DHHS' financial results improved on its budgeted position, with the actual Underlying Deficit of $15.157m being an improvement on the budgeted result. This was principally due to decreased supplies and consumables expenditure, of $52.157m primarily due to:

- the reclassification of expenditure for the Royal Hobart Hospital Women's and Children's Precinct from supplies and consumables to part of capital works in progress
- an accrual adjustment for housing maintenance expenditure of $6.300m, that was not reflected in the Budget
- a reallocation of approximately $6.000m for Children's Services to grant expense
- lower than anticipated expenditure of approximately $9.000m in relation to property services, $5.000m, travel and transport costs, $2.000m and medical and surgical supplies, $2.000m.

The decrease noted above was offset by lower sales of goods and services revenue of $31.975m, principally due to the elimination of an internal business service network charge, to produce finalised revenue figures for financial statement preparation. This internal charge was not eliminated from the Budget estimate.

State Growth

State Growth recorded $46.498m lower revenue than budgeted, mainly due to grant revenue being $37.991m less than expectation. The original budget of $95.141m was subsequently adjusted down to $56.300m, reflecting the re-alignment of grants from Australian Government in line with the adjusted timing of projects. Projects affected, which had less funding than originally budgeted, included Midlands Highway, $9.600m, Tasman Ramps, $9.600m, Brooker Highway, $3.600m, and Skills workforce training and education, $11.900m.

Lower revenue was offset by reduced expenditure of $25.817m, due principally to:

- a $32 852m, decreased in grant expenditure
- a $22 850m, decreased in depreciation
- a $28 084m, increased in supplies and consumables expenditure.

The reduction in grant expenditure was due to the original budget being subsequently adjusted down reflecting project delays, including Theatre Royal Performing Arts and Education Centre Development, $7.400m, Regional Revival Fund Craggy Ridge project, $3.400m, withdrawal of International Shipping subsidies, $11.000m, and timings of Skills workforce training and education payments noted previously.

The original budget for supplies and consumables expenditure of $64.379m, overestimated the proportion of road contractor expenditure that would be capitalised. Expensing these costs, combined with an increase in road maintenance activity, led to the supplies and consumables increase against budget.

These movements contributed to the actual Underlying Deficit being $32.837m less than the budgeted deficit.

Staff Costs

Table 8 summarises average staff numbers (represented by average full time equivalents) and average staff costs of listed agencies for the past two years:

Table 8: Average Staff Numbers and Costs

	2014-15 Average staff numbers	2013-14 Average staff numbers	Variance	2014-15 Average staff costs	2013-14 Average staff costs	% Variance
	FTE	**FTE**	**FTE**	**$'000s**	**$'000s**	**%**
Education	7 509	7 692	(183)	94	90	4.44%
Health and Human Services[a]	1 651	1 885	(234)	106	103	2.91%
Justice	1 038	1 039	(1)	97	93	4.30%
Police and Emergency Management	1 501	1 511	(10)	105	102	2.94%
Premier and Cabinet	464	458	6	119	106	12.26%
DPIPWE	1 221	1 270	(49)	90	88	2.27%
State Growth[b]	792	906	(114)	91	86	5.81%
Treasury and Finance	264	276	(12)	94	92	2.17%
Total	**14 440**	**15 037**	**(597)**	**97**	**93**	**4.16%**

a Health and Human Services includes Housing Tasmania and Ambulance Tasmania but excludes THOs

b State Growth includes Tasmania Development and Resources, Tasmanian Museum and Art Gallery and Abt Railway Ministerial Corporation. The 2013-14 figure is a combination of data for the previous Department of Economic Development, Tourism and the Arts and the Department of Infrastructure, Energy and Resources.

Departments employed an average of 14 440 full time equivalent positions for the 2014-15 financial year, with average staff costs of $0.097m. This was 597[3] fewer FTEs which, at an average cost of $0.097m suggest savings per annum of $58.006m.

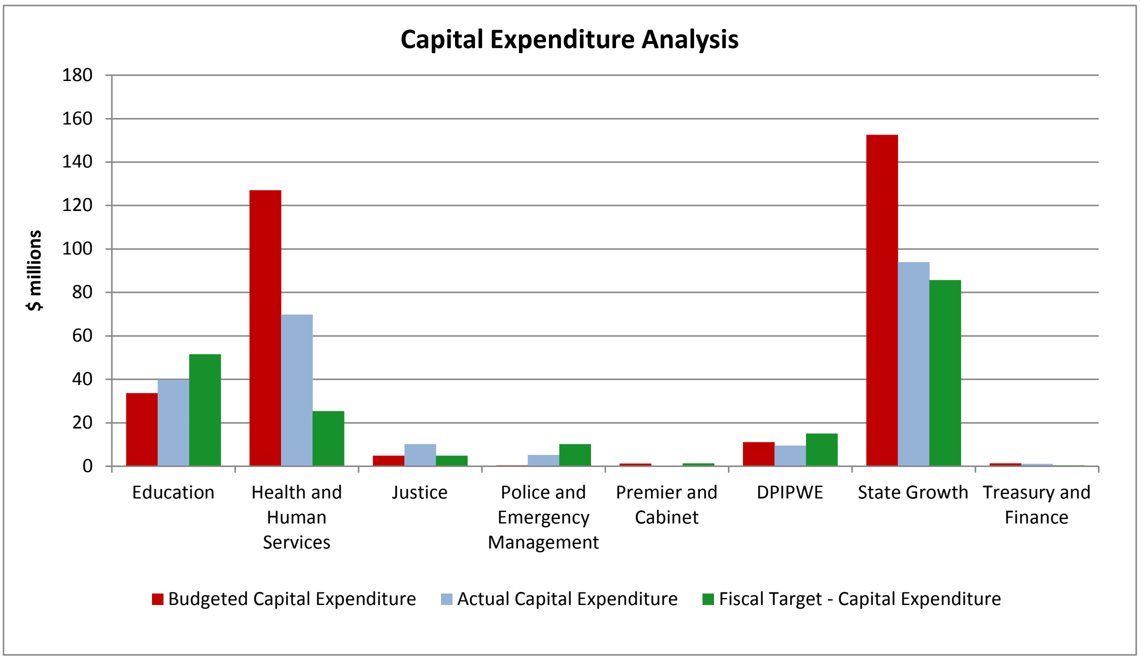
Capital Expenditure Analysis

Due to nature of each Department's operations, capital expenditure varies significantly between them. The graph below outlines progress by Departments in meeting their fiscal targets for capital expenditure based on depreciation charges for the year[4].

3 The 597 employees represent an average for the year, not a year-end head count. As a result, our figures will not be directly comparable to the "General Government Sector Employment Status Update – 30 June 2015" issued by Department of Treasury and Finance. The status update report also includes other entities that are not subject to review in this Chapter.

4 One of Government's fiscal strategies is that the annual investment in fixed assets should be greater than the annual depreciation charge. This target is not set at a departmental level. However, in this part of this chapter we assess performance at this level. Performance against this Target at a General Government Sector level is assessed in the Chapter headed Treasurer's Annual Financial Report.

Figure 29: Capital Expenditure Analysis



Source Tasmanian Audit Office

One of Government's fiscal targets is for capital expenditure to exceed the depreciation expense for the year. The graph considers this at a Departmental level. For the 2014-15 year, capital expenditure across the Departments totalled $229.761m.

DHHS recorded capital expenditure of $69.820m this year, significantly less than the budgeted figure of $127.069m. This reduction primarily reflected delays in major capital projects including the Royal Hobart Hospital Redevelopment.

State Growth also had actual expenditure significantly less than budgeted. The original budget of $152.550m was subsequently revised down by $31.000m, reflecting timing adjustments of major roadwork projects including Midlands Highway, $9.600m, Tasman Ramps, $9.600m, West Coast Roads, $5.000m and the Brooker Highway, $3.600m. In addition, the budget overestimated the proportion of road contractor expenses that would be capitalised.

Although DoE spent $39.731m on capital expenditure, which was greater than budget, this was still significantly below its target of $51.533m. Both DPIPWE and DPEM were below their targets.

While we see benefit in Government having a fiscal target associated with levels of capital expenditure based on depreciation, a better measure would be capital expenditure on existing assets exclusive of new assets (also referred to as the asset sustainability ratio). We have not attempted to compute the extent to which capital expenditure in 2014-15 related to existing rather than new assets.

Use of the Asset Sustainability Ratio is a better measure because:

- it excludes investment in a particular financial year on new assets depreciation on which may be small in the year an asset is commissioned
- including investment on new assets does not provide an indication as to how well an entity, or in this case, a State, is maintaining its existing asset base.

However, that is not to say that the existing measure, which we refer to as the asset investment ratio, adopted is not useful. It is. In both cases, any assessment of the measure needs to also take into account investment in maintenance and long-term capital expenditure programs.

Recommendation 5

We recommend that Government consider adoption of two ratios – the Asset Sustainability Ratio and the asset investment ratio and set targets for each.

This recommendation reflects Recommendation 1 on page 31 of the Report. Comments received are included on page 15.

ADMINISTERED TRANSACTIONS

Administered transactions are those Departments managed on behalf of the Government, where they had no discretion to alter the resources provided or determine how they are spent. These transactions were not shown in each Department's Statements of Comprehensive Income, Financial Position or Cash Flows, but were shown within separate Administered statements.

Administered transactions are significant to the operations of Treasury, DoE and DoJ.

The Administered Statements for Treasury encompass all activities of the Finance-General Division that are administered on behalf of Government. Finance-General is a Division within the State Budget, with revenues and expenditures generally reflecting Whole-of-Government activities.

The major activities transacted through Finance-General included collection of State taxes, receipt of funding from the Australian Government, management of the Government's debt and superannuation obligations, administration of the Tasmanian Risk Management Fund, management of the Government's light vehicle fleet and property portfolio and transactions with Government businesses on behalf of Government in its capacity as the owner of those businesses.

Finance-General administers drawdowns by Government agencies against their Appropriation, distribution of grants, subsidies and other transfer payments from the Australian Government and Special Capital Investment Funds.

For DoE, its Administered statements primarily relate to funding non-Government schools, with grants to that sector totalling $273.147m this year.

DoJ administers unpaid fines and fees on behalf of Government and local government councils, WorkCover and Asbestos Compensation Scheme.

RESPONSIBLE MINISTERS

Department	Responsible Minister
Education	Minister for Education and Training
Health and Human Services	Minister for Health
	Minister for Human Services
Justice	Attorney-General and Minister for Justice
	Minister for Corrections
	Treasurer
	Minister for Planning and Local Government
Police and Emergency Management	Minister for Police and Emergency Management
Premier and Cabinet	Premier
	Minister for Aboriginal Affairs
	Minister for Environment, Parks and Heritage
	Minister for Information Technology and Innovation
	Minister for Planning and Local Government
	Minister for Sport and Recreation
	Minister for Women
Primary Industries, Parks, Water and Environment	Minister for Primary Industries and Water
	Minister for Environment, Parks and Heritage
	Minister for Racing
State Growth	Minister for Tourism, Hospitality and Events
	Minister for the Arts
	Minister for State Growth
	Minister for Information Technology and Innovation
	Minister for Infrastructure
	Minister of Energy
	Minister for Planning and Local Government
	Minister for Resources
Treasury and Finance	Treasurer

AUDIT SUMMARY - EXECUTIVE AND LEGISLATURE

SNAPSHOT

- Each Executive and Legislature entity submitted its financial statements within statuatory deadline with unqualified audit reports issued in all instances.
- Executive and Legislature entities incurred a combined Underlying Deficit of $0.758m, and a Comprehensive Surplus of $0.031m. The four entities had combined Net Assets of $77.995m the bulk of which related to:
  - Parliament House, $35.000m
  - Government House, $37.247m.

INTRODUCTION

The Parliament of Tasmania consists of the Crown (represented by the Governor), the Legislative Council and the House of Assembly that collectively form the Legislature. Legislature-General provides, amongst other matters, support for general parliamentary functions including Reporting Services and Parliamentary Catering.

Designated officers administer these functions and financial transactions are recorded in the financial statements of the:

- House of Assembly
- Legislative Council
- Legislature-General
- Office of the Governor.

Appropriation of funds to the Ministerial and Parliamentary Support Division provides for certain expenses and administrative support of Ministers and other Members of Parliament but only those in the House of Assembly. The financial transactions of this Division are reported in the financial statements of the Department of Premier and Cabinet with details not addressed here.

AUDITS OF THE 2014-15 FINANCIAL STATEMENTS

Each Parliamentary Agency submitted its financial statements within the statutory deadline.

Unqualified audit reports on those financial statements were also issued within the prescribed timeframe.

KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

The House of Assembly, Legislative Council, and Legislature-General revalued their Artworks and Artefacts, while the Office of the Governor had its Artwork and Heritage assets revalued. These revaluations all resulted in an upwards revaluation for each entity.

There were no specific areas of audit attention for any of the Parliamentary agencies.

All audits were completed satisfactorily, with no significant issues identified. However, the audit finding noted below was reported to management for follow up:

Office of the Governor

Audit identified that several year-end journals from the prior year were not reversed, potentially misstating the applicable accounts affected. Management accepted the issue and will apply rectifying measures to ensure this issue is not repeated.

FINANCIAL ANALYSIS

Table 9 summarises the financial results and position of the Parliamentary agencies for 2014-15:

Table 9: Financial Results and Position

	Underlying Surplus (deficit)	Net Surplus (Deficit)	Comprehensive Surplus (Deficit)	Net Assets
	$'000s	**$'000s**	**$'000s**	**$'000s**
House of Assembly	85	85	351	1 585
Legislative Council	31	31	138	964
Legislature-General	(587)	(587)	(481)	34 991
Office of the Governor	(287)	(287)	23	40 455
Total	**(758)**	**(758)**	**31**	**77 995**

A review of the financial results of these entities for 2014-15 identified the following:

House of Assembly

The Comprehensive Surplus of $0.351m was an improvement on the Underlying Surplus, due to the revaluation of Artworks and Artefacts of $0.266m.

Legislative Council

The Council recorded a Comprehensive Surplus of $0.138m due to a revaluation of Artworks and Artefacts of $0.107m.

Legislature-General

Legislature-General recorded an Underlying Deficit of $0.587m, which was primarily due to not being funded for depreciation, which amounted to $0.587m. Hence, excluding depreciation expenses, the result would have produced a small Underlying Surplus. The Comprehensive Surplus was influenced by a revaluation of Artworks and Artefacts of $0.106m.

Office of the Governor

The Office recorded an Underlying Deficit of $0.287m primarily due to not being funded for depreciation. Excluding depreciation expenses of $0.345m, the result would have been an Underlying Surplus of $0.058m. The Comprehensive Surplus included a revaluation increment in both Artwork and Heritage assets, which totalled $0.310m.

Table 10 records average staff costs and selected key performance indicators:

Table 10: Average Staff Costs and Performance Indicators

	2014-15	2013-14	2012-13	2011-12
House of Assembly				
Average staff costs ($'000s)	109	107	99	89
Average support services cost per member ($'000s)	92	90	91	91
Sitting days	61	37	49	47
Legislative Council				
Average staff costs ($'000s)	93	92	93	91
Average support services cost per member ($'000s)	180	176	177	180
Sitting days	60	43	56	55
Legislature-General				
Average staff costs ($'000s)	88	89	85	82
Cost per sitting day ($'000s)	99	150	105	100
Sitting days	73	47	67	71

Both the House of Assembly and Legislative Council were able to maintain Average support services costs per member at a consistent level over the past four years. Average support services cost per member are higher for the Legislative Council because it is funded to meet all costs associated with Legislative Councillors whereas, in the case of the House of Assembly, costs associated with Ministers and member electorate offices are met by the Ministerial and Parliamentary Support output within the Department of Premier and Cabinet.

Legislature-General's Costs per sitting day decreased significantly, due to the return to a normal number of sitting days this year, as the prior year result was influenced by the election.

AUDIT SUMMARY - TASMANIAN HEALTH

SNAPSHOT

- Each Tasmanian Health entity submitted its financial statements within the statutory deadline.
- All audits were completed satisfactorily with unqualified audit reports issued in all instances
- Tasmanian Health entities incurred a combined Underlying Deficit of $46.244m. However, a combined Comprehensive Deficit of $110.683m was recorded, due principally to the transfer of Housing Tasmania properties to the non-government sector valued at $132.921m.
- During the course of 2014-15, Tasmanian Health Organisation - North (THO-N) added 39 additional employees, which was in contrast to Departmental FTE declining by 233 employees, with further reductions at Tasmanian Health Organisation - South (THO-S), 154 employees and Tasmanian Health Organisation - North West (THO-NW), 28 employees.
- The Health sector had combined net assets to the value of $2.277bn.

INTRODUCTION

The National Health Reform (the Reform) was implemented in Tasmania from 1 July 2012 resulting in the establishment of three local hospital networks under the *Tasmanian Health Organisations Act 2011* (the THO Act).

Each THO was a statutory authority with a Governing Council established under the Act. They operated independently of the Department of Health and Human Services (DHHS) and developed separate internal governance and accountability arrangements.

