Tasmanian
Audit Office

Report of the Auditor-General
No. 6 of 2016-17

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

Volume 1

Analysis of the Treasurer's Annual Financial Report, results of General Government Sector entities, other non-GGS entities including the Retirement Benefits Fund - 2015-16

November 2016

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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.

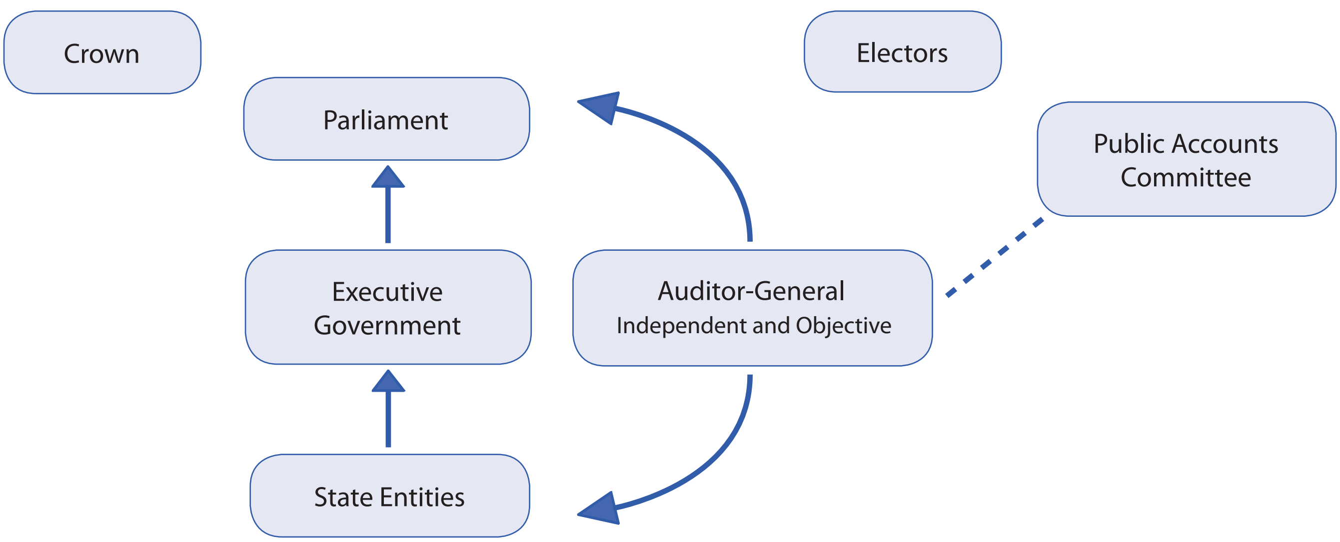
We can also carry out investigations but only relating to public money or to public property. In addition, the Auditor-General is now responsible for state service employer investigations.

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.



2016 (No. 23)

TASMANIA

2016

PARLIAMENT OF TASMANIA

Report of the Auditor-General

No. 6 of 2016-17

Auditor-General's Report

Volume 1

Analysis of the Treasurer's Annual Financial Report, results of General Government Sector entities, other non-GGS entities including the Retirement Benefits Fund - 2015-16

November 2016

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

Auditor-General's reports are available from the Tasmanian Audit Office, Hobart. This report and other recent reports published by the Office can be accessed via the Office's home page. For further information please contact:

Tasmanian Audit Office

GPO Box 851
Hobart
TASMANIA 7001

Phone: (03) 6173 0900, Fax (03) 6173 0999

Email: admin@audit.tas.gov.au

Website: www.audit.tas.gov.au

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Tasmanian Audit Office

Level 8,144 Macquarie Street, Hobart, Tasmania, 7000
Postal Address GPO Box 851, Hobart, Tasmania, 7001
Phone: 03 6173 0900| Fax: 03 6173 0999
Email: admin@audit.tas.gov.au
Web: www.audit.tas.gov.au

17 November 2016

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President

Dear Madam Speaker

Report of the Auditor-General No. 6 of 2016-17, Volume 1 Analysis of the Treasurer's Annual Financial Report, results of General Government Sector entities, other non-GGS entities including the Retirement Benefits Fund - 2015-16

In accordance with the requirements of Section 29 of the *Audit Act 2008*, I have pleasure in presenting my Report on the Analysis of the Treasurer's Annual Financial Report, results of General Government Sector entities, other non-GGS entities including the Retirement Benefits Fund - 2015-16.

Yours sincerely

Rod Whitehead
Auditor-General

TABLE OF CONTENTS

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), Total State Sector (TSS) 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 2016. 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, TSS and PA and that they were prepared in accordance with prescribed financial reporting frameworks.

This report includes my Office's assessment of the State's overall financial performance and position, focusing on the GGS which recorded a Net Operating Balance surplus in 2015-16 of $62m. Within the surplus were capital grants for rail and road infrastructure of $81m received from the Australian Government. Once these one-off capital grants were excluded, the GGS incurred an Underlying Net Operating deficit of $19m. This was a significant improvement on previous years.

Other significant observations included:

- the continued high reliance on GST revenues, with the trend expected to continue
- the growing defined benefit superannuation liability and increased defined benefit contribution requirement, however the Government has recognised this problem
- the percentage growth in expenditure, which was higher than growth in State Final Demand
- reduced dividend revenue in 2015-16, largely due to a significant reduction in dividends received from the Hydro-Electric Corporation (Hydro Tasmania) and Motor Accidents Insurance Board (MAIB)
- the decline in the State's Net Worth, which fell from $13.07bn at 30 June 2010 to $7.16bn at 30 June 2016. The $5.95bn decrease was largely explained by the $3.99bn increase in unfunded defined benefit superannuation obligations, primarily caused by lower discount rates and other economic assumptions
- the trend in increased capital expenditure, with significant projects being undertaken
- a negative net debt position in all of the past four years, with the level of negative net debt continuing to improve since June 2014.

In addition to our analysis of the TAFR, we also report separately on each Government department, the Tasmanian Health Service (THS) and the Retirement Benefits Fund (RBF). Results and assessments of the financial performance and position of other GGS entities, Executive and Legislature and other State entities, all of which reported at 30 June 2016, have been summarised in a separate Chapter.

State entities included in this Report submitted their financial statements for the year ended 30 June 2016 within the statutory deadline with the exception of one entity. Audits were completed satisfactorily and unqualified audit opinions were issued for all but one entity.

Rod Whitehead
Auditor-General
17 November 2016

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SUMMARY

INTRODUCTION

The Tasmanian Public Sector, also referred to as the Total State Sector (TSS), comprised the General Government, the Public Non-Financial Corporations and the Public Financial Corporations sectors, with entities classified according to the nature of activities that they undertake.

The focus of this Report was on the GGS, which consisted of Government departments and not-for-profit State entities controlled and mainly financed by the Tasmanian Government. The primary function of these entities was to provide public services which were mainly non-market in nature and were for the collective consumption of the community.

Other State entities included in this Report were statutory authorities and other non-profit entities not consolidated into the GGS financial statements, including the Retirement Benefits Fund.

STATE ENTITIES COVERED IN THIS REPORT

TAFR included the audited GGS and TSS financial statements and the Public Account (PA) statements. It also included other information, such as an overview of the Fiscal Strategy and the Loan Council Outcome, which were not audited. This Report provided an analysis of the GGS and TSS financial statements and of the PA statements.

The Report also contains individual chapters on each of the eight Government departments, the Tasmanian Health Services and Retirement Benefits Fund (RBF).

Results and assessments of the financial performance and position of other GGS entities, Executive and Legislature and other State entities have been summarised in a separate Chapter.

In addition, the Report contains our conclusion on compliance with the *Firearms Act 1996* in relation to the disposal of firearms and ammunition.

CONCLUSION

The GGS and TSS financial statements and PA statements were submitted in time for the Treasurer to prepare TAFR by the statutory deadline. Separate unqualified audit opinions were issued on the GGS and TSS financial statements and PA statements.

Government departments, THS and RBF submitted financial statements within the statutory deadline. Their audits were completed satisfactorily and unqualified audit opinions were issued in all cases.

Other GGS and State entities submitted financial statements for the year ended 30 June 2016 within the statutory deadline apart from two entities. Unqualified audit reports were issued in all cases except for the National Trust of Australia (Tasmania).

Qualified audit opinion

We issue a qualified audit opinion when the financial statements as a whole are presented fairly and comply with relevant accounting standards and legislative requirements, apart from the exception noted in the opinion.

This year, as in previous years, we qualified our audit opinion on the financial statements of the National Trust of Australia (Tasmania) because it possessed certain heritage collections, but not all of these assets were recognised in the financial statements.

KEY MATTERS CONSIDERED DURING THE AUDITS

Key audit matters were those matters that, in our professional judgement, were of most significance to the audit, and were addressed in the context of the audit of the financial statements as a whole. The most prevalent key matters considered during the audits of entities included in this Report were:

- valuation of non-current physical assets
- information systems
- revenue recognition.

The main reason these key matters required particular audit attention was the high level of judgement and estimation used to determine the financial statement balance. Key matters specific to each audit are discussed within individual Chapters.

FINDINGS FROM FINANCIAL AUDITS

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

As a result of the audits, we raised 20 audit matters, 16 of which were rated as moderate risk. A number of entities had issues relating to the valuation of non-current physical assets, covering matters such as recognition and valuation, reconciliation with sub-ledgers and timing of valuations to ensure fair values were current. A small number of departments had issues raised related to deficiencies in the design and implementation of controls over computer information systems used for the processing, storage and communication of financial information.

Matters specific to each audit are discussed within individual Chapters.

SUBMISSION OF FINANCIAL STATEMENTS AND TIMELINESS OF AUDIT OPINIONS

Apart from the requirement for all State entities to submit their financial statements within 45 days after the end of each financial year, section 19 of the *Audit Act 2008* (the Audit Act) required the Auditor-General to finalise audits within 45 days from the day the financial reports were received. Table 1 details when financial statements were received and audit opinions were issued. The audit of the Department of Health and Human Services was completed on 27 September 2016, which was one day after the statutory deadline.

The Treasurer is required to prepare TAFR by no later than 31 October immediately following the financial year to which the report relates. The Treasurer submitted the GGS financial statements and PA statements for audit on 29 September 2016. Final GGS and TSS financial statements were signed on 24 October 2016. Separate unqualified audit opinions were issued on the GGS, TSS financial statements and PA statements on 26 October 2016.