In June 2015, the State Government issued a White Paper, "*Delivering Safe and Sustainable Clinical Services*", as part of its *One State, One Health System, Better Outcomes* (One Health System) reforms. The reforms outlined in the One Health System included the creation of a new Tasmanian Health Service (THS) which commenced operations from 1 July 2015. The THS is a separate legal entity established under the THO Act and is a key component of the One Health System reforms. To implement, THO-N changed its name to THS and THO-S and THO-NW were transferred to it, on 1 July 2015.

THS will provide healthcare through the public hospital system and primary and community health services (including mental health and oral health services).

The Department, on behalf of the Minister for Health, entered into a Service Agreement for 2015-16 with the THS and will monitor performance against this agreement. DHHS will continue to purchase services from the THS, as per the previous arrangements with the THOs. These arrangements made it clear that the THOs were quite separate from DHHS with transactions entered into between DHHS and the THOs being at arm's length. This was illustrated by two examples:

- THOs were responsible for managing their own budgets. There was no capacity for DHHS, as it may have done in the past, to assist.
- Workforce management was a THO responsibility. DHHS could not influence FTE numbers as it may have done in the past. THOs were expected to manage respective workforces in line with Service Agreements, service expectations and their budgets.

Analysis in this Chapter reports on the activities of:

- the THOs individually
- the THOs in aggregate with DHHS
- Tasmanian State Pool Account.

Analysis of the aggregate of the THOs and DHHS will facilitate comparison with previous organisational structures. As a result, this Chapter assesses financial performance of the health sector over more than one financial year. This required that we aggregate separately controlled entities for which there is no basis in accounting standards. However, we applied principles similar to those used when consolidating entities within a group and in doing so made adjustments to facilitate valid comparison such as eliminating funding flows for grants.

Budgets for each THO were included in Chapters 21, 22 and 23, respectively, of Budget Paper No 2, Volume 2 for 2014-15. Each THO prepared a financial report and under the Reform, funding is provided to THOs via the National Health Funding Pool and DHHS. All funding received was recorded as grant revenue to the THOs.

Another outcome of the 2012 reforms was the establishment of the Tasmanian State Pool Account which is a mechanism put in place to facilitate activity based and grant funding arrangements between the Australian and State governments.

Also noted is that the following entities are included in the results of DHHS:

- Housing Tasmania
- Ambulance Tasmania.

KEY AREAS OF AUDIT ATTENTION

For the entities under review, some of the key areas of focus were:

Description of area	Audit approach
A single National Health Funding Pool was established as part of the reforms to facilitate direct payments to local health networks using a nationally consistent approach to activity based funding.	We tested the Tasmanian State Pool Account and obtained assurance that the amount of attributed funding disclosed in the financial reports was not materially misstated. The State Pool Account is separately audited, with the audit completed satisfactorily, as noted below.
THOs generated their own revenue by charging for billable services. Various systems were used to collect and track information about patients and procedures performed, which then formed the basis for billing and claiming. The main systems in place were: • IPAS (ISOFT Patient Administration System): in-patients (accommodation and prosthetics), out patients (facility charges, doctor fees, specialist fees and other charges) • iPharmacy: pharmacy billing • Labtrack: pathology billing (THO–N only) • Kestral: pathology billing (THO–S only) • Karisma: radiology billing (THO–N and THO–S).	We updated our understanding of the systems, their interface with the general ledger and then conducted substantive testing. Our substantive procedures focused on material revenue streams and specifically on assertions around accuracy and completeness of revenue. At year-end, we performed cut-off tests to ensure that billable procedures and receipts are recorded in the correct period. We found that, for each THO, own source revenue was not materially misstated.

Key management personnel (KMP) remuneration disclosures	
As noted later in this chapter, revised Model Financial Statements required KMP disclosures for the first time for each THO.	Our audit procedures we aimed at ensuring consistent application of how key management was determined and then ensuring disclosures complied with these requirements.

AUDITS OF THE 2014-15 FINANCIAL STATEMENTS

Each entity submitted their financial statements within the statutory deadline.

Key Management Personnel Disclosures

As part of the Treasurer's Model Accounts, Departments were instructed to complete key management personnel disclosures for the first time this year.

Treasury had identified that the disclosure of key management personnel remuneration would be in compliance with the requirements of AASB *124 Related Party Disclosures* as the relate to disclosing entities, and issued Treasurer's Instruction 206 aimed at assisting in Government's policy initiative to increase accountability and to improve the transparency of its financial management activities. To ensure this disclosure occurred, an exemption under the *Personal Information Protection Act 2004* from the Attorney-General was obtained. The exemption included the THOs.

However, a number of modifications were made to the planned disclosures. As a transitional measure the following were permitted:

- the disclosure requirements for termination payments, which were subject to binding confidentiality agreements, were allowed to be disclosed in the aggregate, without disclosing individual names, titles or other specific information
- for the current year only, comparative information did not have to be included.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an agency, directly or indirectly. In the case of the THOs, this included members of Governing Councils.

Types of remuneration to be disclosed within the notes for the financial statements includes short-term benefits, such as salary, motor vehicle and other non-monetary benefits, and long-term benefits such as long service leave and superannuation entitlements.

Completion of this note disclosure was in compliance with the requirements of AASB *124 Related Party Disclosures* and was similar to the disclosures required by Government Businesses.

Capital works arrangements between DHHS and THOs

A sometimes confusing element, from an accounting point of view, of building construction is that the majority of construction activity, or work-in-progress, for the whole health sector is recorded in the financial statements of DHHS.

Once construction of new assets is completed, and they are ready for use, DHHS transfers the assets to the respective THO and records the entry as a grant expense, writing the balance out of its work-in-progress balance. Conversely, the THO will record the granted asset as an item of revenue, being a capital grant, and add the asset as an item of Property, plant and equipment. Although THOs have the ability to undertake capital works and capitalise their own expenditure where necessary, the majority of the significant construction activity is accounted for as explained here.

KEY DEVELOPMENTS

THO-NW

Mersey Community Hospital (MCH)

The Heads of Agreement (HoA) for the continued management, operation and funding of the MCH, between the Australian and State governments expired on 30 June 2015. Funding of $70.500m was received under the HoA for 2015 (2014, $68.130m). In mid-2015, the parties agreed to continue the arrangement for a further two years.

THO–S

Royal Hobart Hospital (RHH) Redevelopment

On 7 May 2014, in a Ministerial Statement to Parliament, the Minister for Health announced the formation of the RHH Redevelopment Rescue Taskforce (the Taskforce). The role of the Taskforce was to undertake a process of review, investigation and refinement of the RHH Redevelopment Project and provide advice and recommendations to the Minister for Health on its future. The Taskforce submitted its final report to Government on 28 November 2014, with all recommendations accepted.

The Australian and State governments have now committed a total of $636.9 million to the RHH Redevelopment Project, which is due for completion in 2019. This substantial investment is aimed at providing an opportunity to transform Australia's second oldest hospital so that it can deliver health services to Tasmanians into the future. To date, DHHS has spent approximately $141.760m on the RHH redevelopment, which represents 22% of the total project.

KEY FINDINGS

A number of audit findings related to the Shared Services section of DHHS and, therefore, have relevance to all THOs. These are discussed within the Government Department section of this Report and are not repeated here.

Other than the Shared Services matters referred to, there were no areas of audit significance raised during the current audit cycle. A number of matters raised in the prior year were followed up and while some have been addressed, others were still in progress. These items included:

- Purchasing segregation of duties – we noted that there were still weaknesses in the Purchasing system where staff responsible for initiating purchase orders were still capable of approving variations to a purchase order where it did not match an invoice, without the involvement of an independent person.
- Pharmacy pricing and record keeping – a number of recommendations were made in the 2013-14 financial year aimed at improving record keeping. In our current audit we noted improvement. However, there were still matters requiring attention including:
    - the need to ensure that review of pharmacy dispensing policies and documentation is being undertaken by suitable THO personnel
    - a regular review of dispensing actions is being developed in conjunction with Dispensing supervisors and State-wide Hospital Pharmacy to validate staff practices.

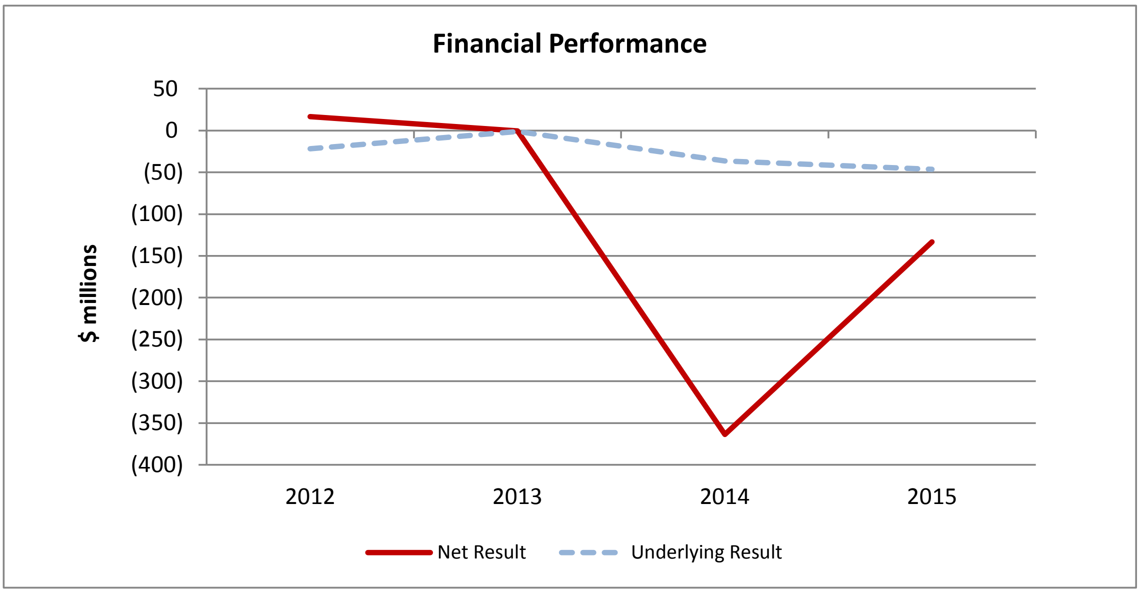
These matters did not impact on completion of our audits and were reported to those charged with governance.

There were no issues raised in the audit of the Tasmanian State Pool Account.

FINANCIAL ANALYSIS

The financial information below compares the aggregated results of THOs and DHHS for the past three years and their combined financial position at those dates, to the results and position of DHHS for 2011-12. DHHS revenue and expenses are shown net of State Block grants and Activity Based Funding (ABF) receipts and payments.

Figure 30: Financial Performance



Source Tasmanian Audit Office

In 2014-15, THOs and DHHS reported an aggregated Underlying Deficit of $46.230m (2013-14, $36.581m).

Items that contributed to the higher deficit of $9.649m included:

- Increased Employee entitlement expenditure across the THOs of $23.842m, due to doctors receiving a pay rise during 2014-15 of between 6% and 8%, dependant on classification level. General pay rises also occurred for other awards of between 2% and 2.5%. The voluntary redundancy and WRIP programs instigated during the year also increased employee expenditure. This was offset by a reduction in employee expenses at DHHS amounting to $4.793m, where the decrease in staff numbers was greater than the extra payments made through the programs.
- A decrease in aggregate Sale of goods and services revenue of $55.767m, due mainly to the operations of DHHS, which included:
  - reduced lower rental income of $20.254m, due to the impact of the transfer of properties through the BHF program. The reduction in rental income was partly offset by $10.797m recovered from participating community housing organisations
  - a one-off adjustment to revenue in the prior year relating to payroll tax of $17.948m
  - a reduction in accrued revenue from Ambulance Tasmania, from $5.500m to $2.581m, due to a reduction in the backlog of Department of Veterans Affairs (DVA) claims
- higher grant expenditure of $26.305m, which included an increase in both the THO's and DHHS, amounting to $7.433m and $18.872m, respectively.

Items that had a positive impact upon the result for the year included:

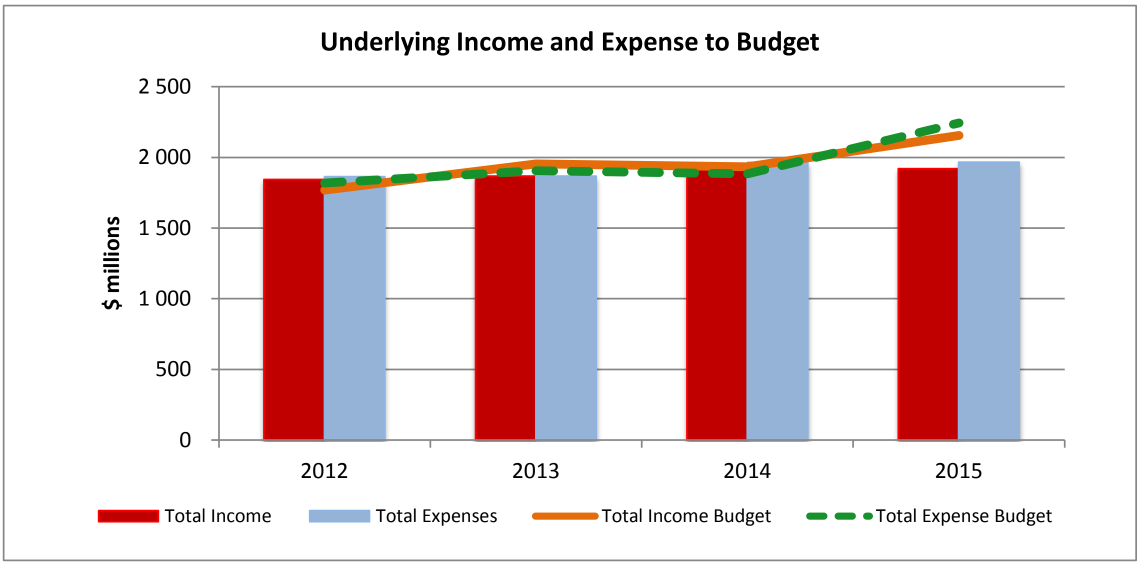
- Increased appropriation revenue, after accounting for the State Block and ABF receipts distributed to the THOs of $31.159m.

- Lower in aggregated Supplies and consumables expenditure of $40.290m, primarily due to reduced maintenance expenses in DHHS of $28.980m, related to the lower housing stock mentioned previously. Savings strategies sought by the State Government also resulted in decreased in supplies and consumables expenditure across each entity.

The aggregated Net Deficit for the year was $133.333m with transfers of housing stock under the BHF initiative being the main contributing factor. This year, Housing Tasmania transferred 1 196 properties in the North of the State to the NGO sector, valued at $132.921m. Without this transfer, the aggregated Net Deficit would have been $0.412m.

Net Deficit was $230.296m lower this year compared to 2013-14 because of a decrease in the number and value of Housing Tasmania properties transferred to the NGO sector.

Figure 31: Underlying Income and Expense to Budget



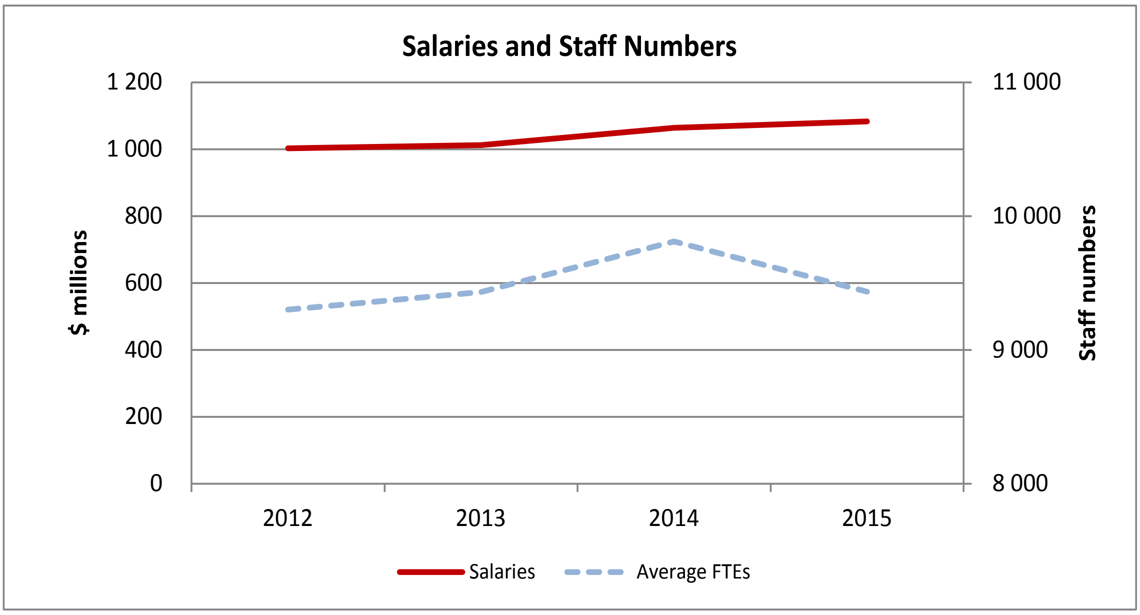
Source Tasmanian Audit Office

The slowing growth in expenditure continued into 2014-15, with Total expenses increasing by less than 1%. Total income also only grew by less than 1%. The actual results were below both budgeted revenue and expenses, where increases of $209.768m and $347.192m respectively were anticipated.

The reduction in budgeted revenue is mainly due to reduced grants received by the THOs for capital works, as several projects were behind their budgeted completion dates. The reduction in budgeted expenditure also relates to capital works.

In dollar terms, Employee entitlements have always been DHHS's single largest expenditure, averaging $1.040bn per annum or 54.20% of Total Expenses.

Figure 32: Salaries and Staff Numbers



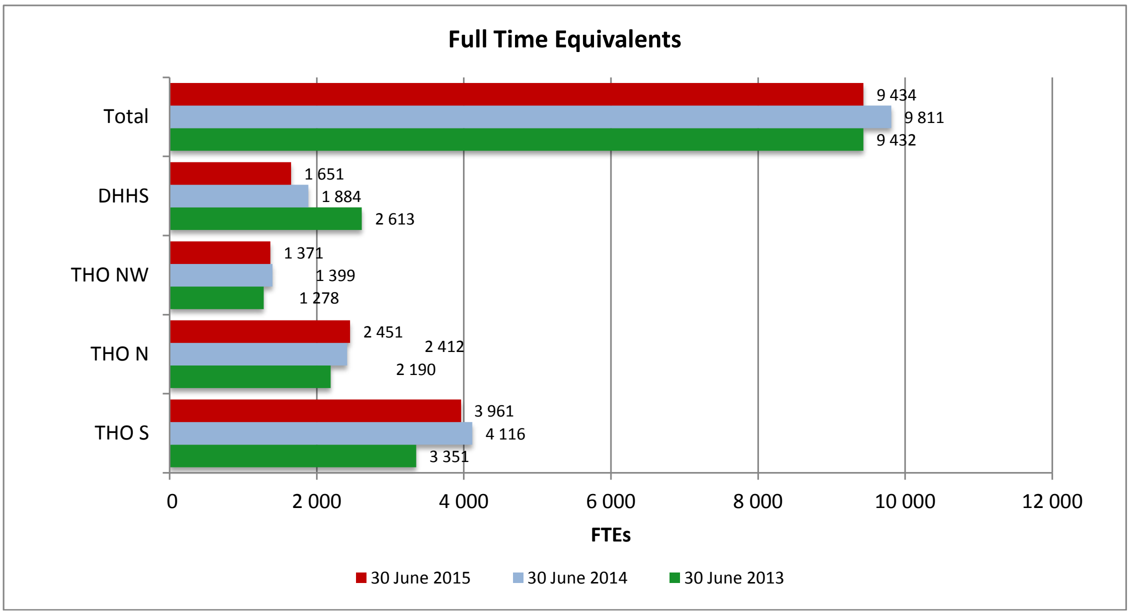
Source Tasmanian Audit Office

Staff numbers increased in 2012-13 and 2013-14, as THOs were setting up their operations and determining their appropriate staffing levels. In the current year, FTEs decreased as a direct result of the voluntary redundancy and WRIP programs instigated during the year. The most significant decrease occurred in DHHS, where FTEs decreased by 233.

Salary costs increased slightly in the current year, a combination of doctors receiving a pay rise between 6% and 8%, dependant on classification level and general pay rises for other awards of between 2% and 2.5%. The voluntary redundancy and WRIP programs discussed previously also had anmpact on employee expenditure in the current year.

The following graph details movements in FTEs over the past three financial years at the entity level.

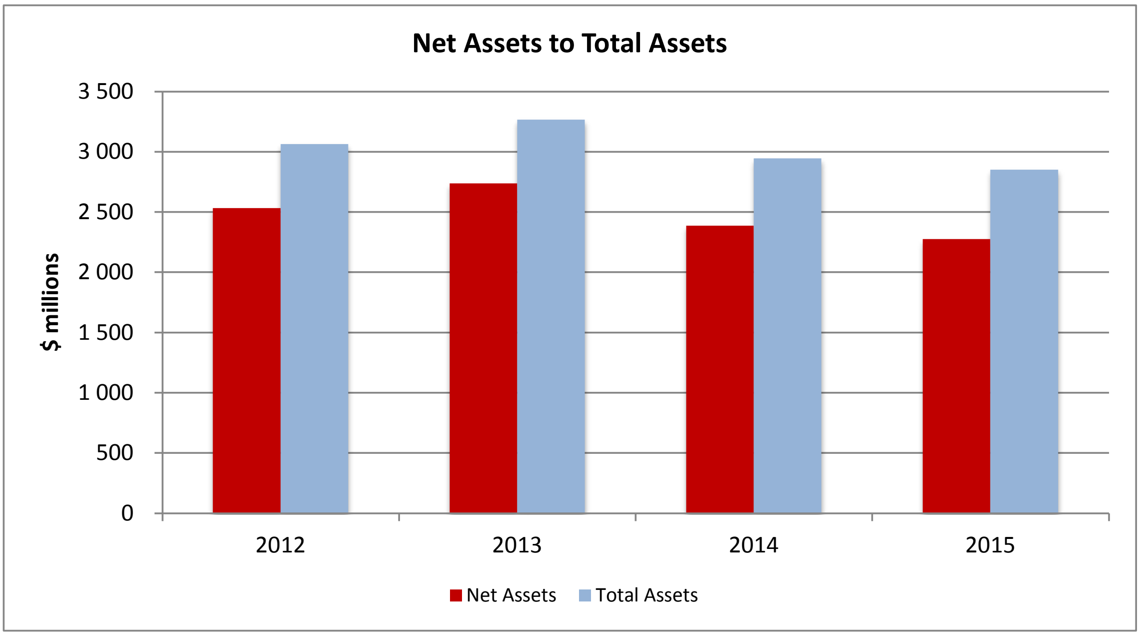
Figure 33: Full Time Equivalent



Source Tasmanian Audit Office

As noted previously, DHHS had the largest decrease in FTEs, 233 FTEs, or 12.4%, in the current year. In contrast, THO–N had a slight increase in employee numbers of 39 FTEs, which equated to a 1.6%.

Figure 34: Net Assets to Total Assets



Source Tasmanian Audit Office

Consolidated Total Assets decreased by $93.576m in the current year, from $2.946bn to $2.853bn. This movement was due principally to the transfer of properties under the BHF initiative, which contributed to the reduction of Property, plant and equipment of $113.948m. This was also the main contributing factor to the decrease in Net Assets of $111.034m.

Cash holdings increased by $17.891m in 2014-15, due in part to higher cash from operations of $79.539m, primarily offset by cash used in investing activities of $59.322m, as reflected in the Cash Flow Statement. The balance was also affected by funds received for significant capital works that were yet to be undertaken. These capital funds included delays in works at the Royal Hobart Hospital were delayed, but have recently recommenced.

The balance of payables increased by $20.204m, to $85.437m, with a significant rise in each of the THOs. These increases related primarily to cross boarder payments for Tasmanian's serviced interstate. The total Tasmanian fee is determined by the National Health Funding Body which is then allocated to the three THOs by DHHS Budget and Finance - Cross Border Agreements area. These cross boarder accruals account for approximately $19.242m, or 26% of the total payables for the THOs.

Statement Of Comprehensive Income

	All THOs 2014-15 Actual	DHHS 2014-15 Actual	Aggregated 2014-15 Actual	Aggregated 2013-14 Actual	Aggregated 2012-13 Actual
	$000s	$000s	$000s	$000s	$000s
Revenue from Government – recurrent	0	1 134 518	1 134 518	1 115 920	1 106 214
less State Block and ABF receipts distributed to THOs*	0	(626 272)	(626 272)	(638 803)	(517 489)
Revenue from Special Capital Investment Funds – recurrent	0	2 300	2 300	5 962	11 687
Grants	1 097 794	38 239	1 136 033	1 125 177	1 006 612
Sale of goods and services	146 356	70 009	216 365	272 132	215 964
Interest revenue	330	148	478	491	737
Contributions received	20	0	20	2 235	1 488
Other revenue	37 942	19 481	57 423	45 172	41 917
Total Revenue	**1 282 442**	**638 423**	**1 920 865**	**1 928 286**	**1 867 130**
Employee entitlements	893 016	189 546	1 082 562	1 063 513	1 011 706
Depreciation and amortisation	38 302	25 342	63 644	71 541	56 743
Supplies and consumables	363 884	132 193	496 077	536 367	524 318
Grants and subsidies	7 839	907 368	915 207	898 954	745 597
less State Block and ABF payments to THOs*	0	(626 272)	(626 272)	(638 803)	(517 489)
Finance costs	0	9 317	9 317	9 022	9 326
Other expenses	20 717	5 843	26 560	24 273	38 204
Total Expenses	**1 323 758**	**643 337**	**1 967 095**	**1 964 867**	**1 868 405**
Underlying Surplus (Deficit)	**(41 316)**	**(4 914)**	**(46 230)**	**(36 581)**	**(1 275)**
Profit (loss) on sale of assets	8	(711)	(703)	(3 989)	(5 700)
Impairment of non-financial assets	0	232	232	(2 840)	(5 883)
Impairment of financial assets	634	(513)	121	(1 233)	(1 864)
Provision for redundancies	0	0	0	0	(600)
Revenue from Government – capital	0	5 785	5 785	5 284	15 164
Revenue from Special Capital Investment Funds – capital	0	6 746	6 746	8 381	27 170
Grants – capital	(10 038)	40 415	30 377	52 997	26 496
Social housing grant	0	(132 921)	(132 921)	(389 598)	(62 262)
Assets transferred on completion	20 199	(20 199)	0	0	0
Actuarial superannuation adjustment	0	3 260	3 260	3 936	8 263
Net Surplus (Deficit)	**(30 513)**	**(102 820)**	**(133 333)**	**(363 643)**	**(491)**
Other Comprehensive Income					
Changes in physical asset revaluation reserve	23 051	(401)	22 650	13 355	204 358
Comprehensive Surplus (Deficit)	**(7 462)**	**(103 221)**	**(110 683)**	**(350 288)**	**203 867**

* *Difference between Grants paid to THOs reported in the DHHS's financial statements and the amount shown in the table above represents contributions by THOs towards Shared Services of $22.529m (THO-S: $11.079m; THO-N: $6.809m; THO-NW: $4.641m).*

Statement Of Financial Position

	All THOs 2015 Actual	DHHS 2015 Actual	Aggregated 2015 Actual	Aggregated 2014 Actual	Aggregated 2013 Actual
	$000s	**$000s**	**$000s**	**$000s**	**$000s**
Financial Assets					
Cash and deposits	84 452	91 986	176 438	158 547	135 865
Receivables	21 589	9 564	31 153	31 707	20 632
Inter-entity receivable	4 455	0	4 455	4 757	4 762
Loan advances	0	2 356	2 356	3 080	3 730
Equity investments	0	16 031	16 031	10 190	6 782
Other financial assets	14 784	5 785	20 569	25 452	9 710
Non-financial Assets					
Inventory	8 752	3 954	12 706	11 327	14 070
Assets held for sale	435	9 614	10 049	4 535	6 170
Property, plant and equipment	932 242	1 630 316	2 562 558	2 676 506	3 046 982
Intangibles	784	11 915	12 699	14 956	15 630
Other non-financial assets	4 144	4 170	8 314	10 149	7 711
Total Assets	**1 071 637**	**1 785 691**	**2 857 328**	**2 951 206**	**3 272 044**
Liabilities					
Payables	72 278	13 159	85 437	65 233	37 618
Inter-entity payable	0	0	0	0	4 727
Interest bearing liabilities	5 000	188 365	193 365	195 693	202 840
Other financial liabilities	0	0	0	0	0
Superannuation liability	0	14 211	14 211	16 607	20 698
Employee entitlements	205 237	41 138	246 375	241 052	224 873
Other liabilities	12 148	29 239	41 387	45 034	43 068
Total Liabilities	**294 663**	**286 112**	**580 775**	**563 619**	**533 824**
Net Assets	**776 974**	**1 499 579**	**2 276 553**	**2 387 587**	**2 738 220**
Contributed capital	469 459	6 094	475 553	475 553	468 683
Accumulated funds (deficits)	114 524	(353 821)	(239 297)	(121 218)	167 064
Reserves	192 991	1 847 306	2 040 297	2 033 252	2 102 473
Total Equity	**776 974**	**1 499 579**	**2 276 553**	**2 387 587**	**2 738 220**

Statement Of Cash Flows

	All THOs 2014-15	DHHS 2014-15	Aggregated 2014-15	Aggregated 2013-14	Aggregated 2013
	$000s	**$000s**	**$000s**	**$000s**	**$000s**
Receipts from Government – recurrent	0	1 146 969	1 146 969	1 124 305	1 105 351
less State Block and ABF receipts	0	(626 272)	(626 272)	(638 803)	(517 489)
Receipts from special capital investment funds – recurrent	0	2 300	2 300	5 962	11 687
Grants	1 097 794	68 616	1 166 410	1 176 241	1 033 108
Sales of goods and services	148 840	85 136	233 976	235 381	202 382
Interest received	330	148	478	491	13 548
GST receipts	33 000	43 173	76 173	75 494	83 478
Other cash receipts	37 942	19 481	57 423	43 886	32 477
Payments to employees	(886 740)	(199 059)	(1 085 799)	(1 048 357)	(997 595)
GST Payments	(33 244)	(43 272)	(76 516)	(79 953)	(78 183)
Grant	(17 877)	(907 382)	(925 259)	(900 178)	(745 596)
less State Block and ABF receipts	0	626 272	626 272	638 803	517 489
Finance costs	0	(8 710)	(8 710)	(9 022)	(9 326)
Supplies and consumables	(336 555)	(133 072)	(469 627)	(506 087)	(525 126)
Other cash payments	(20 695)	(17 584)	(38 279)	(24 501)	(38 204)
Cash from (used in) Operations	**22 795**	**56 744**	**79 539**	**93 662**	**88 001**
Receipts from Government – capital	0	7 364	7 364	11 427	15 164
Receipts from special capital investment funds – capital	0	6 746	6 746	8 381	27 170
Proceeds from disposal of assets	42	10 938	10 980	10 444	9 070
Receipts from investments	2	2 252	2 254	868	1 563
Payments for acquisition of assets	(10 250)	(69 820)	(80 070)	(90 671)	(81 873)
Payment for equity investment	0	(6 596)	(6 596)	(4 283)	(1 911)
Net loans granted (repaid)	0	0	0	0	0
Cash from (used in) Investing Activities	**(10 206)**	**(49 116)**	**(59 322)**	**(63 834)**	**(30 817)**
Repayment of borrowings	0	(7 328)	(7 328)	(7 147)	(6 969)
Proceeds from borrowings	5 000	0	5 000	0	0
Cash from (used in) Financing Activities	**5 000**	**(7 328)**	**(2 328)**	**(7 147)**	**(6 969)**
Net Increase (Decrease) in Cash	**17 589**	**300**	**17 889**	**22 681**	**50 215**
Cash at the Beginning of the Year	66 861	91 686	158 547	135 865	85 650
Cash transferred on establishment	0	0	0	1	0
Cash at End of the Year	**84 450**	**91 986**	**176 436**	**158 547**	**135 865**

AUDIT SUMMARY - OTHER CONSOLIDATED GENERAL GOVERNMENT SECTOR STATE ENTITIES

SNAPSHOT

- All entities included in this Chapter, except for the Tasmanian Affordable Housing Limited, submitted their financial statements within the statutory deadline.
- All audits were completed satisfactorily with unqualified audit reports issued in all instances.
- Consolidated General Government Sector entities incurred a combined Underlying Deficit of $21.484m, and a Comprehensive Deficit of $120.661m. The six entities had combined Net Assets to the value of $1.800bn.
- Individually the main contributors to these results and financial position were:
  - Abt Railway Ministerial Corporation recorded an Underlying Surplus of $1.425m but which included Government grants of $0.409m
  - Ambulance Tasmania recorded an Underlying Deficit of $5.032m and Net Assets of $25.717m
  - Housing Tasmania recorded an Underlying Deficit of $19.634m and Net Assets of $1.261bn
  - Tasmania Development and Resources recorded an Underlying Surplus of $1.622m and Net Assets of $34.800m
  - Tasmanian Museum and Art Gallery recorded a Comprehensive Surplus of $15.240m, mainly due to asset revaluation increments this year, and Net Assets of $430.567m.

INTRODUCTION

The General Government Sector (GGS) consists of Government Departments and non-profit State entities controlled and mainly financed by Government. Non-profit State entities are created for the purpose of producing or distributing goods and services but are not a source of income, profit or other financial gain for Government.

Audits of financial statements for GGS entities are carried out under the provisions of *Audit Act 2008*. This Act requires these entities to submit their financial statements to the Auditor-General.

The GGS entities discussed in this chapter of the Report are consolidated into a number of Government departments. However, these entities are still required to complete financial statements in their own right, and hence warrant a separate section within this Report.