Table 1: Timeliness of reporting

Entity	Signed Financial Statements Received	Clear opinion issued	Modified audit opinion	Audit opinion signed	Weeks from 30 June to issue audit opinion
Executive and Legislature					
House of Assembly	12 August 2016	✓		21 September 2016	10 - 12
Legislative Council	15 August 2016	✓		21 September 2016	10 - 12
Legislature-General	15 August 2016	✓		21 September 2016	10 - 12
Office of the Governor	15 August 2016	✓		29 September 2016	12 - 14
Government departments					
Department of Education	15 August 2016	✓		15 September 2016	10 - 12
Department of Health and Human Services	12 August 2016	✓		27 September 2016	14 - 16
Department of State Growth	12 August 2016	✓		26 September 2016	12 - 14
Department of Justice	11 August 2016	✓		18 August 2016	< 8
Department of Police, Fire and Emergency Management	15 August 2016	✓		28 September 2016	12 - 14
Department of Premier and Cabinet	12 August 2016	✓		13 September 2016	10 - 12
Department of Primary Industries, Parks, Water and Environment	12 August 2016	✓		17 August 2016	< 8
Department of Treasury and Finance	15 August 2016	✓		29 September 2016	12 - 14
Tasmanian Health Service	12 August 2016	✓		15 September 2016	10 - 12
Other GGS State entities (consolidated into departments)					
ABT Railway Ministerial Corporation	12 August 2016	✓		19 September 2016	10 - 12
Ambulance Tasmania	12 August 2016	✓		26 September 2016	12 - 14
Housing Tasmania	12 August 2016	✓		26 September 2016	12 - 14
Office of Tasmanian Assessment, Standards and Certification	15 August 2016	✓		29 September 2016	12 - 14
Tasmania Development and Resources	12 August 2016	✓		23 September 2016	10 - 12
Tasmanian Affordable Housing Limited	15 August 2016	✓		28 September 2016	12 - 14
Tasmanian Museum and Art Gallery	12 August 2016	✓		23 September 2016	10 - 12
Teachers Registration Board of Tasmania	15 August 2016	✓		29 September 2016	12 - 14
Other GGS State entities					
Asbestos Compensation Fund	10 August 2016	✓		17 August 2016	< 8
Inland Fisheries Service	29 July 2016	✓		9 September 2016	8 - 10
Integrity Commission	11 August 2016	✓		6 September 2016	8 - 10
Marine and Safety Tasmania	9 August 2016	✓		12 August 2016	< 8

Entity	Signed Financial Statements Received	Clear opinion issued	Modified audit opinion	Audit opinion signed	Weeks from 30 June to issue audit opinion
Office of the Director of Public Prosecutions	12 August 2016	✓		16 September 2016	10 - 12
Office of the Ombudsman and the Health Complaints Commissioner	11 August 2016	✓		20 September 2016	10 - 12
Royal Tasmanian Botanical Gardens	12 August 2016	✓		27 September 2016	12 - 14
State Fire Commission	15 August 2016	✓		27 September 2016	12 - 14
Tasmanian Economic Regulator	15 August 2016	✓		26 September 2016	12 - 14
TasTAFE	11 August 2016	✓		11 August 2016	< 8
Tourism Tasmania	12 August 2016	✓		31 August 2016	8 - 10
Workcover Tasmania Board	12 August 2016	✓		12 August 2016	< 8
Other State entities					
Aboriginal Land Council	15 August 2016	✓		20 September 2016	10 - 12
Council of Law Reporting	8 August 2016	✓		19 August 2016	< 8
Forest Practices Authority	15 August 2016	✓		15 September 2016	10 - 12
Legal Aid Commission of Tasmania	12 August 2016	✓		26 September 2016	12 - 14
Legal Profession Board	10 August 2016	✓		19 August 2016	< 8
National Trust of Australia (Tasmania)	15 August 2016		✓	29 September 2016	12 - 14
Property Agents Board	11 August 2016	✓		23 September 2016	10 - 12
Property Agents Trust	11 August 2016	✓		23 September 2016	10 - 12
River Clyde Trust	*				
Tasmanian Beef Industry (Research and Development) Trust	31 July 2016	✓		2 August 2016	< 8
Tasmanian Building and Construction Industry Training Board	15 August 2016	✓		19 September 2016	10 - 12
Tasmanian Community Fund	9 August 2016	✓		6 September 2016	8 - 10
Tasmanian Dairy Industry Authority	15 August 2016	✓		16 August 2016	< 8
Tasmanian Early Years Foundation	8 August 2016	✓		29 August 2016	8 - 10
Tasmanian Heritage Council	15 August 2016	✓		9 September 2016	12 - 14
The Nominal Insurer	10 August 2016	✓		22 September 2016	10 - 12
Wellington Park Management Trust	12 August 2016	✓		26 September 2016	12 - 14
Retirements Benefits Fund	11 August 2016	✓		11 August 2016	< 8

** Financial statements were yet to be received.*

Source: Tasmanian Audit Office

REPORTING AND AUDIT RESPONSIBILITIES

Reporting framework

State entities were required to prepare financial statements in compliance with Australian Accounting Standards (AAS). Government departments were required to present their financial statements in accordance with the Model Statements issued by the Department of Treasury and Finance. Compliance with the Model Statements ensured compliance with AAS and consistency of presentation across departments.

Legislative framework

The role and status of departments is not specified in detail in legislation. Establishment of Government departments and State authorities as Agencies is governed by the *State Service Act 2000*, which gives the Governor, on the recommendation of the Minister, the power to establish, abolish or change the name of a Government department or restructure departments.

Entities included in this Report, other than Government departments, were established under specific enabling legislation.

Responsible Ministers

The Ministers responsible for entities covered in this Report at 30 June 2016 were:

Entity	Responsible Minister
Executive and Legislature	
House of Assembly	
Legislative Council	
Legislature-General	
Office of the Governor	
Government departments	
Department of Education	Minister for Education and Training
Department of Health and Human Services	Minister for Health
	Minister for Human Services
Department of State Growth	Minister for the Arts
	Minister for Energy
	Minister for Forestry
	Minister for Infrastructure
	Minister for Mining
	Minister for State Growth
Department of Justice	Attorney-General and Minister for Justice
	Minister for Building and Construction
	Minister for Corrections
	Minister for Planning and Local Government
Department of Police, Fire and Emergency Management	Minister for Police and Emergency Management
Department of Premier and Cabinet	Premier
	Minister for Aboriginal Affairs

Entity	Responsible Minister
	Minister for Planning and Local Government
Department of Primary Industries, Parks, Water and Environment	Minister for Primary Industries and Water
	Minister for Environment, Parks and Heritage
	Minister for Racing
Department of Treasury and Finance	Treasurer
Other GGS State Entities (consolidated into departments)	
ABT Railway Ministerial Corporation	Minister for Infrastructure
Ambulance Tasmania	Minister for Health
Housing Tasmania	Minister for Human Services
Office of Tasmanian Assessment, Standards and Certification	Minister for Education and Training
Tasmania Development and Resources	Minister for State Growth
Tasmanian Affordable Housing Limited	Minister for Human Services
Tasmanian Museum and Art Gallery	Minister for the Arts
Teachers Registration Board of Tasmania	Minister for Education and Training
Other GGS State entities	
Asbestos Compensation Fund	Minister for Building and Construction
Inland Fisheries Service	Minister for Primary Industries and Water
Integrity Commission	Attorney-General and Minister for Justice
Marine and Safety Tasmania	Minister for Infrastructure
Office of the Director of Public Prosecutions	Attorney-General and Minister for Justice
Office of the Ombudsman and Health Complaints Commissioner	Attorney-General and Minister for Justice
Royal Tasmanian Botanical Gardens	Minister for Environment, Parks and Heritage
State Fire Commission	Minister for Police and Emergency Management
Office of the Tasmanian Economic Regulator	Treasurer
Tasmanian Health Service	Minister for Health
TasTAFE	Minister for Education and Training
Tourism Tasmania	Minister for Tourism, Hospitality and Events
Workcover Tasmania Board	Minister for Building and Construction
Other State entities	
Aboriginal Land Council	Premier
Council of Law Reporting	Attorney-General and Minister for Justice
Forest Practices Authority	Minister for Forestry
Legal Aid Commission of Tasmania	Attorney-General and Minister for Justice
Legal Profession Board	Attorney-General and Minister for Justice
National Trust of Australia (Tasmania)	Minister for Environment, Parks and Heritage
Property Agents Board	Minister for Building and Construction

Entity	Responsible Minister
Property Agents Trust	Minister for Building and Construction
River Clyde Trust	Minister for Primary Industries and Water
Tasmanian Beef Industry (Research and Development) Trust	Minister for Primary Industries and Water
Tasmanian Building and Construction Industry Training Board	Minister for State Growth
Tasmanian Community Fund	Premier
Tasmanian Dairy Industry Authority	Minister for Primary Industries and Water
Tasmanian Early Years Foundation	Minister for Education and Training
Tasmanian Heritage Council	Minister for Environment, Parks and Heritage
The Nominal Insurer	Treasurer
Wellington Park Management Trust	Minister for Environment, Parks and Heritage
Retirement Benefits Fund	Treasurer

Accountability requirements

All State entities come under the provisions of the Audit Act. Section 17 of the Audit Act required accountable authorities as soon as possible and within 45 days after the end of each financial year to prepare and forward to the Auditor-General a copy of the financial statements for that financial year.

Audit requirements

Section 18 of the Audit Act required the Auditor-General to audit the financial report and any other information submitted by a State entity or and audited subsidiary of a State entity.

The Auditor-General provides Parliament with independent assurance on the financial reports of public sector entities to enhance public sector accountability. This assurance was provided through annual financial audits of each Government business which culminated in the issue of management letters, audit opinions and reports to Parliament.

Section 19 of the Audit Act required the Auditor-General to:

- prepare and sign an opinion on an audit carried out in accordance with requirements determined by the Australian Auditing and Assurance Standards
- provide the opinion prepared and signed and any formal communication of audit findings that is required to be prepared in accordance with the Australian Auditing and Assurance Standards (AuASB), to the Government business's appropriate Minister and provide a copy to the relevant accountable authority.

The Auditor-General must finalise his audit opinion for a Government Business within 45 days of receiving financial report from the accountable authority.

The auditor's report, which includes the audit opinion, provides assurance about the reliability of the financial report, including compliance with legislative requirements.

In accordance with Australian Auditing Standards, the auditor may issue one or more audit opinion types:

- An ***unmodified opinion*** (often interchanged with *unqualified opinion*) is issued when the financial statements comply with relevant accounting standards and prescribed requirements
- A ***qualified opinion*** is issued when the financial statements as a whole comply with relevant accounting standards and legislative requirements, with the exceptions noted in the opinion

- An ***adverse opinion*** is issued when the financial statements as a whole do not comply with relevant accounting standards and legislative requirements
- A ***disclaimer of opinion*** is issued when the auditor is unable to express an opinion as to whether the financial statements comply with relevant accounting standards and legislative requirements
- An ***emphasis of matter*** paragraph may be included with the audit opinion to highlight an issue of which the auditor believes the users of the financial statements need to be aware. The inclusion of an emphasis of matter paragraph does not modify the audit opinion.

Sector restructuring

THS commenced operations on 1 July 2015 as a key component of the Tasmanian Government's *One State, One Health System, Better Outcomes* reform program. THS replaced the previous Tasmanian Health Organisations (THOs) with a single Governing Council and a Chief Executive Officer to oversee the provision of health services across the State.

The THOs were combined pursuant to the *Tasmanian Health Organisations (Tasmanian Health Service) Order 2015,* which amalgamated THO-South and THO-North West into THO-North on 1 July 2015 and altered the name of of THO-North to 'Tasmanian Health Service'.

The establishment of THS was not treated as an acquisition of THO-South and THO-North West by THO-North for financial reporting purposed because:

- the combination was imposed pursuant to the Governor's Order without any of the THOs involved in the decision
- the formation of the THS's Governing Council precluded THO-North from gaining control of THS operations at the time the combination occurred
- the economic substance of the combination was that a new entity, THS, was established notwithstanding the legal form of the resulting entity.

The *Tasmanian Qualifications Authority Amendment Act 2015* commenced on the 29 May 2015 and replaced the Tasmanian Qualifications Authority with a newly established Office of Tasmanian Assessment, Standards and Certification.

As a result of a restructuring of administrative arrangements:

- Service Tasmania was transferred from the Department of Primary Industries, Parks, Water and Environment to the Department of Premier and Cabinet on 1 July 2015
- Racing Services Tasmania division was transferred from the Department of State Growth to the Department of Primary Industries, Parks, Water and Environment on 1 July 2015.

Civil litigation functions were transferred from the Office of the Director of Public Prosecutions to the Office of the Solicitor-General within the Department of Justice, effective 1 November 2015. The transfer was treated as an internal restructure rather than a restructure of administrative arrangements.

SIGNIFICANT FINANCIAL REPORTING MATTERS

Entities included in this Report operated in a diverse field of operations, varied widely in size and provided a broad range of services, including management of essential public infrastructure. There were many significant financial reporting risks and issues that were common across the entities. This Section highlights issues related to the valuation of physical non-current assets, related party disclosures and enhanced auditor reporting.

Valuation of property, plant and equipment

Australian Accounting Standard AASB 116 *Property, Plant and Equipment* prescribes the accounting treatment for property, plant and equipment so that users of financial statements can discern information about an entity's investment in its property, plant and equipment and the value of those assets. Under AASB 116 an entity can adopt a cost or revaluation model valuation (fair value) for infrastructure assets.

The purpose of financial reporting is to provide relevant and reliable information for decision-making purposes. Based on this purpose, our view is that fair value is the most relevant measure for physical non-current assets, and that sufficiently reliable estimates of the fair value of assets can be determined.

Where a fair value approach is adopted, the entity will need to comply with AASB 13 *Fair Value Measurement.* AASB 13 adopts an exit price approach to determining fair value. In accordance with the standard, the object of a fair value measurement is to estimate the price at which an asset could be sold between market participants at the measurement date under current market conditions. For some assets, observable market transactions and market information might not be available. When a price for an identical asset is not observable, an entity is required to measure fair value using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

Three widely used valuation techniques are:

- **Market approach -** prices and other relevant information generated by market transactions involving identical or comparable assets.
- **Cost approach -** the amount that would be required currently to replace the service capacity of an asset (current replacement cost).
- **Income approach -** present value of the future cash flows expected to be derived from the asset.

It is not necessary to calculate fair value under all available valuation approaches, but an entity must justify and document how they chose the valuation technique and how the approach complies with the accounting standards.

The valuation technique adopted will depend on the nature of the assets, including the availability of market based information to determine a selling price. The two valuation techniques most widely used by entities covered in this Report are the market approach and the cost approach. In general, they will apply a market approach where the asset has observable market information (land and buildings). Where there is no observable market information, depreciated replacement costs is used (long lived infrastructure assets and specialised buildings).

In any case, entities should ensure that carrying amounts keep pace with prevailing market conditions, cost of construction etc. This can be achieved through periodic assessments by a qualified valuer. Departments should engage the Office of the Valuer-General to carry out periodic valuations of their land and buildings. The valuer should provide gross replacements costs where possible to ensure that departments can disclose that information in their financial statements as required by the Model Financial Statements.

The table below lists entities that revalued their physical non-current assets, excluding indexation, during 2015-16:

Entity	Class of Asset	Revaluation Effect
Office of the Governor	Land and Buildings	($5.25m)
Department of Education	Heritage Collection	($23.71m)
Department of Health and Human Services	Rental Dwellings	$21.50m
Department of State Growth	Road Infrastructure	($40.95m)
	Bridges	($8.83m)
	Heritage and Cultural	$7.00m
Department of Justice	Land	($2.53m)
	Buildings	$9.40m
	Prison Building	$14.53m
Department of Premier and Cabinet	Land and buildings	$3.31m
Marine and Safety Tasmania	Marine Facilities	$3.56m
Royal Tasmanian Botanical Gardens	Land	$3.48m

Related party disclosures

In March 2015 the Australian Accounting Standards Board (AASB) issued AASB 2015-6 *Amendments to Australian Accounting Standards - Extending Related Party Disclosures to Not-for-Profit Public Sector Entities*. The standard removed the prior exemption from AASB 124 *Related Party Disclosures* for not-for-profit public sector entities and applies to annual reporting periods beginning on or after 1 July 2016.

The term *'related party'* is defined in AASB 124 and includes, but is not limited to:

- a party who has control, significant influence or joint control over the entity
- a member of the key management personnel (KMP) of the entity
- a close member of the family of any individual referred to above.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Disclosures include:

- nature of the relationship
- amount of transactions, balances outstanding and commitments
- any provisions for doubtful debts or bad debts expensed
- aggregate KMP compensation split into specified categories (ie short-term, post-employment, other long-term and termination benefits).

It is acknowledged that in relation to disclosure of KMP compensation, guidelines issued by Treasury and currently complied with by all government businesses exceed the requirements of AASB 124.

While AASB 124 had previously applied to for-profit entities, including State-Owned Companies (SOCs) and Government Business Enterprises (GBEs) the revised standard has brought into question whether Minsters, through Cabinet, are now captured by the definition of KMP. The key consideration is the extent to which Ministers have authority and responsibility for planning, directing and controlling the activities of a government business. It is important to note that this influence can be direct or indirect. This is a relatively complex matter requiring an analysis of the powers and responsibilities of Ministers and/or Cabinet as they relate to government businesses, including review of legislative instruments.

We are currently working through this with the Department of Treasury and Finance and expect a decision to be made before the end of the 2016 calendar year.

Enhanced auditor reporting

The International Auditing and Assurance Standards Board (IAASB) in January 2015 released its suite of new and revised Auditor Reporting standards, containing significant reforms to the layout and wording of auditor's reports. They were designed to make these reports more useful and communicative to stakeholders and the changes have been the result of extensive consultation worldwide over a period of 18 months. Following on from this, in December 2015 the AuASB issued its suite of revised standards which became mandatory in Australia and New Zealand from 15 December 2016.

The changes will have greatest impact on listed companies, but all auditor's reports are affected. While not directly impacted, the Tasmanian Audit Office, along with a number of other Australian audit offices, has trialed the use of the new auditor's report to determine if it will adopt it for future audits on the basis that it represents best practice in audit reporting.

The new standards will fundamentally change the way entities and auditors plan for, talk about and report on audits. The overall objective of the improvements to audit reporting is to respond to calls for auditors to provide more relevant information to users based on the audit that was performed. Accordingly, the new requirements are aimed at enhancing the informational value of the auditor's report.

The most significant innovation is the introduction of tailored, detailed commentary by the auditor of 'key audit matters' (KAMs). Communicating KAMs in the auditor report provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial report of the current period. Communicating KAMs may also assist intended users in understanding the entity and areas of significant management judgement in the audited financial statements.

In the UK, which has been applying a similar standards for two years, stakeholders have identified this as the most valuable part of the new audit report.

Other changes include the way the report is structured and the language used to improve readability and understanding.

The inclusion of KAMs in audit reports could have an impact on the reputation and perception of the entity among stakeholders and the community as there is a risk that the audit report may need to include information about the entity that is not yet in the public domain or about which it has not yet developed a clear, public position.

In order to properly manage such risks, boards, audit committees and senior management, in conjunction with audit, need to be considering key audit matters much earlier in the audit cycle.

This will allow the entity to plan for its own communications, if necessary. It will also allow time for the audit committee to specifically oversee the effectiveness of management's processes, which provides assurance on the appropriateness of the entity's position on each key audit matter.

The new rules are primarily aimed at improving audit quality. A recent study[1] by prominent US academics of listed UK companies on the effect of the recently implemented new rules there, found that audit quality had improved under the reforms.

The study concluded, "Taken together, this study documents that the new auditor and audit committee reporting requirements are associated with a significant improvement in audit quality without detecting a significant incremental cost".

1 Impact of Auditor and Audit Committee Report Changes on Audit Quality and Costs: Evidence from the United Kingdom; Reid, Carcello, Li and Neal; August 17, 2015

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TREASURER'S ANNUAL FINANCIAL REPORT

INTRODUCTION

TAFR included the audited GGS, TSS and PA statements. It also included other information, such as an overview of the Fiscal Strategy and the Loan Council Outcome, which were not audited.

This Chapter provides an analysis of the GGS and TSS financial statements and of the PA statements. Comments should be read alongside the TAFR. The major focus of this Chapter is to compare 2015-16 results with the previous year and analysed trends over the past four years or a longer period where relevant.

To be consistent with TAFR, figures in this Chapter were shown as whole dollars for millions, with billions reflected with two decimal places.

KEY RESULTS AND DEVELOPMENTS

General Government Sector

The GGS incurred net Underlying Operating Deficits in each of the past four years, although the trend showed improvement.
The GGS recorded a Net Operating Balance surplus in 2015-16 of $62m, the first time since 2009-10. This improved result, along with contained expenditure growth, suggested the current and previous Governments had been addressing the gap between revenues and expenditures.
Australian Government funding reached 64.1% of operating revenue in 2015-16, higher than the four-year average of 61.4%, demonstrated significant and on-going reliance by Tasmania on this funding.
Dividends and income tax equivalent revenue from Government businesses decreased by 41.9% to $222m in 2015-16 (a 17.5% increase to $382m in 2014-15). This meant that this source of revenue represented 4.1% of Total revenue in 2015-16 (7.5% in 2014-15), which was the lowest return in the past four years.
In the current year, four Government businesses provided 97.8% 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.
Expenditure related to employees totalled $2.83bn, or 52.6% of total expenses in 2015-16. This year's increase in employee related costs was limited to $37m, or 1.7%.
Supplies, consumables and other expenses increased by $156m, or 15.6%. This was principally due to significant increases noted within State Fire Commission (State Fire) of $56m, THS, $45m, and State Growth of $32m. The increase within State Fire included significant expenditure for bushfire fighting activities, while for THS, the reclassification of cross border expenses from grants expenditure of $33m. The increase for State Growth was primarily due to the reclassification of road expenditure from capital to maintenance.
Other economic flows included a significant revaluation increase in the present value of the superannuation liability of $1.51bn, primarily due to a lower discount rate used in the actuarial calculation, from 3.7% to 2.7%. Due to the inverse relationship between the discount rate and the present value, the liability increased when the discount rate fell.
Superannuation defined contribution and defined benefit payments this year totalled $396m (2014-15, $419m). Payments related to the defined benefits schemes are expected to continue to increase until 2036.