This part of the Report provides information on the following entities:

- Abt Railway Ministerial Corporation
- Ambulance Tasmania
- Housing Tasmania
- Tasmania Development and Resources
- Tasmanian Affordable Housing Limited
- Tasmanian Museum and Art Gallery

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

KEY AREAS OF AUDIT ATTENTION

For the entities under review, some of the key areas of focus were:

Housing Tasmania

Housing Tasmania's rental dwellings and vacant land were measured at fair value, with a valuation undertaken each year by the Valuer-General. The size of the housing portfolio increases the risk that the financial statements may be materially misstated. As a result, we agreed land and buildings values to the Valuer-General's advice, verified the accuracy of the valuations undertaken and ensured all properties were recognised.

We also verified significant additions and disposals, including grants to Non-Government Organisations (NGOs), during the year to supporting documentation.

Tasmanian Museum and Art Gallery

Heritage and cultural assets were recorded at fair value and are independently valued at regular intervals, with desktop valuations undertaken on a sample of items each year between formal valuations. These valuations were undertaken by specialist valuers, who have expertise with the objects in question and, due to the volume and diversity of Heritage and cultural assets, a number of valuers were required to be used.

We agreed a sample of asset values to valuers advice, verified the accuracy of the valuations undertaken and ensured all items were recognised.

Tasmania Development and Resources

State Growth, through Tasmania Development and Resources, offered a variety of different loan and grant schemes to businesses, industry and sole traders to encourage and promote economic development within the State. This included loans in respect to farm financing and industry funding.

We:

- reviewed the securities and loan documentation associated with new loan advances, followed up significant loan repayments and tested management's impairment assessments
- requested confirmations from a sample of loan recipients to verify the balance of outstanding loans.

AUDITS OF THE 2014-15 FINANCIAL STATEMENTS

With the exception of Tasmanian Affordable Housing Limited (TAHL), where the signed financial statements were received on 1 October 2015, each consolidated GGS State entity submitted their financial statements within the statutory deadline.

Unqualified audit reports were issued in all cases.

KEY FINDINGS

Except for the items noted below, audits were completed satisfactorily, with no high or moderate audits risks identified for reporting to management.

ABT Railway Ministerial Corporation

Matters categorised as moderate or high risk are noted below:

- While bank reconciliations were being performed regularly, there was no audit trail or evidence of a review by a person independent from the preparer. This process is seen as a key control over the Corporations funds, and should be independently reviewed.
- Infrastructure and rolling stock land were last independently valued during 2012 by an in-house engineer, employed by the former Department of Infrastructure, Energy and Resources (DIER). We encouraged the Corporation to ensure this valuation is still appropriate and perhaps have these assets valued by an independent external valuer.
- Funds held in trust, $0.226m, represented cash received from the Federal Group (Mulawa Holdings Pty Ltd), transferred with employees to cover future leave entitlements. As a result, the Corporation should ensure that when relevant staff take annual or long service leave, these funds are used to meet this cost. Currently, these funds are recorded at the balance originally transferred.

It should be noted that these matters did not impact on completion of the audit and were reported to those charged with governance.

KEY DEVELOPMENTS

During our audit of the above entities, the following key development was noted:

Tasmanian Museum and Art Gallery

In 2011 there was a revaluation decrement to Buildings of $14.201m which consumed the existing revaluation reserve. Year on year since then further decrements were recorded in the Statement of Comprehensive Income, with the largest decrement recorded in 2012-13 of $14.002m. As a result, the increment recorded in 2014-15 of $7.495m was adjusted through the Statement of Comprehensive Income. Any further increments will continue to be recorded through Comprehensive Income until the remaining impairment losses of $8.258m are utilised.

FINANCIAL ANALYSIS

Table 11 summarises the financial results and position of Other GGS State entities for 2014-15.

Table 11: Financial Results and Position

	Underlying Surplus (Deficit)	Net Surplus (Deficit)	Comprehensive Surplus (Deficit)	Net Assets
	$'000s	**$'000s**	**$'000s**	**$'000s**
Tasmania Development and Resources [1]	1 622	1 174	1 174	34 800
Tourism Tasmania [1]	(109)	(109)	(109)	(60)
Tasmanian Museum and Art Gallery [1]	(281)	7 668	15 240	430 567
ABT Railway Ministerial Corporation [1]	1 425	1 425	1 425	36 354
Housing Tasmania [2]	(19 634)	(137 032)	(139 259)	1 261 036
Ambulance Tasmania [2]	(5 032)	(116)	343	25 717
Tasmanian Afforable Housing Ltd [3]	326	326	326	1 527
Tasmanian Early Years Foundation [4]	(453)	(453)	(453)	581
Tasmanian Community Fund [4]	648	648	648	9 770
Anzac Day Trust [4, 5]	4	4	4	4
TOTAL	**(21 484)**	**(126 465)**	**(120 661)**	**1 800 296**

1 - These entities are consolidated within State Growth.

2 - These entities are consolidated within Health and Human Services.

3 - This entity was not consolidated into Health and Human Services, but was disclosed within a note to the Financial Statements.

4 - These entities are consolidated within Premier and Cabinet.

5 - Anzac Day Trust completes a Statement of Receipts and Payments, with a year end date of 31 December. Hence the result above reflects the result as at 31 December 2014.

A review of the financial results of these entities for 2014-15 identified the following:

Housing Tasmania

For Housing Tasmania, the Underlying Deficit of $19.634m was a significant improvement on the $35.109m deficit recorded in the prior year. This lower deficit was due to decreased property costs and depreciation, linked to the transfer of properties to NGOs through the BHF program.

The BHF transfers explained the $137.032m Net Deficit for the year, as this included $132.921m representing the final transfer of properties in Stage 2 of the program. This occurred in July 2014. The Comprehensive Deficit of $139.259m included a $2.227m decrement in the valuation of Housing Tasmania's properties during the year.

Tasmanian Museum and Art Gallery

Tasmanian Museum and Art Gallery (TMAG) recorded an Underlying Deficit of $0.281m but a Net Surplus of $7.668m. The Net Surplus included a revaluation of TMAG buildings, recorded as a gain on Non-financial assets, of $7.495m, which reversed previous revaluation decrements. The revaluation of TMAG's heritage and cultural assets, as well as its land assets, resulted in an increase to its revaluation reserve of $7.572m, increasing its Comprehensive Surplus to $15.240m.

Ambulance Tasmania

The Underlying Deficit for Ambulance Tasmania of $5.032m was principally a result of reduced user charges income in 2014-15. The prior year included a significant accrual for a backlog of Department of Veteran's Affairs (DVA) claims from several past years. This accrued revenue figure amounted to $5.500m, whereas the accrued revenue figure for 2014-15 was $2.500m, suggesting that the backlog was being addressed.

The Net Deficit of $0.116m was an improvement on the recorded Underlying Deficit, due to the inclusion of capital appropriation funding of $2.957m and the net actuarial gain on the superannuation defined benefit scheme of $1.959m.

ABT Railway Ministerial Corporation

ABT railway recorded a significant improvement in its Underlying Surplus in 2014-15, improving from a deficit of $1.738m in 2013-14 to a surplus of $1.425m this year. This was principally due to the fact the prior period covered a period of 7 months, while 2014-15 covered the full twelve months.

The focus in the prior year was to undertake a significant maintenance program to get the railway operational again, for which a grant of $6.000m was received. These funds were held at Treasury and claimed when expenditure was made. In the prior year, $3.988m was expended and hence drawn down. This year, only $0.409m of the funding was recorded as revenue.

The operations in the current year included higher ticketing revenue of $0.967m and increased Appropriation of $0.860m. A decrease in supplies and consumables expenditure of $0.848m also contributed to the improved result, with reduced spending for consultants, property services, communications and operating lease costs.

AUDIT SUMMARY - OTHER GENERAL GOVERNMENT SECTOR STATE ENTITIES

SNAPSHOT

- All entities included in this Chapter, except for the Royal Tasmanian Botanical Gardens, submitted their financial statements within the statutory deadline.
- All audits were completed satisfactorily with unqualified audit reports issued in all instances.

Other General Government Sector State entities incurred a combined Underlying Deficit of $13.635m, and a Comprehensive Deficit of $57.374m. The sixteen entities had combined Net Assets totalling $325.699m.

The main contributors to this result were:

- TasTAFE recorded an Underlying Deficit of $4.729m, a Comprehensive Deficit of $52.180m and Net Assets of $172.751m. The Comprehensive Deficit was influenced by the write down of building assets treated as an expense.
- State Fire Commission recorded an Underlying Deficit of $6.798m, a Comprehensive Deficit of $4.141m and Net Assets of $91.292m. This was the second successive year with a significant deficit and highlights the need to control costs into the future.

A number of issues were raised in a number of the entities, relating to accounting controls and processes, many focussing on the departure from internal policies.

INTRODUCTION

The General Government Sector (GGS) consists of Government Departments and non-profit State entities controlled and mainly financed by Government. Non-profit State entities are created for the purpose of producing or distributing goods and services but are not a source of income, profit or other financial gain for Government.

Audits of financial statements for GGS entities are carried out under the provisions of *Audit Act 2008* which requires these entities to submit their financial statements to the Auditor-General.

This Chapter provides information on the following entities:

- Asbestos Compensation Fund - consolidated into Justice
- Director of Public Prosecutions
- Inland Fisheries Service
- Integrity Commission
- Marine and Safety Tasmania
- Office of the Ombudsman and the Health Complaints Commissioner
- Royal Tasmanian Botanical Gardens
- State Fire Commission
- Tasmanian Community Fund
- Tasmanian Early Years Foundation
- Tasmanian Economic Regulator
- Tasmanian Heritage Council
- TasTAFE
- Tourism Tasmania
- The Nominal Insurer
- Workcover Tasmania Board - consolidated

The financial results discussed are derived from the audited financial statements of each entity. The reporting framework for these entities is generally prescribed by their enabling legislation. The majority of these entities prepare general purpose financial statements. In our analysis of some entities' financial performance we have, if necessary, reallocated certain revenue or expenditure items to better assist readers interpret financial performance.

AUDITS OF THE 2014-15 FINANCIAL STATEMENTS

The GGS State entities listed previously submitted their financial statements within the statutory deadline, with the exception of Royal Tasmanian Botanical Gardens, which submitted its financial statements seven days after the statutory reporting deadline.

Unqualified audit reports were issued in all cases.

KEY AREAS OF AUDIT ATTENTION

For the entities under review, some of the key areas of focus were:

Description of Area	Audit Approach
TasTAFE TasTAFE recorded its land and buildings at fair value, with a full revaluation to occur in 2014-15. Key potential risks identified are: • Valuation of land and buildings, including the use of a utility factor for buildings. • Timely transfer and correct treatment of capital works in progress – mainly related to the Student Information Management System. • Accuracy of depreciation charges. • Reconciliation of the fixed asset register to Finance One.	We: • reconciled movements and closing balances • performed detailed analytical review over the depreciation calculation • reviewed year end capital works in progress for correct treatment • tested the valuation methodology, ensuring it was applied correctly and in accordance with AASB13 *Fair Value Measurement* and TasTAFE's policy • assessed the revaluation of Land and Buildings for the reasonableness of key underlying assumptions • ensured valuation movements were recognised and disclosed appropriately • All testing was completed satisfactorily.
TasTAFE had budgeted for net operating losses over the next four years, and as a result faced challenges in meeting its budget and finding further savings in the current economic climate of reducing Government spending. This gives rise to a risk that transactions may not be recorded in the appropriate period or there are delays in paying suppliers as part of budget management.	We: • performed cut-off testing over revenues and expenses to ensure they were recognised and recorded in the correct period • tested key controls, journal entries (based on risks of override), the rationale for significant transactions and areas of management judgements and estimates • performed an assessment of TasTAFE's ability to operate as a going concern. • No issues were identified in the completion of this work.

Description of Area	Audit Approach
State Fire Commission The Commission received the vast majority of their revenue from the following third parties: • Insurance fire levy • Fire services contribution from Councils • Motor vehicle fire levy.	• We used external confirmations for selected third-party transactions to verify accuracy and cut-off. • Testing was completed satisfactorily.
The Commission had employees who were members of its own defined benefit superannuation scheme. The Commission's obligation under the scheme (less fair value of plan assets) was recognised in the Statement of Financial Position. The value of the unfunded superannuation liability and movements recognised in the financial statements are based on an annual valuation. This valuation were based upon a number of assumptions and the use of discount rates, all of which are volatile. The Commission used an independent actuary to calculate this net liability.	• An independent expert was engaged by our Office to review the assumptions made by the Actuary in valuing the Commission's superannuation liabilities. It is our current policy to appoint our own independent expert every three years. • Our expert concluded that assumptions and methodology used by the Actuary comply with legislation and relevant valuation framework. • We reviewed the actuarial report, and ensured compliance with Accounting Standard AASB 119 *Employee Benefits*. No issues were identified in the completion of this work.

For the remaining entities, there were no key areas of audit attention.

KEY DEVELOPMENTS

During our audit of the above entities, the following key developments were noted:

Director of Public Prosecutions

This financial year the Director implemented a new practice management system, and for the first time commenced the enforcement of confiscated profits under the newly passed Unexplained Wealth legislation.

State Fire Commission

Commission became responsible for the funding of the State Emergency Service at the commencement of the financial year. This was unbudgeted and cost approximately $2.494m.

Tasmanian Economic Regulator

The Board recently reduced its membership from three members to one.

Tasmanian Heritage Council

A new Chairperson was appointed during the financial year.

TasTAFE

The following developments were noted:

- a new deed of purchasing arrangement was established between State Growth and TasTAFE, referred to as the, TasTAFE Re-design Project was finalised in January 2015, which resulted in significant termination payments, $2.022m in 2014-15, supporting budget saving strategies

- acquisition and implementation of a new Student Management System is expected to occur in January 2016, with an estimated cost of $5.700m over three years. The balance capitalised at 30 June 2015 was $1.372m
- a revaluation of land and building was conducted during 2014-15, resulting in a significant decrease of $52.623m in the valuation of buildings. However, an increase in the value of land, $4.869m, minimally offset the reduction in buildings.

For the remaining entities, there were no key developments during the year.

KEY FINDINGS

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

Those audit findings of a high or moderate audit risks are documented below:

Asbestos Compensation Fund

During the course of the audit we noted:

- additional disclosures, relating to the recognition of levies, were required within the notes to the Financial Statements
- that the Fund did not have a risk management policy or risk register.

Management addressed the issue relating to the disclosure of the recognition of levies and were undertaking corrective action for the risk management policy and risk register.

Inland Fisheries Service

During the audit we noted a departure from the principle of independent review of expenditure. Management noted this and took corrective action.

Royal Tasmanian Botanical Gardens

During the course of the audit we noted:

- discrepancies when applying a revaluation calculation provided by an external contractor
- that the quality of the presentation of financial statements required improvement.

Management were working with audit on these matters to ensure they are addressed.

TasTAFE

During the course of the audit we noted:

- lack of operational effectiveness of general computer controls
- no reconciliation or segregation of duties over a receipting system administered by 'Skills Tasmania'
- insufficient segregation of duties over the finance journal process.

Management were investigating and working with audit on these matters.

For the remaining entities, there were no findings of a high or moderate risk level noted by audit during the year.

FINANCIAL ANALYSIS

Table 12 summarises the financial results and position of Other GGS State entities for 2014-15:

Table 12: Financial Results and Position

	Underlying surplus (deficit)	Net Surplus (Deficit)	Comprehensive Surplus (Deficit)	Net Assets
	$'000s	$'000s	$'000s	$'000s
Asbestos Compensation Fund [1]	0	0	0	0
Director of Public Prosecutions	(660)	(660)	(665)	(442)
Inland Fisheries Service	180	170	375	8 454
Intergrity Commission	(90)	(90)	(90)	216
Marine and Safety Tasmania	(41)	(41)	166	28 516
Office of the Ombudsman and Health Complaints Commissioner	8	8	8	74
Royal Tasmanian Botanical Gardens	(225)	(225)	433	11 016
State Fire Commission	(6 798)	(6 008)	(4 141)	91 292
Tasmanian Audit Office[2]	59	59	59	1 795
Tasmanian Community Fund	648	648	648	9 770
Tasmanian Early Years Foundation	(453)	(453)	(453)	581
Tasmanian Economic Regulator	21	21	21	61
Tasmanian Heritage Council [3]	0	0	0	135
TasTAFE	(4 729)	(55 857)	(52 180)	172 751
Tourism Tasmania	(109)	(109)	(109)	(60)
The Nominal Insurer	(1 446)	(1 446)	(1 446)	1 540
Workcover Tasmania Board [4]	0	0	0	0
Total	**(13 635)**	**(63 983)**	**(57 374)**	**325 699**

1 - The Asbestos Compensation Fund records a break even result, as future funding levels are calculated to recover costs. Similarly, receivables are calculated to match payables, hence Net Assets are also recorded as zero.

2 - The Tasmanian Audit Office has been included in the interests of transparency and openness.

3 - Tasmanian Heritage Council records a break even result as the contribution from State Government is set to match expenditure in the year.