Other economic flows included a gain of $31m compared to a loss of $189m in the previous year. The loss in the previous year included the final portion of the Housing Tasmania assets transferred to Non-Government Organisations (NGOs) under the Better Housing Futures (BHF) program, which amounted to $133m.

Our analysis showed that operating revenue grew at a faster rate than operating expenses. It also showed that expenditure growth exceeded the percentage change in the State Final Demand.

The increased superannuation liability was the main reason for the decrease in Equity, of $1.46bn to $7.16bn at 30 June 2016.

Total assets of the GGS decreased by $1.27bn since 2010 due to the reclassification of TasWater as a Local Government sector entity of $1.80bn, effective at 1 July 2013. Equity in GBEs and SOCs decreased by $1.56bn. These decreases were offset by increases in the value of land, buildings and infrastructure assets.

Since 2010, GGS liabilities increased by $4.64bn, primarily due to the increased net unfunded defined benefit superannuation liability, from $4.86bn to $8.84bn. The capacity of the State to meet its future superannuation obligations will require close monitoring.

Purchases of non-financial assets increased by $75m to $352m, which included higher capital works at DHHS principally for the Royal Hobart Hospital Redevelopment.

Total State Sector

The TSS achieved a net Underlying Operating Surplus of $26m in 2015-16, after deficits in each of the past three years. This was despite a significant loss incurred by Hydro Tasmania of $292m, which was principally caused by net fair value losses of $286m incurred on Basslink financial assets and liabilities and energy price and treasury derivatives.

Other economic flows included a significant increase in the present value of the superannuation liability of $1.65bn, primarily due to a lower discount rate used in the actuarial calculation, from 3.7% to 2.7%. Due to the inverse relationship between the discount rate and the present value, the liability increased when the discount rate fell.

The increase in the superannuation liability led to an operating deficit of $1.86bn, the highest deficit recorded within the past four years.

Total assets of the TSS increased by $2.01bn from the prior year, with increased investments of $1.40bn and infrastructure assets of $0.30bn.

During this period, TSS liabilities increased by $3.52bn, primarily because:

- the net unfunded defined benefit liability increased from $7.93bn to $9.75bn
- borrowings increased from $5.53bn to $6.58bn at 30 June 2016.

CONCLUSION

The Treasurer submitted the TAFR financial statements and PA statements for audit on 29 September 2016 meeting the statutory deadline. Final TAFR financial statements were signed by the Treasurer and Acting Secretary, Treasury on 24 October 2016.

Separate unqualified audit opinions were issued on the GGS and TSS financial statements and PA statements on 26 October 2016.

The audits were completed with satisfactory results and no outstanding matters. The statements presented fairly, in all material respects, the financial performance and position of the GGS, TSS and PA and were prepared in accordance with the prescribed financial reporting frameworks.

The GGS Net Operating Balance was a surplus of $62m in 2015-16, an improvement of $119m from the previous year and an improvement of $121m from the 2015-16 Original Budget estimate. The 2015-16 Net Operating Balance surplus was the first surplus since 2009-10. The improved result was primarily attributed to a $377m increase in grant revenue and containment of expenditure growth.

However, the continued high reliance on revenues from the Australian Government remained a risk for Tasmania, especially in light of reduced revenues from Government businesses in the form of income taxation equivalents and dividends.

The $1.46bn reduction in Net equity was mainly attributed to the revaluation of the superannuation liability, which totalled $1.51bn. Although movements in the superannuation liability were highly sensitive to movements in underlying assumptions, including the discount rate, the liability also presented a significant financial risk to the State.

BACKGROUND

Legislative requirements

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

The Treasurer was required to table this annual financial report by no later than 31 October immediately following the financial year to which the report relates. The financial statements were also 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 TSS financial statements were both prepared in accordance with AASB 1049. They incorporate the reporting requirements of the Australian Accounting Standards Board and the Uniform Presentation Framework (UPF), which was based on the reporting standards of the Australian Bureau of Statistics' (ABS) Government Finance Statistics framework. Explanations of the UPF Key Fiscal Aggregates were provided in notes to the financial statements and are not reproduced here.

General Government Sector

The GGS consisted 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 provided goods and services to the community or to individuals on a non-market basis. They also made transfer payments to redistribute income and wealth. Not-for-profit State entities were created for the purpose of producing or distributing goods and services and were not a primary source of income, profit or other financial gain for government.

Total State Sector

The TSS included all GGS, Public Non-Financial Corporation (PNFC) and Public Financial Corporation (PFC) entities. PNFC entities were mainly engaged in the production of market goods and/or non-financial services. These entities had a variety of functions and responsibilities, were established in varying ways and had different relationships with the Budget. PFC entities were mainly engaged in financial intermediation or provision of auxiliary financial services. In Tasmania, there were two entities in the PFC Sector, the Tasmanian Public Finance Corporation (Tascorp) and 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 (CF). Explanations for applying this basis for preparing the PA statements were provided in Note 1 to the Statements and were not reproduced here.

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.

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

AUDIT RESULTS

Key matters considered during the audit

Inclusion of all entities

The GGS section of TAFR consolidated the financial information of 24 GGS entities into one financial report. The TSS section of TAFR consolidated the financial information of the GGS and 16 Government businesses and their subsidieries into one financial report.

We audited the completeness of the GGS and TSS balances in TAFR by ensuring all relevant State entities were included in the respective financial statement balances. We also ensured that financial transactions and balances were agreed to audited financial statements.

Testing of elimination entries

Elimination adjustments were made to remove inter-entity transactions from TAFR.

Our audit procedures included testing that elimination entries were appropriate and they were correctly calculated and recorded.

Verification of disclosures

The TAFR financial statements were prepared in accordance with AASB 1049. In reviewing the financial statements, we:

- reviewed relevant accounting standards, Treasurer's Instructions and Treasurer's Guidelines to determine compliance with the relevant accounting framework
- confirmed balances within note disclosures were correctly calculated
- assessed the adequacy of relevant disclosures in the financial statements, including items such as contingencies and commitments.

FINANCIAL ANALYSIS – GENERAL GOVERNMENT SECTOR

Financial snapshot 2015-16

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

Net Operating Balance was 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 included funding for capital programs; however the corresponding outflow was not part of expenses from transactions. To better portray the financial performance of the State, we excluded one-off capital funding transactions, items which were outside the normal course of operations and non-recurring items. We refer to the result after adjusting for 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 used terms which may differ from the terminology adopted by TAFR.

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

Preliminary Outcome information was sourced from the 2015-16 *Preliminary Outcomes Report* found on Treasury website at **www.treasury.tas.gov.au**.

STATEMENT OF COMPREHENSIVE INCOME

	2015-16 Original Budget	2015-16 Preliminary Outcome	2015-16 Actual	2014-15 Actual	2013-14 Actual	2012-13 Actual
	$m	$m	$m	$m	$m	$m
Underlying net operating balance before:	**(202)**	**(18)**	**(19)**	**(111)**	**(259)**	**(367)**
One-off Australian Government Capital Funding	143	81	81	54	94	101
Macquarie Point Development Corporation start-up grant	0	0	0	0	0	(50)
Net operating balance	**(59)**	**63**	**62**	**(57)**	**(165)**	**(316)**
Plus Dividends declared but not yet received	0	0	0	0	61	0
Plus Other economic flows - Included in Operating result						
Movements in Superannuation liability	0	(1 511)	(1 513)	(388)	(377)	986
Other economic flows	36	44	38	(345)	(2 095)	(209)
Operating result	**(23)**	**(1 404)**	**(1 413)**	**(790)**	**(2 574)**	**461**
Plus Other economic flows - Other movements in Equity						
Total Other equity movements	294	55	(5)	(22)	43	336
Comprehensive result	**272**	**(1 349)**	**(1 418)**	**(812)**	**(2 531)**	**797**

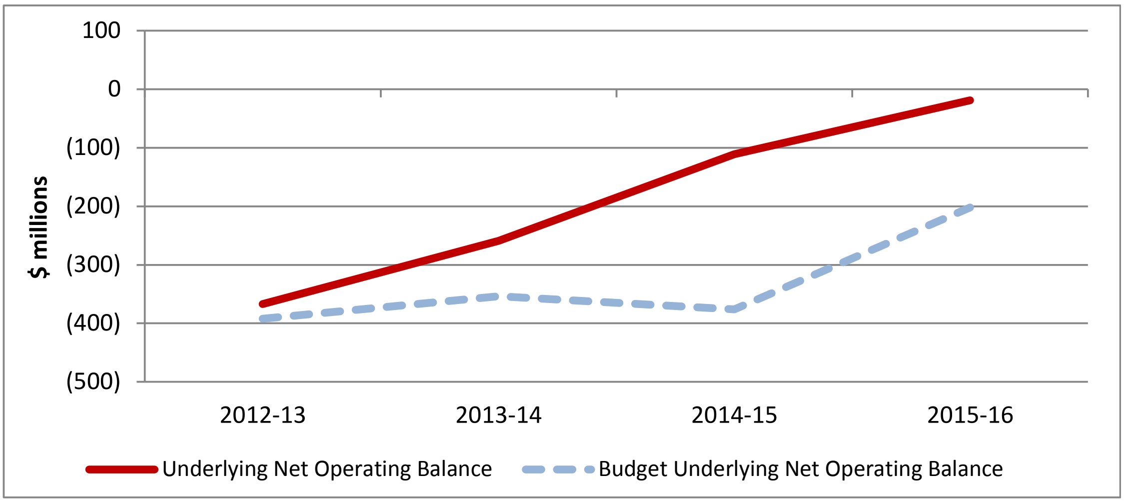
Note: Discrepancies between this report and TAFR were due to reallocation of some items of revenue and expenditure to better assist readers in interpreting recurrent financial performance and rounding.

Underlying Net Operating Balance

The GGS Underlying Net Operating Balance was a deficit of $19m in 2015-16. This was $92m, or 82.9%, lower compared to the deficit of $111m 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 each of those years.

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



Source: Tasmanian Audit Office

The GGS incurred Underlying Net Operating Balance deficits in each of the past four years, with this year's deficit, $19m, being the lowest. The 2016-17 Budget forecasts that a net operating surplus of $77m will be achieved, due to $172m of one-off Australian Government funding to be received, a significant increase on prior years. Excluding the impact of this capital funding, the 2016-17forecast Underlying Net Operating Result is a deficit of $266m.

The receipt of Australian Government funding for capital programs, particularly one-off major projects, has the effect of improving the net operating balance outcome. Given the nature of the Net Operating Balance measure, it reflects the receipt of revenue from the Australian Government but does not factor in the expenditure of these funds on infrastructure projects.

Given this situation, the Underlying Net Operating Balance has been used for a number of years as a measure that removes the distorting impact of one-off Australian Government funding for specific capital projects. The Underlying Net Operating Balance measure was developed at a time when there were abnormally high levels of one-off Australian Government funding for infrastructure projects.

This year's Underlying Net Operating Balance deficit was better than the budget deficit of $202m, due to the receipt of revenue of $188m higher than the budget figure of $5.16bn. This was primarily due to higher than budgeted grants and taxation income of $119m and $41m respectively. The grants increase included additional Commonwealth Own Purpose Expenditure funding for DHHS, THS and an overall increase in the GST pool for 2015-16.

Net Operating Balance

After taking into account one-off Australian Government funding of $81m for capital projects, as indicated in Table 2 below, the GGS reported a Net Operating Balance surplus of $62m. This was a $119m turnaround from the deficit of $57m reported last year.

The current year's surplus was primarily due to higher grant income of $350m, to $3.43bn, and increased taxation income by $59m, to $1.07bn. These increases were offset by decreased dividend, tax and rate equivalent income of $160m, to $222m, increased spending on supplies, consumables and other expenses of $156m, to $1.16bn, and employee expenses of $37m, to $2.27bn.

Table 2 provides a breakdown of one-off capital funding provided by the Australian Government over the last four years:

Table 2: Australian Government One-Off Capital Funding

	2015-16	2014-15	2013-14	2012-13
	$m	**$m**	**$m**	**$m**
Social housing	0	0	0	5
Roads and rail	81	40	66	54
Water for the Future	0	14	28	42
Macquarie Point Railyards/ Brooke Street Pier	0	0	0	(50)
Total	**81**	**54**	**94**	**51**

Source: Tasmanian Audit Office

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 $1.41bn in 2015-16, a $0.65bn increase on the $0.79bn deficit reported in 2014-15. It was arrived at after adjusting the net operating balance for net other economic flows totalling $1.40bn that impacted the operating result rather than equity. Other economic flows were changes in the value of assets and liabilities that did not result from transactions.

The current year result was significantly impacted by an increase in the superannuation liability, $1.51bn (2014-15, $388m), due to revised actuarial assumptions, which are discussed later in this Report.

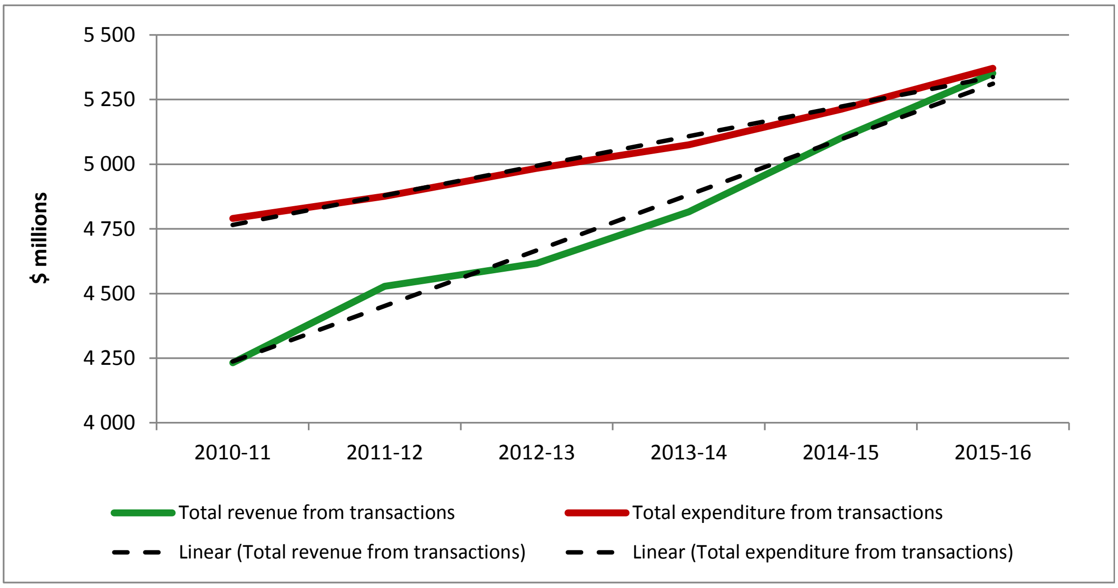
Comprehensive Result

The 2015-16 comprehensive result was a deficit of $1.42bn and was arrived at after adjusting the Operating Result for other economic flows that were in the nature of Equity. These items totalled negative $5m and included non-financial asset net revaluation increments of $1m offset by other non-owner movements in equity of $6m.

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 26.5% since 2010-11, while expenditure increased at a slower rate of 12.2% over the same period. The compound annual growth rates for revenues and expenditure were 4.8% and 2.3%, respectively. Net Underlying Operating Balance deficits were reported in each of the six years and totalled $1.66bn. The gap between expenditure and revenue narrowed steadily over the past five years, with the variance at 30 June 2016 down to $19m, being the Underlying Net Operating Balance referred to earlier.

Government has a number of fiscal strategies to assist in improving the financial position of the State. Strategic Action 1 stated that annual growth in GGS operating expenses was to be lower than the long-term average growth in revenue[2].

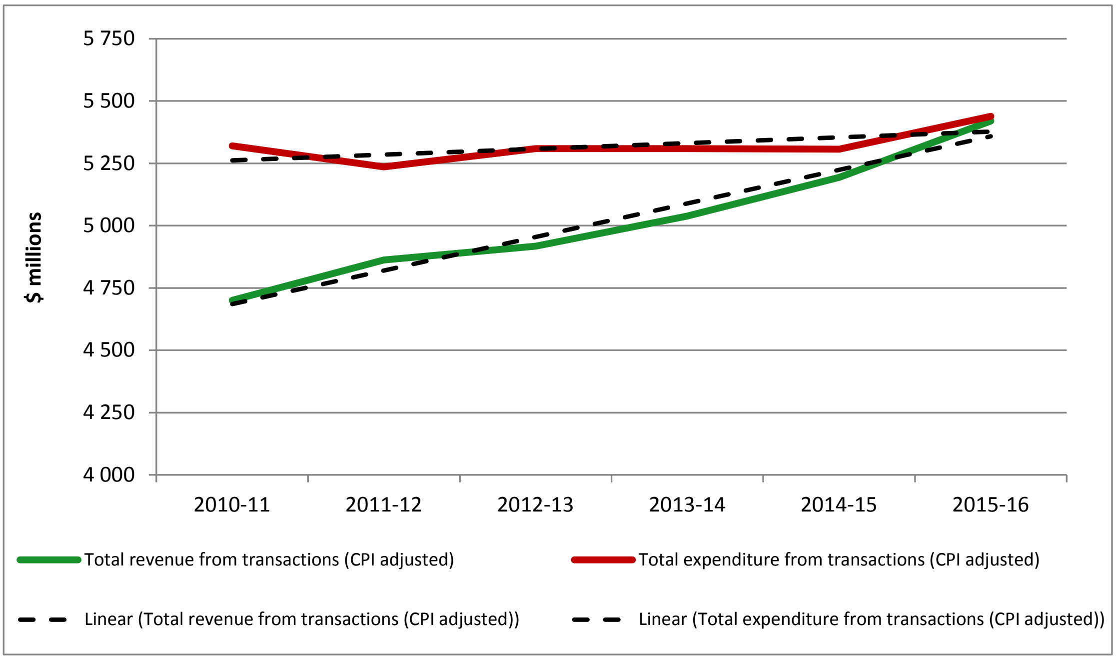
TAFR reported that the actual long term average growth in revenue was 4.7%, compared to the growth in expenditure of 3.1%[3]. On this basis, the Strategic Action 1 was achieved, with revenue increasing by 4.9% in 2015-16, and expenditure increasing by 3.1%.

[2] *2015-16 Budget Paper No.1, Page 36*

[3] *2015-16 Treasurer's Annual Financial Report, Page 19*

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.

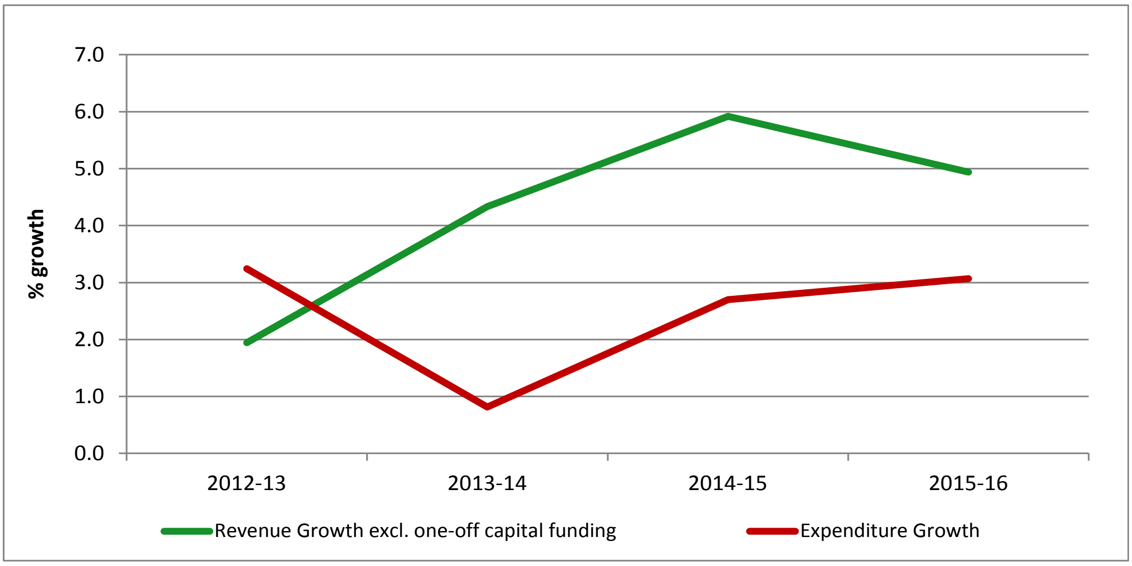
Figure 3 shows that, when adjusted for CPI, expenditure increased steadily by 2.2% over the six-year period. Revenue increased by 15.3% over the same period. Adjusted for CPI, compound annual growth rates for revenue and expenditure over this period were 2.9% and 0.4%, respectively.