4 - Workcover Tasmania Board records a break even result as revenue from levies matches movements in expenditure. Similarly, receivables are calculated to match payables, hence Net Assets are also recorded as zero.

A review of the financial results of these entities for 2014-15 identified the following:

State Fire Commission

The Commission reported an Underlying Deficit of $6.798m. The deficit was primarily due to significantly higher expenses for insurance, community awareness and general operational and staff costs, such as fuel, IT and fire fighting and prevention. In addition, the Commission became responsible for meeting costs related to the State Emergency Service of $2.494m, which was unbudgeted and not funded. The Underlying Deficit in the current year follows a $5.018m deficit in the previous year.

Cash provided by operating activities only generated $0.254m in 2014-15, and given the level of capital expenditure undertaken at the Commission of approximately $6.492m, this resulted in a cash balance as at 30 June 2015 equalling $0.864m. Unless costs are curtailed in the future, the capital expenditure program may have to be reduced, or additional borrowings drawn, to ensure sufficient cash reserves are maintained.

The Comprehensive Surplus decreased to $4.141m, due to the impact of a $1.184m increase in the valuation of land and buildings, processed through the revaluation reserve, and an actuarial gain on the Commission's defined benefit superannuation scheme of $0.683m.

The Commission had a significant asset base of $91.292m, made up predominantly of Buildings (written down value of $40.976m), Fire Appliances including vehicles (written down value of $32.531m) and land assets (written down value of $17.517m).

TasTAFE

TasTAFE reported an Underlying Deficit of $4.729m. The deficit was predominantly due to Depreciationnot being funded of, $8.825m. Notwithstanding positive cash flow from operations generated in the current period, continuing to make Underlying Deficits and Net Losses will not be sustainable as TasTAFE will be required to reinvest in its Property, plant and equipment as well as repay existing loans and deficit reimbursements.

The Net Deficit of $55.857m was influenced by a write-down of TasTAFE's building assets by $51.431m, processed through the Statement of Comprehensive Income as the revaluation reserve for buildings was extinguished. The Comprehensive Deficit was a $3.667m improvement on the net deficit, due to an increase in the valuation of land, $4.869m, which was offset by the balance of the buildings asset revaluation reserve that was utilised during the year of $1.192m.

Despite these revaluation adjustments, TasTAFE still had significant Net Assets of $172.751m, with the written down value of land and buildings totalling $173.998m.

Tasmanian Early Years Foundation

The Foundation recorded a deficit of $0.453m in the 2014-15 year, as it provided an additional $0.065m of scholarships and donations, while recording only $0.026m of revenue for the year. Without further revenue or contributions being received, the Foundation will need to curtail the level of scholarships and donations, otherwise it will risk running out of funds.

Royal Tasmanian Botanical Gardens

Royal Tasmanian Botanical Gardens recorded and Underlying Deficit of $0.255m compared to a $0.323 surplus for the previous year. This resulted mainly from:

- reduced revenue from donations and bequests, including project donations of $0.250m
- lower income from consultancy work, $0.095m,
- interest income being $0.056m lower than the previous year
- grant income dropping by $0.083m
- lower net costs related to restaurant operations affected by its closure for part of the year, $0.135m.

These were offset in part by increased expenses for other projects supported by industry, $0.298m.

The Nominal Insurer

The Nominal Insurer reported an Underlying Deficit of $1.446m, predominantly due to a payment made to the Department of Justice, $4.423m, in accordance with the *Workers Rehabilitation and Compensation Act 1988*, for promotion of workplace safety. This was partially offset by less general claims from prior year by $0.606m, and increases in operating revenues of $2.984m.

Marine and Safety Tasmania

The Net Assets of Marine and Safety Tasmania represent largely the carrying value of marine facilities, including navigational aids, of $25.014m.

AUDIT SUMMARY - OTHER STATE ENTITIES

SNAPSHOT

- All entities included in this Chapter, except for the Property Agents Board, River Clyde Trust and Tasmanian Dairy Industry Authority, submitted their financial statements within the statutory deadline.
- Apart from the River Clyde Trust, all audits were completed satisfactorily. The audit of the River Clyde Trust is ongoing. Unqualified audit reports were issued in all instances except for the National Trust of Australia (Tasmania).
- A qualified audit report was issued on the financial statements of the National Trust of Australia (Tasmania). The report also included an emphasis of matter paragraph.
- Other State entities incurred a combined Underlying Deficit of $0.032m, and a Comprehensive Deficit of $0.057m.
- The thirteen entities reported upon had combined Net Assets to the value of $58.109m.

INTRODUCTION

Other State entities included in this Chapter are statutory authorities and other non-profit entities not consolidated into the General Government Sector financial statements.

Audits of financial statements for these entities are carried out under the provisions of the Audit Act which requires them to submit their financial statements to the Auditor-General.

This Chapter provides information on the following entities:

- Aboriginal Land Council
- Council of Law Reporting
- Forest Practices Authority
- Legal Aid Commission of Tasmania
- Legal Profession Board
- National Trust of Australia (Tasmania)
- Property Agents Board
- Property Agents Trust
- River Clyde Trust
- Tasmanian Beef Industry (Research and Development) Trust
- Tasmanian Building and Construction Industry Training Board
- Tasmanian Dairy Industry Authority
- Teachers Registration Board of Tasmania
- Wellington Park Management Trust.

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

AUDIT NOT COMPLETED AT THE TIME OF FINALISING THIS REPORT

River Clyde Trust did not submit its financial statements within 45 days from the end of the financial year and an audit is yet to be undertaken. As a result, the audit outcomes and financial analysis of River Clyde Trust are not included in this Chapter, but will be addressed in a future report.

AUDITS OF THE 2014-15 FINANCIAL STATEMENTS

The Other State entities listed above submitted their financial statements within the statutory deadline with the exception of the Property Agents Board and the Tasmanian Dairy Industry Authority (TDIA). The Property Agents Board submitted its financial statements 26 days after the statutory deadline, whereas the TDIA submitted its financial statements six days late.

Unqualified audit reports were issued in all cases except National Trust.

KEY FINDINGS, DEVELOPMENTS AND AREAS OF AUDIT ATTENTION

Audits were completed satisfactorily, with the following key findings reported to management.

Aboriginal Land Council

We noted that in an isolated case, the Council did not hold a lease agreement to support the amounts being receipted. The Council accepted the issue and will seek to obtain the relevant supporting documentation.

Legal Aid Commission of Tasmania

It was noted that the Commission had not included old equipment in its asset register. This was since rectified by undertaking a stock-take, ensuring that the asset register was complete.

National Trust of Australia (Tasmania)

A qualified audit report including an emphasis of matter on economic dependency was issued on 28 October 2015. The audit report contained the following "except for" audit qualification and emphasis of matter:

Qualification

> *The Trust possesses certain heritage collections referred to in Note 1 (l) of the financial report, but not all of these assets have been recognised in the financial report. Due to the nature of the assets, it is not possible to quantify the financial effects of the Trust's failure to comply with Australian Accounting Standard AASB 116 Property, Plant and Equipment.*

Emphasis of Matter

> *I draw attention to Note 1 (d) to the financial report, which describes the Trust's economic dependency on the State Government and that it was appropriate to adopt a going concern basis for the preparation of the financial report. This was based upon recognising that its future sustainability is critically dependent on on-going financial support from the State Government, currently secured through a triennial funding agreement. My opinion is not modified in respect of this matter.*

During the course of the audit we noted:

- that certain heritage collection assets were not reflected in the financial statements
- that there were no minutes recorded for Audit Committee meetings
- several deviations from current expenditure policies and practices
- outdated and/or unsigned employee contracts on file
- insufficient procedures around inventory management
- excessive leave balances.

Management are investigating and working with audit on these matters.

FINANCIAL ANALYSIS

Table 13 below summarises the financial results and position of Other State entities for 2014-15:

Table 13: Financial Results and Position

	Underlying Surplus (Deficit)	Net Surplus (Deficit)	Comprehensive Surplus (Deficit)	Net Assets
	$'000s	$'000s	$'000s	$'000s
Aboriginal Land Council	229	229	229	25 118
Council of Law Reporting	(2)	(2)	(2)	11
Forest Practices Authority	342	342	342	1 363
Legal Profession Board	(1)	(1)	(1)	139
Legal Aid Commission of Tasmania	(784)	(784)	(784)	1 842
National Trust of Australia (Tasmania)	(22)	(22)	(57)	9 188
Property Agents Board	15	15	15	486
Property Agents Trust	(506)	(506)	(506)	12 744
Tasmanian Building and Construction Industry Training Board	418	428	428	3 044
Tasmanian Beef Industry (Research and Development) Trust	8	8	8	603
Tasmanian Dairy Industry Authority	144	144	144	434
Teachers Registration Board	55	55	55	1 028
Wellington Park Management Trust	13	13	13	314

A review of the financial results of these entities for 2014-15 identified the following:

Legal Aid Commission of Tasmania

The Commission recorded an Underlying Deficit of $0.784m, predominantly due to no distributions from the Solicitors' Trust in the current financial year.

Property Agents Trust

The Trust recorded an Underlying Deficit of $0.506m on the back of an Underlying Deficit of $0.151m in 2013-14. The current year deficit related mainly to an increase, $0.246m, in distribution to Property Agents Board for education and training, and higher research expenditure, $0.078m.

Tasmanian Building and Construction Industry Training Board

The Board recorded a significant improvement in its Underlying Result for the year, improving from an Underlying Deficit of $0.893m to an Underlying Surplus of $0.418m. This turnaround was due to increased training levies received of $0.574m, fuelled by:

- construction relating to the extension of the first home buyers grant
- Stage two of the Myer construction project
- construction activity for student accommodation for UTAS in Launceston.

There was also a $0.719m decrease in training program expenditure, due to the cyclical nature of the industry with a lower uptake of apprenticeships in 2015 being the major contributor, as well as no major changes in the regulatory requirements to drive additional training needs.

RETIREMENT BENEFITS FUND (RBF)

In this Chapter we comment on the superannuation funds managed by the RBF Board.

OVERALL CONCLUSION

Signed financial statements were received on 13 August 2015 and an unqualified audit report was issued on the same day.

Investment returns were lower this year and reflected market movements over the last 12 months as well as the introduction of new investment options. Net investments revenue totalled $0.446bn and represented an 8.4% return on Investments. The value of Net Assets managed by RBF reached $5.305bn this year, with 65% invested in the Tasmanian Accumulation Scheme (TAS) (which is a defined contribution scheme). TAS will be consolidated with Tasplan (subject to due diligence and enactment of enabling legislation) by the end of 2016 and the administrator of the RBF defined benefit schemes will be decided by an open tender.

SNAPSHOT

- Assets under management reached $5.305bn at 30 June 2015. This was $0.421bn higher than at the same time last year.
- Net investment revenue was $0.446bn. This was $0.052bn less than last year and was reflective of net market values of investments over the last 12 months as well as the introduction of new investment options.
- Combined Accrued benefits for all defined benefit schemes managed by RBF totalled $6.304bn at 30 June 2015. The market value of Net Assets available to pay these benefits was $1.851bn, resulting in an Unfunded liability of $4.453bn.

Major developments in the year included:

- On 30 July 2015 the Treasurer announced the Tasmanian Government's support for the creation of a single Tasmanian superannuation fund responsible for the combined accounts of Tasplan, Quadrant and TAS. The announcement did not impact the 2014-15 audit and was disclosed as a subsequent event in the notes to the financial statements.
- This announcement delivered two key outcomes for RBF members:
    - TAS will be consolidated with Tasplan to create a rebranded entity (subject to due diligence and enactment of enabling legislation).
    - the Government will conduct an open tender process to secure a provider to administer the RBF defined benefit schemes.

The audit was completed satisfactorily with no matters outstanding.

The Responsible Minister is the Treasurer.

INTRODUCTION

RBF is Tasmania's public sector superannuation fund. Membership is available to people working on a casual, contract, permanent or temporary, full or part-time basis for a Tasmanian public sector employer and their spouses, including Members of Parliament. Members who leave the Tasmanian public sector may, on satisfying certain conditions, continue to contribute to TAS via personal contributions (excluding superannuation guarantee).

RBF prepares financial statements that are aggregated at a fund level and include the following sub-funds, for which RBF has management and administrative responsibilities as the Trustee:

- RBF Contributory Scheme – is the main defined benefit scheme established under the *Retirement Benefits Act 1993*. It has been closed to new members since 15 May 1999.

- TAS – was established under the provisions of the *Public Sector Superannuation Reform Act 1999* and replaced the partly funded RBF non-contributory scheme on 25 April 2000. The TAS had two accounts, Superannuation Guarantee (SG) Account and Account Based Pensions. The sub-fund is managed in accordance with the TAS Trust Deed.
- Parliamentary Superannuation Fund and the Parliamentary Retiring Benefits Fund – these became sub-funds of the RBF on 1 January 2003 pursuant to the *Retirement Benefits (Parliamentary Superannuation Trustee Arrangements and Miscellaneous Amendments) Act 2002*.
- Tasmanian Ambulance Service Superannuation Scheme (TASSS) – became part of the RBF on 30 June 2006 pursuant to the *Retirement Benefits (Tasmanian Ambulance Service Superannuation Scheme) Act 2006*. The sub-fund is managed in accordance with TASSS.
- State Fire Commission Superannuation Scheme (SFCSS) – became part of the RBF on 1 May 2006 pursuant to the *Retirement Benefits (State Fire Commission Superannuation Scheme) Act 2005*. The sub-fund is managed in accordance with the SFCSS.

RBF has the following wholly owned subsidiaries:

- RBF Financial Planning Pty Ltd - refer to a separate section later in this Chapter
- RBF Property Pty Ltd *
- RBF Direct Pty Ltd*.

*These audits were dispensed with. However, we reviewed their 2014-15 financial reports to obtain sufficient audit evidence about the amounts and disclosures in the RBF's financial statements, but not for the purpose of expressing a separate opinion.

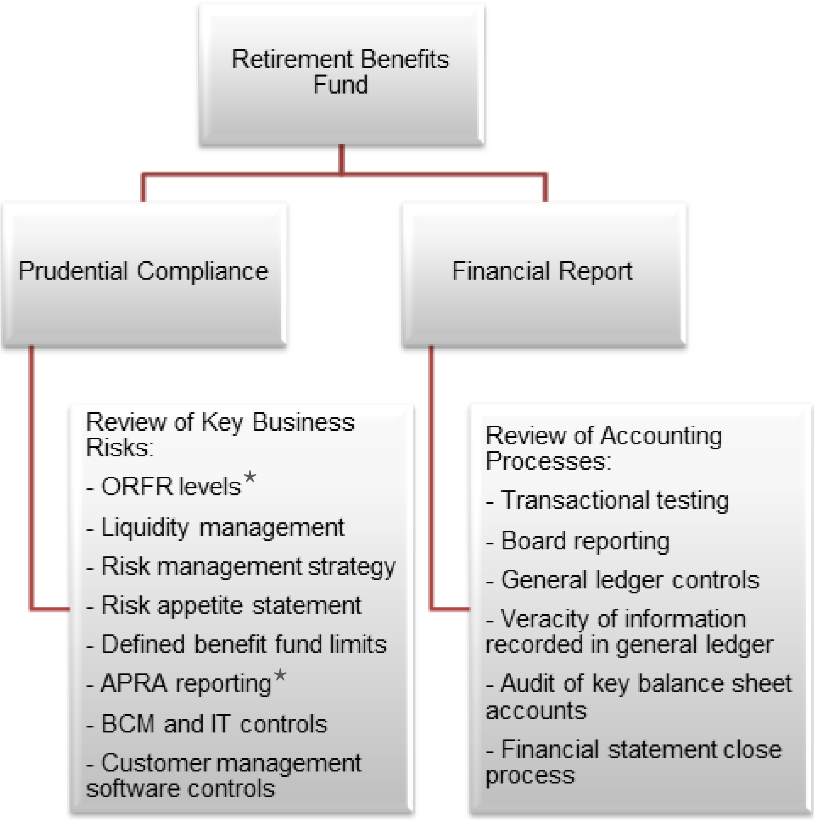
TERMS USED IN THIS CHAPTER

- Accumulation scheme (or defined contribution scheme) – under this scheme the employer's contribution is fixed according to the scheme requirements and legislative rules. The end benefit consists of the accumulated contributions by the employer and employee, together with the investment earnings on the contributions less administration costs.
- Defined benefit scheme – these schemes have benefits that accrue on resignation, retirement or death, and are predetermined according to a formula established in the schemes' rules or regulations. The employer's contributions will vary depending on the performance of the underlying investments, the lifespan of the pensioners, and the final average salary of contributing employees before their retirement.
- Funded scheme – in this type of scheme the employer makes regular contribution to the fund reflecting the currently accruing liability in regard to employees.
- Unfunded scheme – a scheme in which the employer financed benefit component is met on an 'emerging costs' basis when the employee becomes entitled to receive his or her pay-out, and without any money set aside in the scheme by the employer for that individual's benefit.

KEY AREAS OF AUDIT ATTENTION

Fundamental to our audit approach was the view that audit risk is influenced by business risk. Our audit began with understanding current and emerging developments that could affect RBF's business environment and risk. Many risks are reflective of the constant developments within the regulatory, competitive and market environments that continue to pose challenges for RBF, all of which impact the audit. Figure 35 details our approach:

Figure 35: Audit Approach



* *ORFR stands for Operational Risk Financial Requirements, APRA stands for Australian Prudential Regulation Authority and BCM stands for Business Continuity Management.*

The following is a summary of the key areas of our audit and the audit approach adopted:

Description of Area	Audit Approach
Member administration processes and platforms were outsourced to Mercer (Australia) Pty Ltd (Mercer). Member administration included receipting contributions from members and employers, crediting contributions to individual member accounts, making benefits payments and allocation to appropriate funds.	• In addition to placing reliance on the internal control assurance report (GS 007), we documented processes and performed audit procedures to obtain a sufficient level of assurance over the design and operation of controls at Mercer and RBF. • We supplemented controls reliance with substantive procedures to ensure that contributions and benefit payments were not materially misstated by testing a sample of transactions.

Description of Area	Audit Approach
Investments held by the Custodian were independently audited each year.	• Confirmation of existence and valuation of investments through Custodian certificates and obtained relevant GS 007 assurance reports. • Obtained direct third party confirmations for a sample of investments. • Reviewed the internal control framework with regards to monitoring the Custodian. • Documented and tested the governance structure implemented for monitoring investments with regards to valuation and measurement. • For property investments, utilised independent valuer reports to support the carrying value of property investments.
Mortgage investments were managed internally.	• Analytical testing of loan portfolio. • Reviewed large exposures and any arrears. • Ensured balances in loan subsystems agreed to the general ledger. • Reviewed customer statements and customer complaints processes. • Reviewed and tested adherence to credit policies and procedures. • Further testing performed within loan provisioning and lending processes.
Superannuation funds were taxed at the rate of 15% on net investment earnings, assessable employer contributions and capital gains. Tax deductions were allowed for administration expenses. Tax effect accounting calculations were subject to complex tax legislation and rulings and generally were performed within a short timeframe.	• Reviewed calculations and supporting workings provided by RBF and its external tax consultant. • For major balances and transactions reviewed the work papers and any external advice obtained to ensure that it was complied with.
Clearing accounts were temporary accounts containing transactions and balances that were to be transferred to another account and included contributions that were yet to be allocated to member accounts.	• Ensured reconciliations were completed and reviewed on a timely basis. Audited the process of controlling clearing accounts. • Reviewed to assess the flow of transactions and the validity of reconciling items evident on reconciliations.

Description of Area	Audit Approach
Investment revenue	• Completed full system walkthroughs. • Documented key controls. • Detailed compliance testing on controls relied on. • Comprehensive review of system interfaces and recognition. • Analytical review of interest revenue on loan accounts. • Detailed analytical review of other income.
Contribution revenue	• Understanding the outsourced service providers processes. • Consideration of controls in place at RBF to ensure veracity of information received. • Reliance on controls in Service Auditor's type 2 report where appropriate. • Walkthrough testing.
Benefits paid	• Understanding the outsourced service providers processes. • Consideration of controls in place at RBF to ensure veracity of information received. • Walkthrough testing. • Reliance on controls in Service Auditor's type 2 report where appropriate.

AUDIT OF THE 2014-15 FINANCIAL STATEMENTS

Signed financial statements were received on 13 August 2015 and an unqualified audit report was issued on the same day.

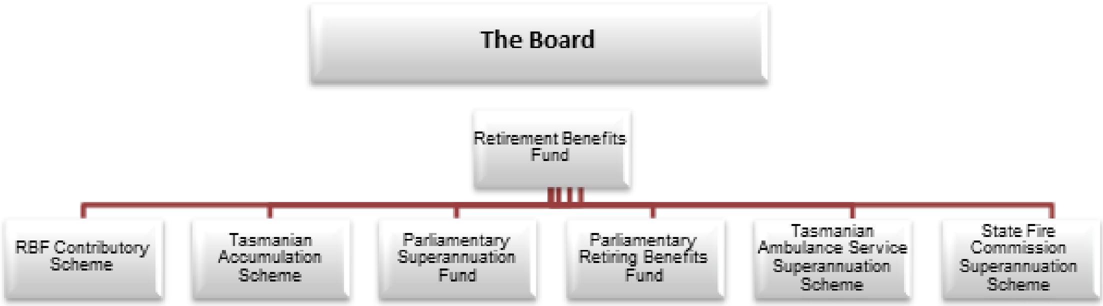
KEY FINDINGS

There were no key findings.

KEY DEVELOPMENTS

Figure 36 illustrates the relationship between the RBF Board, RBF and individual sub-funds.

Figure 36: Retirement Benefits Fund Board



Strategic Review

On 30 July 2015 the Treasurer announced Government's support for the creation of a single Tasmanian superannuation fund responsible for the combined accounts of Tasplan, Quadrant and TAS.

This announcement delivered two key outcomes for RBF members:

- TAS will be consolidated with Tasplan to create a rebranded entity (subject to due diligence and enactment of enabling legislation)
- the Government will conduct an open tender process to secure a provider to administer the RBF defined benefit schemes.

The announcement did not impact the 2014-15 audit and was disclosed as a subsequent event in the notes to the financial statements. Subject to the required approvals, agreements and legislative changes, it is expected that the merged entity will be operational by the end of 2016. The new entity will replace RBF as the default fund for Tasmanian public sector employees.

New Accounting Standard

In June 2014, the Australian Accounting Standards Board issued a new Australian Accounting Standards AASB 1056 *Superannuation Entities* that comprehensively reformed the general purpose financial reporting requirements applicable to superannuation entities. This standard is applicable for reporting periods beginning on or after 1 July 2016 and will replace AAS 25 *Financial Reporting by Superannuation Plans,* which was issued in 1993. RBF did not early adopt AASB 1056 and was in the process of assessing the impact of the Standard.

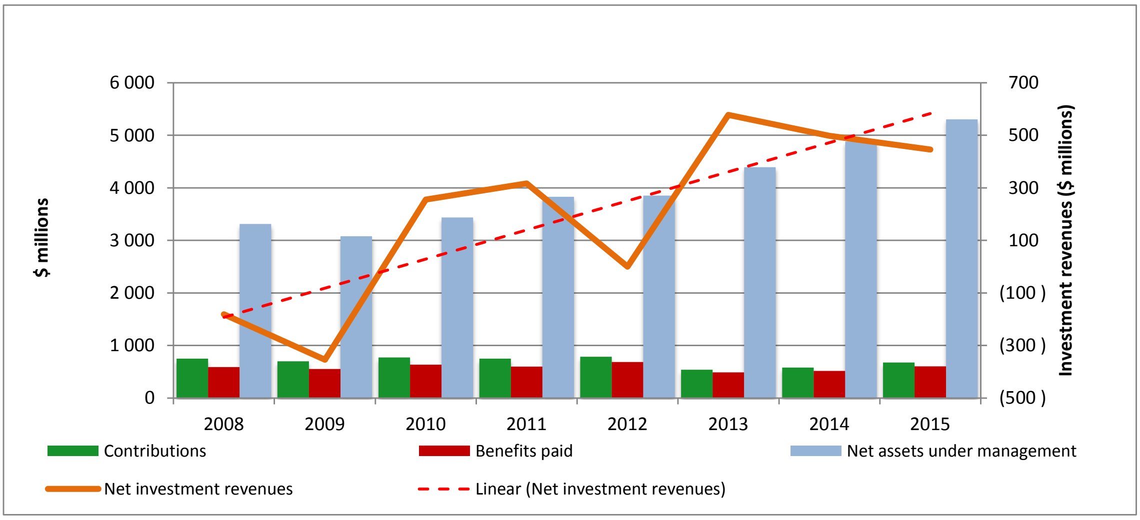
The following table summarises of the key changes with the introduction of AASB 1056:

Summary of key changes	Summary of change
New presentation for financial statements	New presentation format, including the introduction of a statement of changes in member benefits to disclose member related transactions and the statement of changes in equity held in superannuation entities in the form of reserves. Total liabilities to include both defined contribution and defined benefit accrued benefits and any obligation to employers.
Measurement and disclosure of defined benefit obligations	The Standard defines the approach for measurement and presentation of defined benefit obligations to be included in the statement of financial position. Measurement to be performed on an annual basis.
Exemption from consolidation of controlled entities	The Standard allows the application of the 'investment entity' exemption under AASB 10 *Consolidated Financial Statements* as amended by AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities* if certain criteria set out in the standard are met. The Standard states that an investment entity shall not consolidate its subsidiaries or apply AASB 3 *Business Combinations*when it obtains control of another entity. Instead an investment entity shall measure an investment in a subsidiary at fair value through the profit and loss in accordance with AASB 9 *Financial Instruments* (AASB 139 if AASB 9 *Financial Instruments: Recognition and Measurement* has not yet been adopted).
Paragraph 66 exemption in AAS 25 removed	Under AAS 25, superannuation entities whose only assets were in endowment, whole of life or other long-term insurance policies did not need to comply with a number of the recognition, measurement and disclosure requirements. This exemption has been removed.

FINANCIAL ANALYSIS

Over the last eight years, RBF received $5.560bn in contributions from employers and members, including roll-ins and transfers, and paid out $4.679bn in pensions, lump sums or roll-overs to other funds. Net investment revenues totalled $1.559bn over the same period. Figure 37 shows the growth in assets since 2008 and illustrates the volatility of Investment revenues.

Figure 37: Assets Invested and Net Investment Revenues

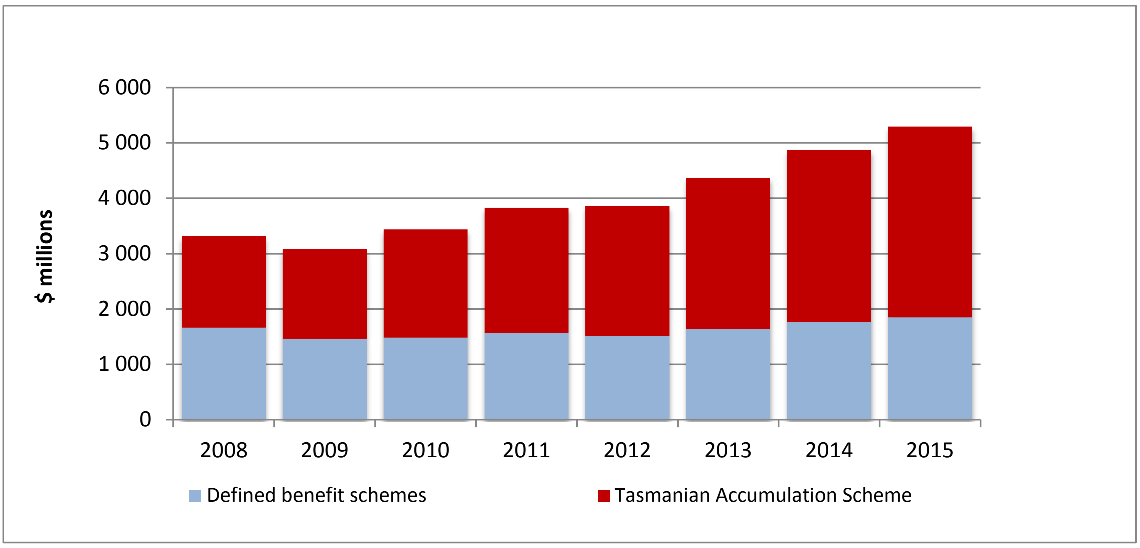


Source Tasmanian Audit Office

The value of assets under management grew steadily after a decline in the wake of the global financial crisis between 2008 and 2009. However, some of those gains were lost in 2012 following the sovereign debt crisis in Europe and weaker global economic growth. Net investment revenues totalled $0.446bn in 2014-15, which was slightly down on the previous year's result of $0.498bn. This 10.4% decrease in investment earnings was reflective of the market over the last 12 months.

Figure 38 provides a breakdown of funds under management between the five defined benefit schemes and the Tasmanian Accumulation Scheme (which is a defined contribution scheme):

Figure 38: Allocation of Net Assets

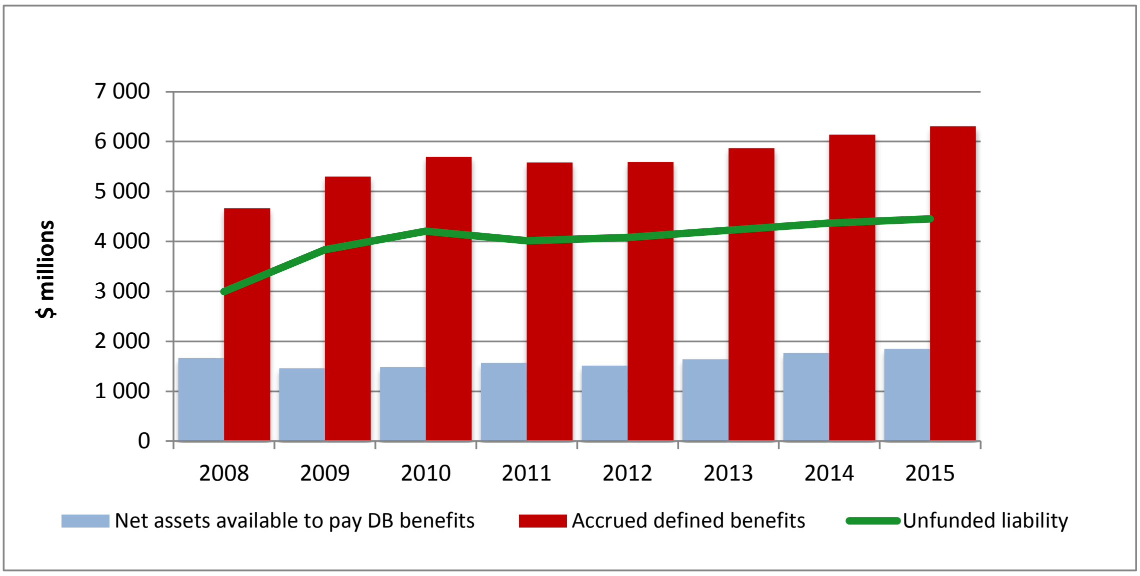


Source Tasmanian Audit Office

In 2008, the value of net assets was divided evenly between the defined benefit schemes and TAS. The graph shows that the value of net assets invested in TAS grew steadily and in 2015 represented 65% of total funds under management. The growth in TAS, when compared to the defined benefits schemes, was to be expected as the defined benefit schemes are closed to new members.

Combined accrued benefits for all defined benefit schemes managed by RBF totalled $6.303bn at 30 June 2015. The market value of net assets available to pay these benefits was $1.851bn, resulting in an Unfunded liability of $4.453bn. Movements in this metrics are noted in Figure 39.

Figure 39: Accrued Defined Benefits and Net Assets



Source Tasmanian Audit Office

Overall, the value of the unfunded liability continued growing. The Government is responsible for funding the shortfall between net assets and the value of accrued benefits for members employed by general government sector entities. This liability was held centrally and was recognised within the Department of Treasury and Finance – Finance-General's Statement of Financial Position at the latest actuarial assessment. Other State entities which participate in the defined benefits schemes are responsible for meeting their own obligations although the State is ultimately responsible for the full liability.

Administration fees paid to the Board

From late April 2011, the member administration processes and platforms were outsourced to Mercer. This arrangement aimed to mitigate future risks associated with the Board's ageing computer systems and reduce associated costs.

These changes led to variations in the composition of administration costs, whereby employee expenses decreased due to lower staff numbers in the IT and member services areas but outsourcing costs increased. Over the past couple of years, as the outsourced services have become bedded down and with the Strategic Review on-going in the last 12 months, project work has been placed on hold.

Table 14 provides a breakdown of administration costs, excluding death and incapacity insurance fees, superannuation contribution surcharges and taxes:

Table 14: Administration Costs

	2014-15	2013-14	2012-13
	$'000s	**$'000s**	**$'000s**
Employee benefits and related payment	12 063	12 987	11 927
Outsourcing of member services	11 310	10 881	10 981
Information systems	1 569	1 488	1 191
Other expenses	1 987	2 782	3 617
Underlying Administration Expenses	**26 929**	**28 138**	**27 716**
Superannuation expenses for RBF employees	2 082	1 708	(1 324)
Fund expenses	1 278	1 439	2 215
Fund capital initiatives	69	1 114	5 714
Recoveries from sub-funds	(15 572)	(14 508)	(13 853)
General operating fee	14 495	12 276	10 709
Total Administration Expenses	**29 281**	**30 167**	**31 177**
Staff numbers at 30 June	93	102	108
Total underlying administration expenses as a % of total contributions received and benefits paid	4.00%	2.57%	2.69%
Average staff cost ($'000s)	102	99	95
Total administration expenses as % of Net assets under management	0.55%	0.62%	0.71%

Total administration expenses represented 0.55% of Net assets under management, which was lower compared to previous years. The decline was attributed mainly to lower spending on capital initiatives, which in the previous years included improvements to information technology and upgrades to RBF premises.