Evident from both Figures 2 and 3, the gap between revenue and expenditure reduced, with revenue steadily increasing since 2010-11, helping to reduce operating deficits.

The lower Underlying Net Operating Balance deficit in 2015-16 suggested the gap between revenues and expenditures was being addressed, largely through increased revenue and cost containment.

Figure 4 shows 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 4: GGS Revenue and Expenditure Growth (%)



Source: Tasmanian Audit Office

Figure 4 shows that, since 2012-13, revenue growth exceeded expenditure growth.

Operating revenue grew 4.9% in 2015-16. The growth from the prior year was primarily driven by a 17.4% increase in Australian Government - General purpose payments (GST) and a 5.8% increase in taxation revenue, namely payroll tax and conveyance duties.

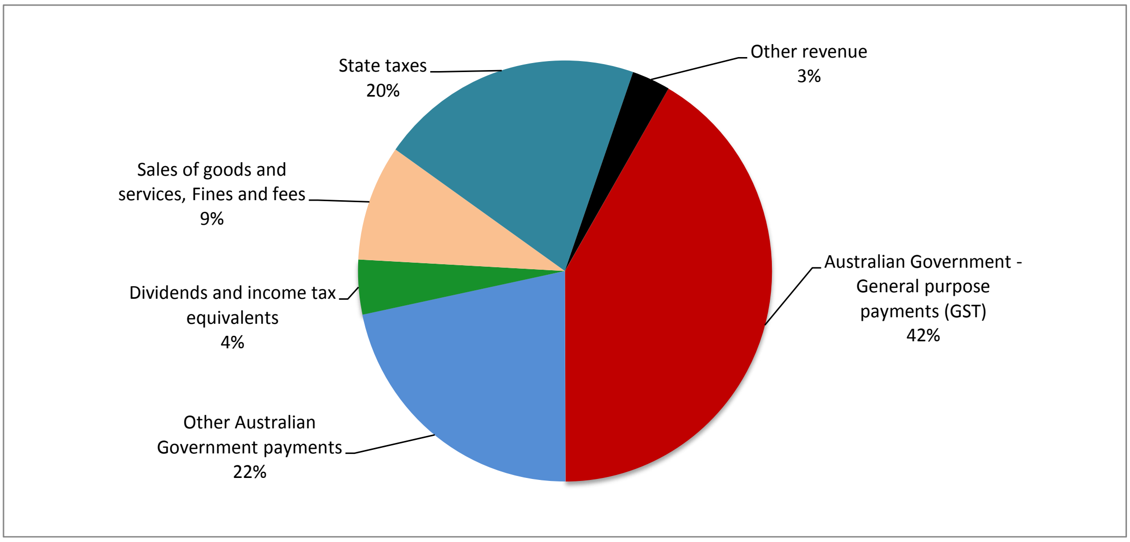
Operating expenses grew by 3.1% in 2015-16, which was mainly driven by a 15.6% increase in Supplies, consumables and other expenses and a 1.7% increase in employee costs.

Movements in revenues and expenditures are now discussed separately.

Revenue

GGS revenue, excluding one-off Australian Government capital funding, totalled $5.35bn in 2015-16. This was $251m, or 4.9%, higher compared to last year. The increase was mainly the result of higher general purpose grant payments (GST), specific purpose payments, included as part of other Australian Government payments and increased State taxes. Figure 5 shows the composition of GGS total revenue in 2015-16.

Figure 5: Sources of GGS revenue (excluding one-off Australian Government capital funding)



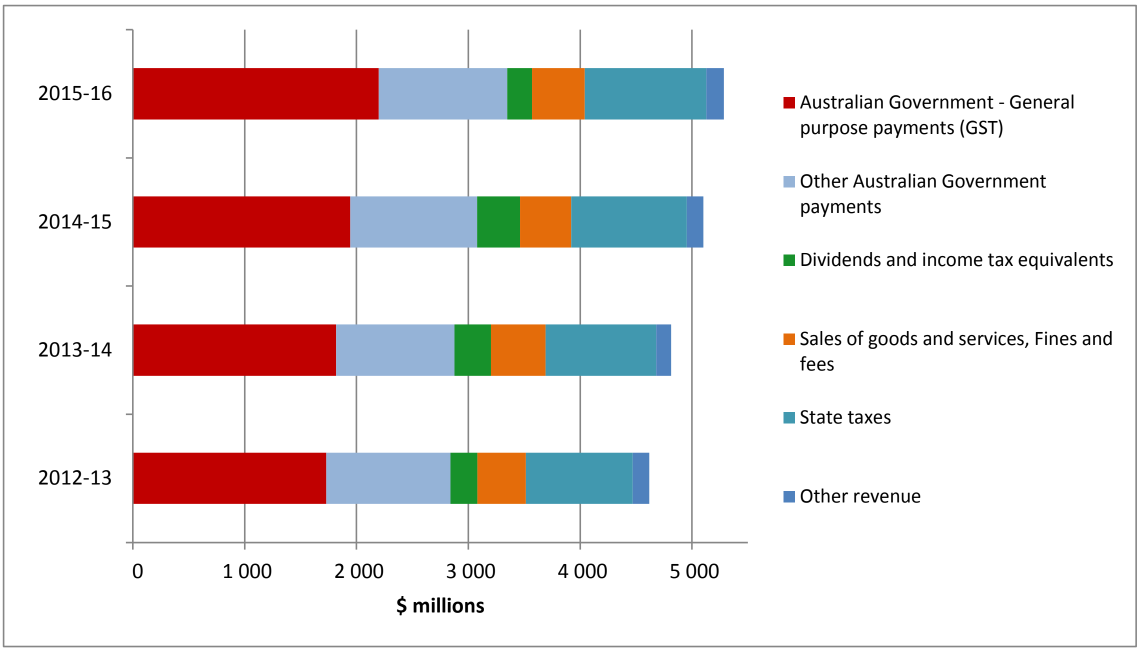
Source: Tasmanian Audit Office

Note: Discrepancies between this Report and TAFR were due to reallocation of some items of revenue to better assist readers in interpreting recurrent financial performance. For example, fines and regulatory fees were 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 64.1% of operating revenue in 2015-16. This was higher than the four-year average of 61.4% and demonstrated the significance reliance by Tasmania on funding from the Australian Government.

Figure 6 shows the composition of GGS revenue, excluding one-off Australian Government capital funding, over the past four years.

Figure 6: GGS revenue sources (4-year trend)



Source: Tasmanian Audit Office

As shown in Figure 6, GST receipts increased over the period, averaging an annual growth of 7.4%. In 2015-16, GST receipts rose by 17.4% to $2.28bn (2014-15, 6.8% to $1.94bn), which was a function of an increase in Tasmania's share of the revised national population and an increase in the size of the GST pool in 2015-16. Other Australian Government payments fluctuate 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 2015-16 State Taxation revenue increased by 4.8% to $1.08bn (4.8% to $1.04bn). Increased revenue from conveyance and other duties, payroll tax and land tax were the main contributing factors. State Taxation revenues are sensitive to changes in a range of economic parameters, such as employment, wages growth and inflation, as well as prevailing economic conditions in Tasmania. Other factors that influenced State taxes included business and consumer confidence, access to capital and the availability of labour, housing supply, interest rates and financial institutions' lending policies. The variability of this source of revenue, based on each of these factors, increased the risk of reliance on this source of funding.

Dividends and income tax equivalent revenue from Government businesses decreased by 41.9% to $222m in 2015-16 (a 17.5% increase to $382m). This meant that this source of revenue represented 4.1% of Total Revenue in 2015-16 (7.5% in 2014-15), which was the lowest level in the past four years. Decreased returns from Government businesses represented a revenue risk for Government, however the 2016-17 Budget forecast an increase in returns to Government in 2016-17 and 2017-18 due to a special dividend by TT-Line of $40m in each of those two years. In the absence of the TT-Line dividends, returns from Government businesses were expected to remain steady with lower dividends offset by an increase in income tax equivalent (ITE) returns.

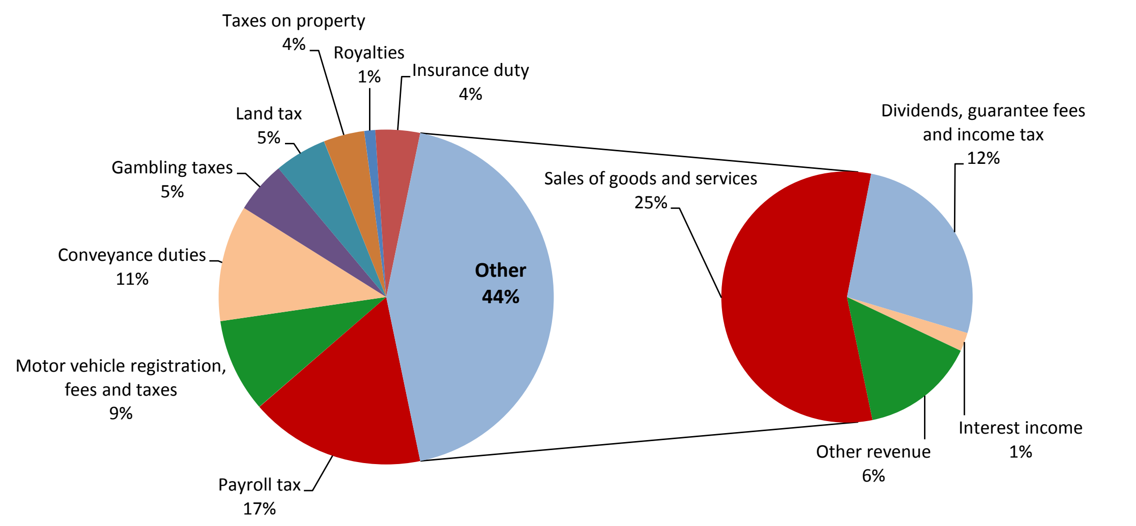
The dependence on Australian Government funding for 64.1% of the GGS's total operating revenue represents a high fiscal risk to the State's budget, especially in light of declining revenues from Government businesses, which is discussed further in Figure 7. The risks to

Tasmania's GST revenue were linked directly to the State's share of the national population, the size of the GST revenue pool and Tasmania's relativity factor. GST revenue collections are highly sensitive to changes in national consumer spending. Australian Government funding presented a further risk in that the Commonwealth Grants Commission assessed the level of total funding received by each state in determining its relative financial needs and GST requirements. Where Tasmania received a level of Australian Government funding above the national average, or where it was the only recipient, the State's GST revenue share decreased.