RBF FINANCIAL PLANNING PTY LTD

RBF Financial Planning Pty Ltd was a wholly owned subsidiary of RBF, established to provide RBF members with financial planning advice. Its revenue was derived predominately from financial planning fees charged to RBF members. It held an AFS Licence, which authorises it to provide financial product advice to clients.

Signed financial statements were received on 13 August 2015 and an unqualified audit report was issued on this date.

The table below details RBF Financial Planning Pty Ltd's Statement of Comprehensive Income and Statement of Financial Position for the past four years.

Statement Of Comprehensive Income

	2014-15	2013-14	2012-13	2011-12
	$'000s	$'000s	$'000s	$'000s
Financial advice	349	264	248	244
Other revenue	8	10	12	17
Total Revenue	**358**	**274**	**260**	**261**
Operational costs	353	273	257	254
Total Expenses	**353**	**273**	**257**	**254**
Net Profit (Loss)	**4**	**1**	**3**	**7**

Statement Of Financial Position

	2015	2014	2013	2012
	$'000s	$'000s	$'000s	$'000s
Cash and cash equivalents	219	250	211	243
Other assets	34	51	52	51
Total Assets	**253**	**301**	**263**	**294**
Other liabilities	77	129	92	126
Total Liabilities	**77**	**129**	**92**	**126**
Net Assets	**176**	**172**	**171**	**168**
Total Equity	**176**	**172**	**171**	**168**

Retirement Benefits Fund - Operating Statement

	2014-15	2013-14	2012-13
	$'000s	**$'000s**	**$'000s**
Investment revenue	264 740	209 373	189 647
Changes in net market values	193 534	303 355	402 155
Direct investment expenses	(12 482)	(14 447)	(13 730)
Employer contributions	516 743	445 315	426 771
Member contributions	107 669	89 431	77 253
Transferred from other funds	54 733	46 766	36 451
Other revenue	175	4 826	5 374
Total Revenue	**1 125 112**	**1 084 619**	**1 123 921**
General administration expense	29 281	30 167	31 177
General operating fee – taxation component (credit)/charge	3 303	(5 487)	3 511
Insurance	324	233	146
Death and incapacity insurance	9 742	8 998	7 501
Superannuation contributions surcharge	0	(16)	(143)
Total Expenses	**42 650**	**33 895**	**42 192**
Benefits accrued before tax	**1 082 462**	**1 050 724**	**1 081 729**
Income tax expense	(54 879)	(46 828)	(53 877)
Benefits accrued after tax	1 027 583	1 003 896	1 027 852
Benefits paid	(606 145)	(515 404)	(488 124)
Liability for accrued benefits at start of year	4 883 916	4 395 424	3 855 696
Liability for Accrued Benefits at End of Year	**5 305 354**	**4 883 916**	**4 395 424**

Statement of Financial Position

	2015	2014	2013
	$'000s	**$'000s**	**$'000s**
Cash at bank	92 250	104 643	136 581
Receivables	6 658	2 684	5 042
Investments	5 313 304	4 856 989	4 325 031
Other assets	3 666	3 566	3 600
Total Assets	**5 415 878**	**4 967 882**	**4 470 254**
Payables	8 286	7 703	8 573
Contributions in advance	4 236	3 354	3 649
Provision for death and incapacity insurance	3 100	4 854	7 552
General operating provisions	20 439	17 886	29 779
Tax liabilities	53 940	31 011	7 655
Provision for Board employee entitlements	20 523	19 158	17 622
Total Liabilities	**110 524**	**83 966**	**74 830**
Net Assets Available to Pay Benefits	**5 305 354**	**4 883 916**	**4 395 424**
Represented by:			
Liability for Accrued Benefits			
Allocated to members' accounts – TAS	3 441 481	3 097 864	2 723 868
Allocated to members' accounts – Defined benefit plans	1 850 942	1 768 434	1 642 521
Not yet allocated	(115)	4 709	5 915
Total Liability For Accrued Benefits	**5 292 308**	**4 871 007**	**4 372 304**
Reserves	13 046	12 909	23 120
Net Liability for Accrued Benefits	**5 305 354**	**4 883 916**	**4 395 424**

Statement of Cash Flows

	2014-15	2013-14	2012-13
	$'000s	**$'000s**	**$'000s**
Employer contributions	514 079	446 958	438 040
Member contributions	107 669	88 561	74 342
Transferred from other funds	54 733	46 766	36 451
Interest received	8 707	10 965	10 289
Distributions received	3 248	2 450	1 722
Property and alternative investment receipts	3 340	3 681	3 889
Other	210	4 899	(5 126)
Benefits paid	(606 145)	(515 404)	(488 124)
Direct investment expenses	(11 977)	(14 381)	(12 990)
Management fees paid	(29 107)	(35 115)	(35 149)
Death and incapacity benefits paid	(11 496)	(11 696)	(9 046)
Insurance	(324)	(233)	(146)
Income tax paid	(31 754)	(23 230)	(29 270)
Superannuation contribution surcharge	(331)	(265)	(217)
Cash from (used in) Operations	**852**	**3 956**	**(15 335)**
Proceeds from the sale of investments	1 772 054	2 852 942	2 025 924
Payments for purchase of investments	(1 785 299)	(2 888 836)	(1 894 940)
Cash from (used in) Investing Activities	**(13 245)**	**(35 894)**	**130 984**
Net increase (decrease) in Cash	**(12 393)**	**(31 938)**	**115 649**
Cash at the Beginning of the Year	104 643	136 581	20 932
Cash at End of the Year	**92 250**	**104 643**	**136 581**

Financial Analysis

	2014-15	2013-14	2012-13
Financial Performance			
Investments ($'000s)	5 313 304	4 856 989	4 325 031
Net investment income ($'000s)	445 792	498 281	578 072
Return on investments	8.4%	10.3%	13.4%
Other Information			
Member Accounts (number)	85 069	91 392	92 531
Net assets ($'000s)	5 305 354	4 883 916	4 395 424
Return on net assets	8.4%	10.2%	13.2%
Staff numbers	93	102	108
Average staff costs ($'000s)	102	99	97
Average annual and long service leave per staff ($'000s)	11	16	10

APPENDIX 1 - SUPPORTING SCHEDULES

Special Deposit and Trust Fund

	2015	2014	2013	2012
	$m	**$m**	**$m**	**$m**
Comprising:				
Infrastructure Tasmania Fund	26	30	34	42
Risk Management Account	220	209	190	178
Hospital Capital Fund	19	21	27	37
Department of Health and Human Services	84	91	76	88
Department of Primary Industries, Parks, Water and Environment	108	88	88	91
Australian Government Funding Management Account	354	423	501	498
Schools Banking Account	56	42	38	35
Tasmanian Forests Agreement Account	13	26	49	15
Other	465	438	348	310
Balance 30 June (before Temporary debt repayments)	1 345	1 368	1 351	1 294
Balance 30 June (after Temporary debt repayments)	**1 345**	**1 368**	**1 351**	**1 294**
Represented by:				
Westpac Banking Corporation & CBA	50	61	53	26
TASCORP Investments	1 295	1 307	1 298	1 268
Balance 30 June	**1 345**	**1 368**	**1 351**	**1 294**

Distributions by Government Business on Cash Basis (Includes Dividends, Tax and Guarantee Fees)

	2014-15	2013-14	2012-13	2011-12
	$'000s	$'000s	$'000s	$'000s
Motor Accidents Insurance Board	161 281	33 093	6 140	20 249
Tasmanian Networks Pty Ltd	91 043	59 873	58 384	59 443
Hydro-Electric Corporation	113 788	231 346	112 050	112 504
Aurora Energy Pty Ltd	32 932	64 560	31 574	20 398
Tasmanian Ports Corporation Pty Ltd	786	269	0	94
Tasmanian Public Finance Corporation	15 000	5 000	11 000	9 816
Public Trustee	237	462	272	346
TOTAL	**415 067**	**394 603**	**219 420**	**222 850**

Net Assets of Government Businesses

	2015	2014	2013	2012
	$m	$m	$m	$m
Government Business Enterprise/State Owned Company/Statutory Authority				
Aurora Energy Pty Ltd [a]	83	563	555	601
Forestry Tasmania	81	52	101	117
Hydro-Electric Corporation	2 063	1 816	1 794	2 132
Macquarie Point Development Corporation	45	46	51	-
Metro Tasmania Pty Ltd	30	28	30	28
Motor Accidents Insurance Board	440	484	382	240
Port Arthur Historic Site Management Authority	30	29	18	17
Private Forests Tasmania	1	1	0	1
Public Trustee	7	5	4	2
Tasmanian Irrigation Pty Ltd [b]	34	114	83	63
Tasmanian Ports Corporation Pty Ltd	189	193	175	176
Tasmanian Public Finance Corporation	53	50	41	43
Tasmanian Railway Pty Ltd	121	118	110	100
Tasmanian Networks Pty Ltd [a]	1016	0	-	-
Tasracing Pty Ltd	40	41	40	46
TOTE Tasmania Pty Ltd	-	-	-	-
Transend Networks Pty Ltd [a]	0	709	722	693
TT-Line Company Pty Ltd	277	281	271	253
Equity Investment (excluding Water and Sewerage Corporations)[1]	**4 510**	**4 530**	**4 377**	**4 512**
Tasmanian Water and Sewerage Corporation - Northern Region Pty Ltd [c]	-	-	509	500
Tasmanian Water and Sewerage Corporation - North-Western Region Pty Ltd [c]	-	-	335	331
Tasmanian Water and Sewerage Corporation - Southern Region Pty Ltd [c]	-	-	954	955
Total Equity Investment in PNFC and PFC Sectors [1]	**4 510**	**4 530**	**6 175**	**6 298**

(a) Electricity distribution business of Aurora Energy was merged with Transend to form Tasmanian Networks Pty Ltd which commenced operating on 1 July 2014.

(b) Previously Rivers and Water Supply Commission.

(c) Investment in regional water and sewerage corporations was derecognised in 2013-14.

(1) As part of the consolidation process, grants were recognised in the year of their receipt rather than as revenue received in advance. As a result, the value of net assets will be different to that disclosed in the financial statements of individual entities and Treasury's Finance-General.

State Own-Source Revenue

	2014-15	2013-14	2012-13	2011-12
	$m	**$m**	**$m**	**$m**
Payroll tax	312	300	304	304
Motor vehicle registration, fees and taxes	168	159	151	139
Conveyance duties	193	154	139	136
Gambling taxes	95	94	93	94
Land tax	83	86	89	88
Taxes on property	75	84	80	76
Royalties	27	31	29	54
Insurance duty	82	80	70	53
Taxation Revenue*	**1 035**	**988**	**955**	**944**
Sales of goods and services	458	489	434	431
Dividends, guarantee fees and income tax	382	325	240	194
Interest income	15	13	21	27
Other revenue	132	122	128	78
Other State Revenue*	**987**	**949**	**823**	**730**
Total State Own-Source Revenue	**2 022**	**1 937**	**1 778**	**1 674**

* *Classification of revenue items between Taxation Revenue and Other State Revenue is different from the presentation in the Statement of Comprehensive Income*

Departmental FTEs

	2015	2014	2013	2012
Economic Development, Tourism and the Arts [a]	–	407	399	413
Education [1]	7 540	7 692	8 226	8 301
Health and Human Services	1 651	1 884	2 613	9 290
Tasmanian Health Organisations	7 783	7 927	6 914	–
Infrastructure, Energy and Resources	n/a	499	493	491
Justice [2]	1 026	1 158	1 146	1 120
Police and Emergency Management	1 501	1 507	1 455	1 569
Premier and Cabinet	465	464	452	436
Primary Industries, Parks, Water and Environment [3]	1 163	1 359	1 345	1 370
State Growth [a]	762	–	–	–
Treasury and Finance	255	284	285	294
Sub total *	**22 146**	**23 181**	**23 328**	**23 284**
TasTAFE	757	763	–	–
Tas Fire Service	479	472	454	442
Tasmanian Skills Institute	–	–	267	289
Total	**23 382**	**24 416**	**24 049**	**24 015**

a Department of State Growth was established on 1 July 2014 and was largely an amalgamation of the former Department of Infrastrucuture, Energy and Resources and the former Department of Economic Development, Tourism and the Arts.

** Excludes Integrity Commission, Tasmanian Audit Office, State Fire Commission, Inland Fisheries, MAST and Executive Legislature Agencies.*

1 Includes Tasmanian Qualification Authority, Teachers Registration Board and LINC Tasmania.

2 Includes Director of Public Prosecutions and Office of the Ombudsman.

3 Includes Inland Fisheries.

Defined Benefits Superannuation Obligations

	2015			2014		
	Defined Benefit Obligation	Scheme Assets	Deficit/ (Surplus)	Defined Benefit Obligation	Scheme Assets	Deficit/ (Surplus)
	$'000s	**$'000s**	**$'000s**	**$'000s**	**$'000s**	**$'000s**
Aurora Energy Pty Ltd	3 222	360	2 862	124 647	22 707	101 940
Forestry Tasmania	194 412	34 996	159 416	181 502	32 694	148 808
Hydro-Electric Corporation	438 064	71 540	366 524	422 689	67 981	354 708
Metro Tasmania Pty Ltd	31 412	5 526	25 886	29 487	5 137	24 350
Motor Accidents Insurance Board	6 770	773	5 997	5 612	645	4 967
Port Arthur Historic Site Management Authority	8 742	1 194	7 548	8 263	1 204	7 059
Public Trustee	16 077	2 565	13 512	15 606	2 584	13 022
Tasmanian Irrigation Pty Ltd	0	0	0	0	0	0
Tasracing Pty Ltd	2 913	333	2 580	2 422	276	2 146
TasNetworks	222 691	41 115	181 576	84 723	15 358	69 365
TT Line Company Pty Ltd	9 238	1 343	7 895	8 286	1 241	7 045
Total PNFC Sector	**933 541**	**159 745**	**773 796**	**883 237**	**149 827**	**733 410**
Finance-General	8 697 269	1 621 401	7 075 868	8 037 272	1 492 783	6 544 489
Judges Contributory Pensions (not administered by RBF)	43 133	0	43 133	41 976	0	41 976
Housing Tasmania	12 675	0	12 675	14 163	0	14 163
Parliamentary Superannuation Fund	21 913	4 415	17 498	22 725	4 343	18 382
Parliamentary Retirement Benefits Fund	3 581	3 799	(218)	3 309	3 170	138
State Fire Commission	26 548	26 232	316	25 263	24 087	1 176
Tasmania Ambulance Service	53 127	51 592	1 535	49 685	47 608	2 077
Total GGS Sector	**8 858 246**	**1 707 439**	**7 150 807**	**8 194 393**	**1 571 991**	**6 622 401**
Retirement Benefits Fund Board	22 961	4 271	18 690	21 403	4 014	17 389
University of Tasmania	9 746	1 788	7 958	9 577	1 491	8 086
Total Other Entities	**32 707**	**6 059**	**26 648**	**30 980**	**5 505**	**25 475**

APPENDIX 2 - GUIDE TO USING THIS REPORT

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

Volume 1 – Analysis of the Treasurer's Annual Financial Report, General Government Sector Entities and the Retirement Benefits Fund 2014-15

Volume 2 – Government Business 2014-15

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

Volume 4 – State Entities 31 December 2015, findings related to 2014-15 audits and other matters.

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

FORMAT OF THE FINANCIAL ANALYSIS

Each entity's financial performance is analysed by discussing the Comprehensive Income Statement, Statement of Financial Position and Statement of Cash Flows supplimented by financial analysis applying the indicators documented in the Financial Performance sections of this Report. The layout of some of these primary statements has been amended from the audited statements to, where appropriate:

- make the statements more relevant to the nature of the entity's business
- highlight the entity's working capital, which is a useful measure of liquidity.

FINANCIAL ANALYSIS

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Financial Performance		
Earnings Before Interest and Tax (EBIT) ($'000s)		Result from Ordinary Activities before Gross Interest Expense and Tax
EBITDA ($'000s)		Result from Ordinary Activities before Gross Interest Expense, Tax, Depreciation and Amortisation
Operating Margin	>1.0	Operating Revenue divided by Operating Expenses
Underlying surplus (deficit) ($'000s)		Operating Revenue less Operating Expenses
Operating surplus ratio	>0	Net Operating surplus (deficit) divided by total operating revenue
Own source revenue		Total Revenue less Total Grant Revenue, Contributed Assets and Asset Revaluation Adjustments
Return on assets		EBIT divided by Average Total Assets
Return on equity		Result from Ordinary Activities after Taxation divided by Average Total Equity
Self financing ratio		Net Operating Cash Flows divided by Operating Revenue

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Financial Management		
Asset consumption ratio	Between 40% and 60%	Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset
Asset renewal funding ratio	90%-100%	Future (planned) asset replacement expenditure divided by future asset replacement expenditure (actual) required
Capital Investment Gap, Asset investment ratio or Investment gap	>100%	Payments for Property, plant and equipment divided by Depreciation expenses
Capital Replacement Gap, Asset renewal ratio or Renewal gap	100%	Payments for Property, plant and equipment on existing assets divided by Depreciation expenses
Cost of debt		Gross Interest Expense divided by Average Borrowings (include finance leases)
Creditor turnover	30 days	Payables divided by credit purchases multiplied by 365
Current ratio	>1	Current Assets divided by Current Liabilities
Debt collection	30 days	Receivables divided by billable Revenue multiplied by 365
Debt to equity		Debt divided by Total Equity
Debt to total assets		Debt divided by Total Assets
Indebtedness ratio		Non-Current Liabilities divided by Own Source Revenue
Interest coverage ratio		Net operating cashflows less interest and tax payments divided by Net interest payments
Interest cover – EBIT	>2	EBIT divided by Gross Interest Expense
Interest cover – EBITDA	>2	EBITDA divided by Gross Interest Expense
Interest cover – Funds from Operations	>2	Cash from Operations plus Gross Interest Expense divided by Gross Interest Expense
Liquidity ratio	2:1	Liquid assets divided by current liabilities other than provisions
Net financial assets (liabilities) ($'000s)		Total liquid assets less financial liabilities
Net financial liabilities ratio	0 – (50%)	Liquid assets less total liabilities divided by total operating income

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Returns to Government		
CSO funding ($'000s)		Amount of community service obligation funding received from Government
Dividend payout ratio		Dividend divided by Result from Ordinary Activities after Tax
Dividend to equity ratio		Dividend paid or payable divided by Average Total Equity
Dividends paid or payable ($'000s)		Dividends paid or payable that relate to the year subject to analysis
Effective tax rate	30%	Income Tax paid or payable divided by Result from Ordinary Activities before Tax
Government guarantee fees ($'000s)		Amount of guarantee fees paid to owners (usually Government)
Income tax paid ($'000s)		Income Tax paid or payable that relates to the year subject to analysis
Total return to equity ratio		Total Return divided by Average Equity
Total return to the State ($'000s) or total return to owners		Dividends plus Income Tax and Loan Guarantee fees
Other Information		
Average leave per FTE ($'000s)		Total employee annual and long service leave entitlements divided by FTEs
Average long service leave balance	Not more than 100 days	Actual long service leave provision days due divided by average FTEs
Average recreational leave balance	20 days[3]	Actual annual leave provision days due divided by average FTEs
Average staff costs[2] ($'000s)		Total employee expenses (including capitalised employee costs) divided by FTEs
Employee costs[2] as a % of operating expenses		Total employee costs divided by Total Operating Expenses
Employee costs capitalised ($'000s)		Capitalised employee costs
Employee costs expensed ($'000s)		Total employee costs per Income Statement
Operating cost to rateable property		Operating expenses plus finance costs divided by rateable properties per valuation roll
Rates per capita		Population of council area divided by rates revenue
Rates per operating revenue		Total rates divided by operating revenue including interest income
Rates per rateable property		Total rates revenue divided by rateable properties per valuation rolls

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Other Information		
Staff numbers FTEs		Effective full time equivalents

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

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

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

An explanation of most financial performance indicators is provided below:

FINANCIAL PERFORMANCE

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

FINANCIAL MANAGEMENT

- **Asset consumption ratio** – shows the depreciated replacement cost of an entity's depreciable assets relative to their "as new" (replacement) value. It therefore shows the average proportion of new condition left in the depreciable assets.
- **Asset renewal funding ratio** – measures the capacity to fund asset replacement requirements. An inability to fund future requirements will result in revenue, expense or debt consequences, or a reduction in service levels. This is a most useful measure relying on the existence of long-term financial and asset management plans.

- **Asset sustainability ratio** – provides a comparison of the rate of spending on existing infrastructure, property, plant and equipment through renewing, restoring and replacing existing assets, with depreciation. Ratios higher than 100% indicate that spending on existing assets is greater than the depreciation rate. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations and borrowing is not an option.
- **Capital Investment Gap, Asset investment ratio or Investment gap** – indicates whether the entity is maintaining its physical capital by re-investing in or renewing non-current assets (caution should be exercised when interpreting this ratio for entities with significant asset balances at cost as the level of depreciation may be insufficient).
- **Capital Replacement Gap, Asset renewal ratio or Renewal gap** – indicates whether the entity is maintaining its physical capital by re-investing in or renewing existing non-current assets. (Caution should be exercised when interpreting this ratio as the amount of capital expenditure on existing assets has largely been provided by the respective councils and not subject to audit).
- **Cost of debt** – reflects the average interest rate applicable to debt.
- **Creditors turnover** – indicates how extensively the entity utilises credit extended by suppliers.
- **Current ratio** – current assets should exceed current liabilities by a "considerable" margin. It is a measure of liquidity that shows an entity's ability to pay its short term debts.
- **Debt collection** – indicates how effectively the entity uses debt collection practices to ensure timely receipt of monies owed by its customers.
- **Debt to equity** – an indicator of the risk of the entity's capital structure in terms of the amount sourced from borrowings and the amount from Government.
- **Debt to total assets** – an indicator of the proportion of assets that are financed through borrowings.
- **Interest cover** – EBIT – an indicator of the ability to meet periodic interest payments from current profit (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced profitability.
- **Interest cover** – examines the exposure or risk in relation to debt, an indicator of the ability to meet periodic interest payments from funds from operations (before interest expense). The level of interest cover gives a guide of how much room there is for interest payments to be maintained in the face of interest rate increases or reduced funds from operations.
- **Net financial liabilities ratio** – indicates the extent to which net liabilities can be met by operating income. A falling ratio indicates that the entity's capacity to meet its financial obligations from operating income is strengthening.

RETURNS TO GOVERNMENT

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

OTHER INFORMATION

- **Average leave balance per FTE ($'000s)** – indicates the extent of unused leave at balance date.
- **Average long service leave balance or days long service leave due** – records the average number of days long service leave accumulated per staff member. In general public servants cannot accrue more than 100 days long service leave.
- **Average recreational leave balance or days annual leave due** – records the average number of days annual leave accumulated per staff member. In general public service employees accrue 20 days annual leave per annum.
- **Average staff costs** – measures the average cost of employing staff in the entity for the year.
- **Employee costs as a percentage of operating expenses** - indicates the relative significance of employee costs compared to other operating expenses.
- **Employee costs capitalised ($'000s)** – represents employee costs that have been capitalised rather than expensed.
- **Employee costs expensed ($'000s)** – represents the level of employee costs expensed, ie. included in the Comprehensive Income Statement. This together with the Employee costs capitalised will provide a total employee cost figure for use in other related ratios.
- **Staff numbers FTEs** – as at the end of the reporting period the number of staff employed expressed as full-time equivalents.

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

AUDIT FINDING – RISK CATEGORIES

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

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

APPENDIX 3 - GLOSSARY

Accountability

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

Adverse Opinion

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

Amortisation

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

Asset

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

Asset useful life

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

Asset valuation

The fair value of an asset on a particular date.

Audit Act 2008

An Act of the State of Tasmania that:

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

Auditor's opinion (or Auditor's Report)

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

Borrowing costs

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

Capital expenditure

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

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

Capital grant

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

Carrying amount

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

Cash

Cash on hand and demand deposits.

Cash equivalents

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

Cash flows

Inflows and outflows of cash and cash equivalents.

Combined employee costs

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

Comprehensive result

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

Consolidated financial statements

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

Contributed assets

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

Contributions from the State

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

Control

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

Cost

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

Current asset

An asset that an entity:

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

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

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

Current liability

A liability that an entity:

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

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

Deficit

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

Depreciation

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

Disclaimer of Opinion

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

Emphasis of matter

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

Employee benefits provision

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

Equity or net assets

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

Expense

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

Fair value

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

Financial Asset

Any asset that is:

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

Financial liability

Any liability that is:

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

Financial position

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

Financial report

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

Financial statements

A complete set of financial statements comprises:

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

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

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

Financial sustainability

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

Financial year

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

For-profit entity

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

Future economic benefit

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

General purpose financial report

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

Going concern

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

Governance

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

Impairment loss

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

Independent auditor's report

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

Intangible asset

An identifiable non-monetary asset without physical substance.

Investment

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

Liability

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

Loss

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

Material

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

Materiality

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

Modified audit opinion

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

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

Non-Financial Asset

Physical assets such as land, buildings and infrastructure.

Not-for-profit entity

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

Operating cycle

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

Profit

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

Property, plant and equipment

Tangible items that:

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

Public sector entity

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

Qualified audit opinion

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

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

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

Relevant

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

Revaluation

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

Revenue

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

Special purpose financial statements

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

State entity

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

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

State Owned Corporation

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

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

Surplus

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

Unqualified audit opinion – financial report

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

Also referred to as a **clear audit opinion**.

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

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

APPENDIX 4 - ACRONYMS AND ABBREVIATIONS

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACIPA	Academy of Creative Industries and Performing Arts
ACT	Australian Capital Territory
AEMO	Australian Energy Market Operator
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
AETV	Aurora Energy Tamar Valley
AFS	Australian Financial Services
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ARM	Asset Revaluation Model
ASA	Australian Auditing Standard
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
BBP	Bell Bay Power Pty Ltd
BHF	Better Housing Futures
CCA	Cradle Coast Authority
CC&SB	Customer Care and Billing System
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLAF	Crown Land Administration Fund
CPI	Consumer Price Index
CSO	Community Service Obligation
DBP	Defined Benefit Pension
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
DoE	Department of Education
DoJ	Department of Justice
DORC	Depreciated Optimised Replacement Cost
DPAC	Department of Premier and Cabinet
DPEM	Department of Police and Emergency Management
DPIPWE	Department of Primary Industries, Parks, Water and Environment
DRWMA	Dulverton Regional Waste Management Authority
DTF	Department of Treasury and Finance
EBA	Enterprise Bargaining Agreement
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EFTSL	Equivalent Full-time Student Load

EOI	Expression of Interest
FCAS	Frequency Control Ancillary Services
FIND	Fines and Infringement Notices Database
FMAA	*Financial Management and Audit Act 1990*
FPM	Financial Procedures Manual
FRFI	*Forestry (Rebuilding the Forest Industry) Act 2014*
FSC	Forest Stewardship Council
FSI	Forest Services International
FTE	Full-time Equivalent
GBE	Government Business Enterprise
GDP	Gross Domestic Product
GGS	General Government Sector
GIF	Group Investment Fund
GMO	Grantham, Mayo and Otterloo
GSP	Gross State Product
GST	Goods and Services Tax
GWh	Gigawatt Hour
HEC	Hydro-Electric Corporation
HECS-HELP	Higher Education Loan Program
HoA	House of Assembly
HR	Human Resources
IPSASB	International Public Sector Accounting Standards Board
IRR	Inter Regional Revenues
IST	Island Speciality Timbers
IT	Information Technology
KIPC	King Island Ports Corporation
KMP	Key Management Personnel
KPI	Key Performance Indicators
KV	Kilovolt
LGAT	Local Government Association of Tasmania
LGH	Launceston General Hospital
LSL	Long Service Leave
MAIB	Motor Accidents Insurance Board
MAR	Maximum Allowable Revenue
MWh	Megawatt Hour
NCP	National Competition Policy
NDRRA	Natural Disaster Relief and Recovery Arrangements
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company Limited
Newood	Newood Holdings Pty Ltd
NRAS	National Rent Affordability Scheme
NTDAI	Northern Tasmania Development Association, Inc.
NTER	National Taxation Equivalent Regime

OVG	Office of the Valuer-General
PA	Public Account
PAYG	Pay As You Go
PFC	Public Financial Corporation
PSP	Price and Services Plan
PFT	Private Forests Tasmania
PNFC	Public Non-Financial Corporation
PRBF	Parliamentary Retiring Benefits Fund
PSF	Parliamentary Superannuation Fund
PT	Public Trustee
PWC	Price WaterhouseCoopers
RAB	Regulated Asset Base
RBF	Retirement Benefits Fund
RBFB	Retirement Benefits Fund Board
REC	Renewable Energy Certificates
RHH	Royal Hobart Hospital
RIN	Regulatory Information Notices
SBA	Significant Business Activies
SDTF	Special Deposits and Trust Fund
SES	State Emergency Service
SEV	Soil Expectation Value
SFC	State Fire Commission
SFCSS	State Fire Commission Superannuation Scheme
SG	Superannuation Guarantee
SLIMS	Student Lifecycle Information Management and Services
SOC	State Owned Corporation
SPFR	Specific Purpose Financial Reports
STCA	Southern Tasmania Councils Authority
SWS	Southern Waste Solutions
SWSA	Southern Waste Strategy Authority
TAFR	Treasurer's Annual Financial Report
TAHL	Tasmanian Affordable Housing Limited
TAS	Tasmanian Accumulation Scheme
TASCORP	Tasmanian Public Finance Corporation
TASSS	Tasmanian Ambulance Service Superannuation Scheme
TasWater	Tasmanian Water and Sewerage Corporation Pty Ltd
TCFA	Tasmanian Community Forest Agreement
TDIA	Tasmanian Dairy Industry Authority
TDR	Tasmania Development and Resources
TDRA	Temporary Debt Repayment Account
TESI	Tasmanian Electricity Supply Industry
TFA	*Tasmanian Forest Agreement Act*
TFIA	Tasmanian Forest Intergovernmental Agreement

TFS	Tasmanian Fire Service
THO	Tasmanian Health Organisation
THO-N	Tasmanian Health Organisation - North
THO-NW	Tasmanian Health Organisation - North West
THO-S	Tasmanian Health Organisation - South
TI	Tasmanian Irrigation Pty Ltd
TIS	Tasmanian Irrigation Schemes Pty Ltd
TRB	Tasmanian Racing Board
TVPS	Tamar Valley Power Station
TUOS	Transmission Use of System
TUU	Tasmanian University Union Incorporated
UPF	Uniform Presentation Framework
UTAS	University of Tasmania
VaR	Value at Risk
VET	Vocational Education and Training
VG	Valuer-General
VoIP	Voice over Internet Protocol
WACC	Weighted Average Cost of Capital
WIF	Water Infrastructure Fund
WIP	Work in Progress

APPENDIX 5 - RECENT PUBLICATIONS

Tabled	Report No.	Title
2014		
May	No 11 of 2013-14	Compliance with the Alcohol, Tobacco and Other Drugs plan 2008-13
June	No 12 of 2013-14	Quality of Metro services
June	No 13 of 2013-14	Teaching quality in public high schools
2015		
August	No. 1 of 2014-15	Recruitment practices in the State Service
September	No. 2 of 2014-15	Follow up of selected Auditor-General Reports October 2009 to September 2011
September	No. 3 of 2014-15	Motor vehicle fleet management in government departments
November	No. 4 of 2014-15	Volume 3 - Government Businesses 2013-14
November	No. 5 of 2014-15	Volume 2 - General Government and Other State entities 2013-14
December	No. 6 of 2014-15	Volume 1 - Analysis of the Treasurer's Annual financial Report 2013-14
February	No. 7 of 2014-15	Volume 4 - Local Government Authorities, Joint Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2013-14 Part 1: Key points, Joint Authorities, TasWater and other matters
March	No. 8 of 2014-15	Security of information and communications technology (ITC) infrastructure
March	No. 9 of 2014-15	Tasmanian Museum and Art Gallery: Compliance with the National Standards for Australian Museums and Galleries
May	No. 10 of 2014-15	Number of public primary schools
May	No. 11 of 2014-15	Road management in local government
June	No. 12 of 2014-15	Volume 5 - Other State entities - findings relating to 2013-14 audits and other matters
July	No. 1 of 2015-16	Absenteeism in the State Service
September	No. 2 of 2015-16	Capital works programming and management
October	No. 3 of 2015-16	Vehicle fleet usage and management in other state entities
October	No. 4 of 2015-16	Follow up of four reports published since June 2011
November	No. 5 of 2015-16	Volume 2 - Government Businesses 2014-15
November	No. 6 of 2015-16	Volume 3 - Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15

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

Our Vision

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Our Purpose

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

Availability of reports

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

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AUDIT MANDATE AND STANDARDS APPLIED

Mandate

Section 17(1) of the *Audit Act 2008* states that:

> 'An accountable authority other than the Auditor-General, as soon as possible and within 45 days after the end of each financial year, is to prepare and forward to the Auditor-General a copy of the financial statements for that financial year which are complete in all material respects.'

Under the provisions of section 18, the Auditor-General:

'(1) is to audit the financial statements and any other information submitted by a State entity or an audited subsidiary of a State entity under section 17(1).'

Under the provisions of section 19, the Auditor-General:

'(1) is to prepare and sign an opinion on an audit carried out under section 18(1) in accordance with requirements determined by the Australian Auditing and Assurance Standards

(2) is to provide the opinion prepared and signed under subsection (1), and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards, to the State entity's appropriate Minister and provide a copy to the relevant accountable authority.'

Standards Applied

Section 31 specifies that:

> 'The Auditor-General is to perform the audits required by this or any other Act in such a manner as the Auditor-General thinks fit having regard to –

(a) the character and effectiveness of the internal control and internal audit of the relevant State entity or audited subsidiary of a State entity; and

(b) the Australian Auditing and Assurance Standards.'

The auditing standards referred to are Australian Auditing Standards as issued by the Australian Auditing and Assurance Standards Board.

Tasmanian
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