The inherent uncertainty associated with GST and other funding from the Australian Government was identified as a key risk by Treasury in its Tasmanian Government Fiscal Sustainability Report, issued in April 2016 and we concur with this assessment.

Figure 7 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 2015-16.

Figure 7: Sources of GGS Own-Source Revenue



Source: Tasmanian Audit Office

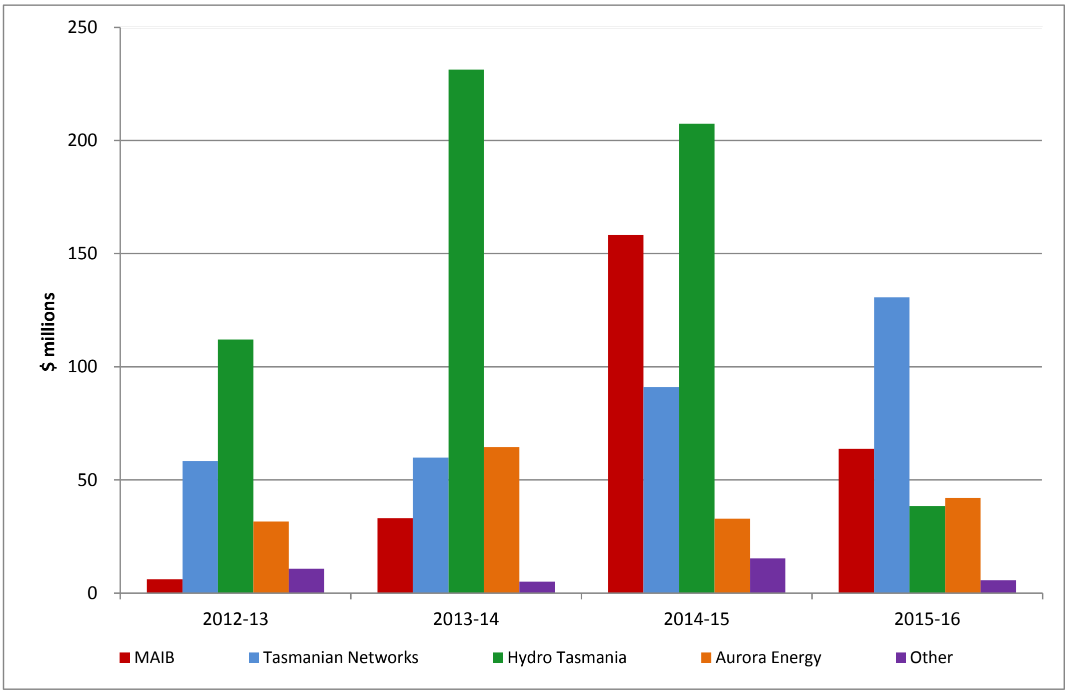
GGS own-source revenue represented 35.9% of total GGS Revenue. Of this, State-based taxes accounted for more than half of the State's own-source revenue, although the share of total GGS revenue has steadily decreased over the past four years, from 38.5% in 2012-13. This decline was a direct result of the rise in GST receipts. However, in dollar terms, own-source revenue increased by $130m over the four year period, from $1.78bn in 2012-13 to $1.91bn in 2015-16.

Figure 7 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 24.1% and 11.6%, respectively, of the State's other own-source revenue.

Figure 8 shows the highest dividend, guarantee fee and income tax equivalent-paying Government businesses over the past four years.

Figure 8: Sources of Dividends, Guarantee Fees and Income Tax Equivalents Revenue (four years)



Source: Tasmanian Audit Office

Figure 8 illustrates that MAIB and the three electricity businesses (Aurora Energy, Hydro Tasmania and Tasmanian Networks Pty Ltd (Tasmanian Networks)) provide the highest returns to the State. Over the last four years, MAIB paid $215m and the electricity businesses combined (which included Transend Networks Pty Ltd in years up to 30 June 2014) paid $891m in dividends, guarantee fees and income tax equivalents.

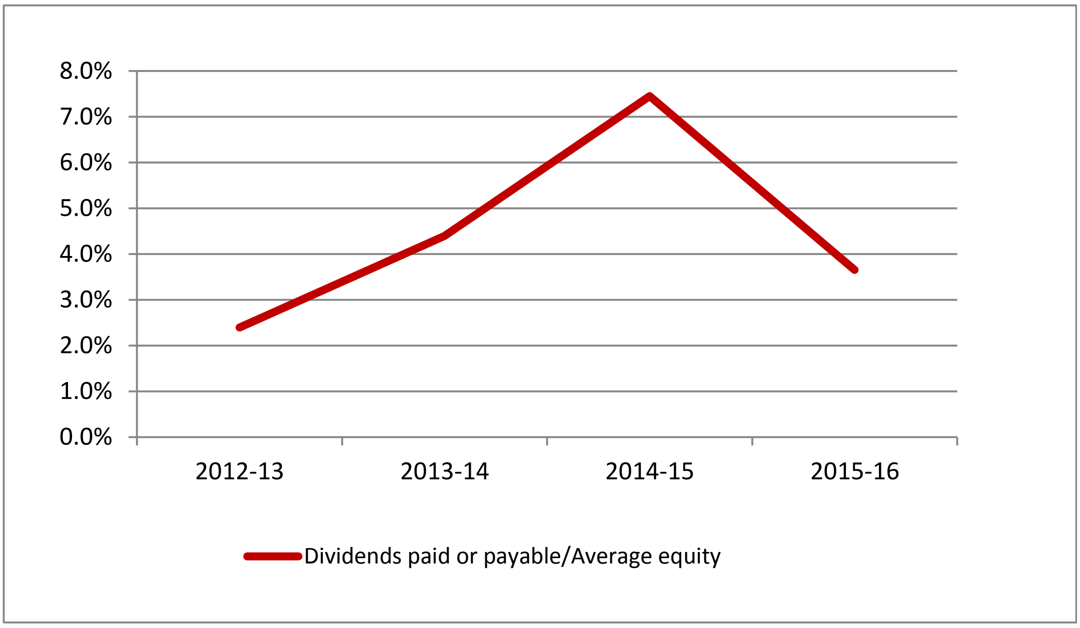
The following businesses provided no dividend returns during the four-year period under review: Forestry, Metro, Port Arthur Historic Site Management Authority (PAHSMA), Tasmanian Irrigation, TT-Line[4], TasRail and Tasracing.

Government's equity investment in its portfolio of businesses totalled $4.40bn at 30 June 2016. This was a significant investment and there was 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 4.8% of equity for the last four years.

[4] TT-Line is due to pay a special dividend in 2016-17 of $40m, to establish the Vessel Replacement Fund, for replacing the Spirit of Tasmania I and II, with a further $40m to be paid in 2017-18. The Fund will be protected by specific legislation to ensure it can only be used for the replacement of these vessels.

Figure 9 shows the annual return on equity invested in Government businesses over the period, calculated as dividends paid or payable divided by average equity.

Figure 9: Return on equity



Source: Tasmanian Audit Office

Figure 9 confirms our earlier observations of decreasing dividends in the 2015-16 financial year, which is discussed further in Figure 10.

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. For 2015-16, return on equity was 3.7%, the lowest return since 2012-13.

Table3: Dividends Paid

	2015-16 $'000s	2014-15 $'000s	2013-14 $'000s	2012-13 $'000s
MAIB	47 692	144 570	23 219	6 140
Tasmanian Networks*	63 200	61 000	28 686	25 900
Hydro Tasmania	25 000	118 576	116 058	50 686
Aurora Energy	27 600	0	25 000	16 000
Tascorp	0	10 512	2 346	7 629
Public Trustee	0	626	0	151
TOTAL	**163 492**	**335 284**	**195 309**	**106 506**

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

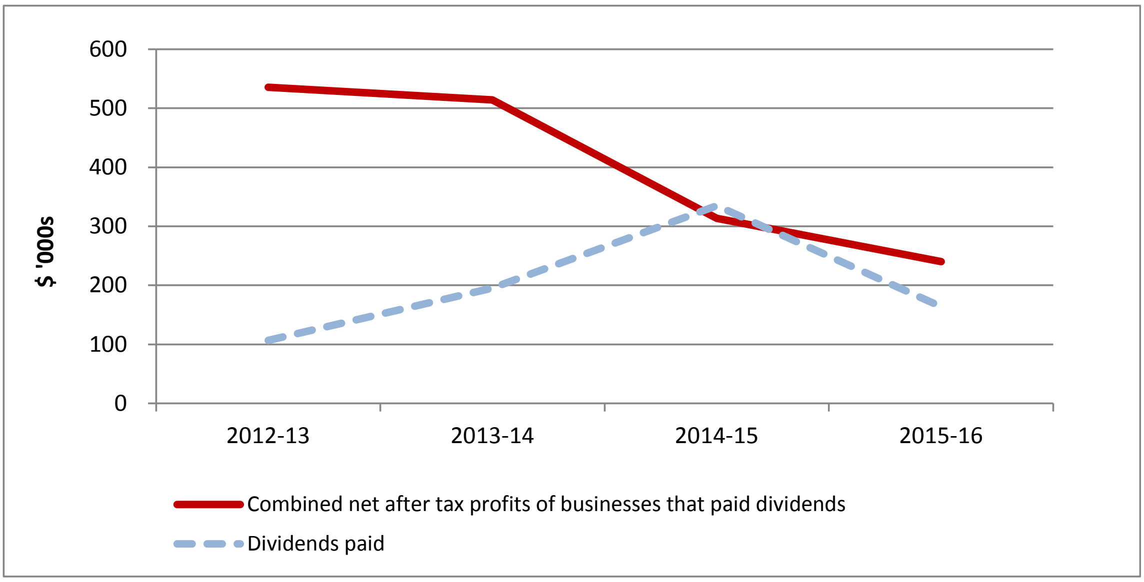
Source: Tasmanian Audit Office

Note: Dividends in this table were based on the year they were recognised as revenue in TAFR. The only exception was dividends for Tasmanian Networks which were declared in 2013-14 and paid in 2014-15.

Return on equity decreased in the current financial year, largely due to a significant reduction in dividends received from Hydro Tasmania and MAIB, with no dividends received from Tascorp, as shown in Table 3. Hydro Tasmania was not able to pay a dividend in 2015-16 due to the Basslink outage and the record low water storage levels. Hydro Tasmania's high dividends in 2012-13 and 2013-14 reflected carbon price related revenues earned in those two financial years. MAIB dividends in 2014-15 included a special dividend of $100m.

Figure 10 compares dividends paid by Government businesses with their combined net profits over the relevant periods. Entities that did not pay any dividends were excluded.

Figure 10: Comparison of Dividends with Combined Net Profits



Source: Tasmanian Audit Office

On a cash basis, Government businesses returned average dividends of around $200m per year over the past four years. As shown in Figure 10, there was a significant decrease in the current year, with dividends paid decreasing by 51.2%, to $163m.

The growth in dividends over the first three years of the analysis 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 Tasmania's returns in 2014-15. 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.

In the current year, only four entities paid dividends:

- Tasmanian Networks
- Hydro Tasmania
- MAIB
- Aurora Energy

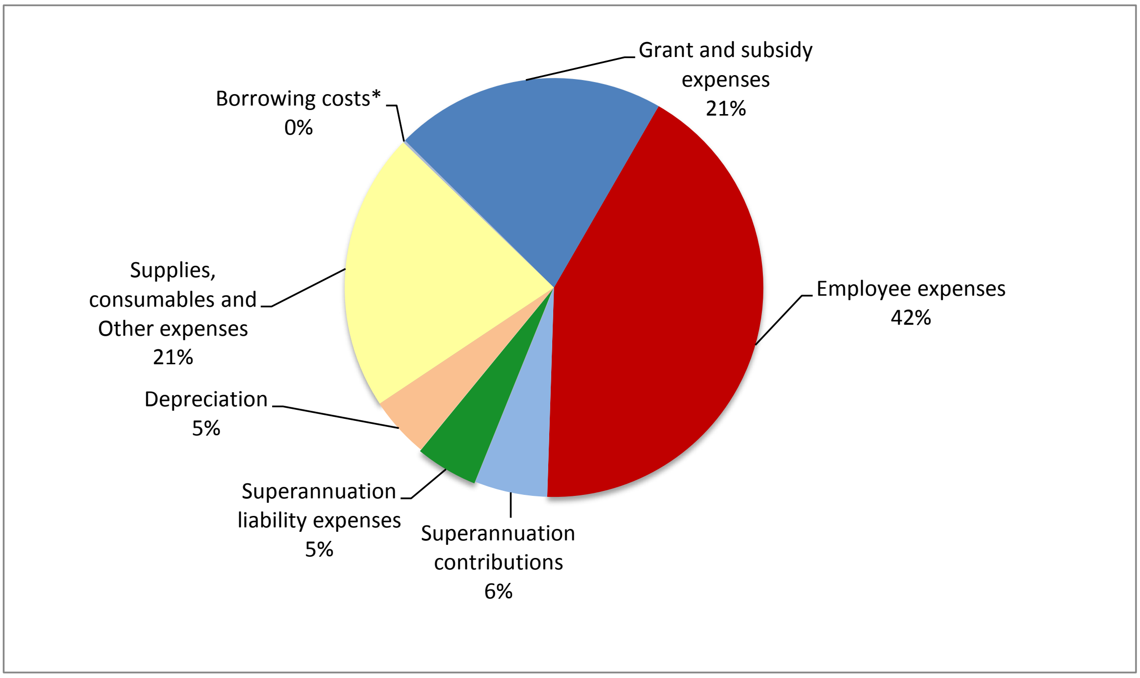
As a result, Government businesses contribution to own-source revenue decreased from 18.9% to 11.5% (refer to Figure 7).

Further details about the financial performance of government businesses are outlined in our Report on Government businesses tabled on 17 November 2016, which can be found on our website at *www.audit.tas.gov.au*.

Expenditure

GGS expenditure totalled $5.37bn in 2015-16, which was $159m, or 3.1% higher compared to last year. Figure 11 shows the composition of total expenditure in 2015-16.

Figure 11: GGS Expenditure



Source: Tasmanian Audit Office

** Borrowing costs were $10m (2014-15, $11m).*

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

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

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 11, combined employee costs[5] represented 52.6% of total expenditure in 2015-16 (2014-15, 53.6%).

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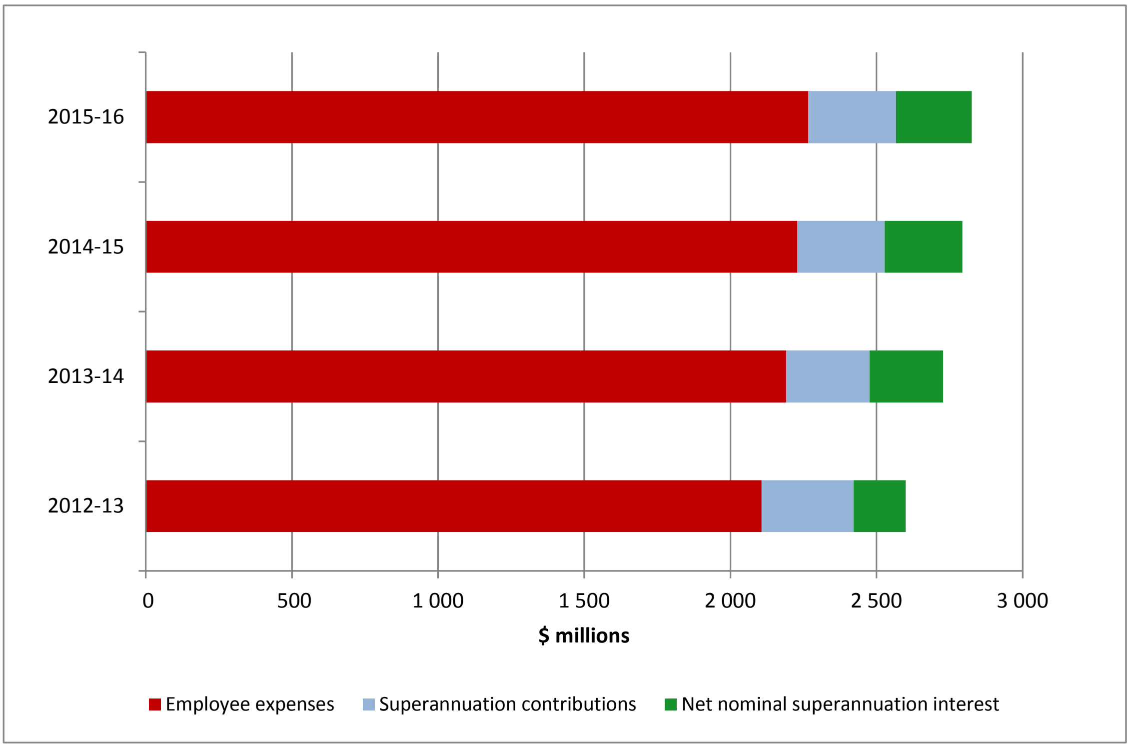
[5] *Combined employee costs included wages, salaries, leave entitlements and on-costs, superannuation contributions made on behalf of employees and superannuation liability expenses relating to defined benefits schemes for which the Government was responsible.*

Figure 12 shows the movement in employee related expenditure over the last four years.

Figure 12: Employee costs (four-year trend)



Source: Tasmanian Audit Office

Figure 12 shows that Employee expenses[6], which primarily comprised salaries and wages, increased by 7.5% over the four-year period, which equated to a compound annual growth rate of 1.8%. Employee expenses increased by 1.7% in 2015-16, which was consistent with the increase in the prior year.

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 2015-16 State Budget outlined that it was essential that employee costs continued to be constrained. As noted previously, employee costs as a percentage of total costs decreased slightly from 53.6% for 2014-15 to 52.6% for 2015-16. However, the prior 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 in 2014-15. In 2014-15, total separation payments for departments and other GGS entities, including THOs and TasTAFE, equalled $40m. Without these payments, Employee expenses in the prior year would have been consistent with the current year, at 52.8% of total costs.

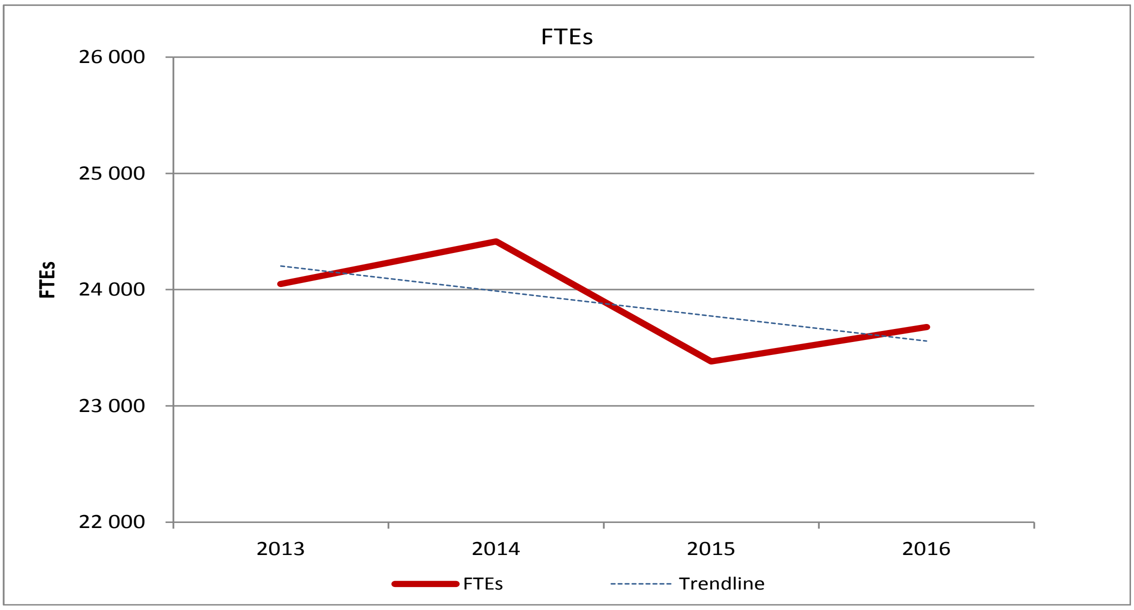
Although the percentage of employee costs to total costs decreased, this was partly due to the increase in Supplies, consumables and other expenses of $156m. This saw its share of total expenditure increase from 19.2% to 21.6%.

Employee costs increased by $37m, influenced by an increase in Full-time Equivalents (FTE) and by 2.0% salary indexation provided by the *Public Sector Unions Wages Agreement 2013*.

[6] *Separation payments have not been excluded from any of the years of analysis.*

Figure 13 shows the movement in FTEs employed by Government departments, Tasmanian Health Service (THS) and TasTAFE, which primarily made up the GGS, over the past four years.

Figure 13: Departmental and GGS FTEs



Source: Tasmanian Audit Office

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

Figure 13 shows an increase in departmental and GGS FTEs in 2016, of 269 employees. The increase in FTEs was principally due to an increase in the number THS employees by 251 FTEs.

The analysis above indicates the Government was making progress towards achieving Strategic Action 6.

Capital expenditure

Ongoing investment in infrastructure is a key element of the Government's Fiscal Strategy as well as its jobs and economic growth strategies. Infrastructure investment is also essential to the delivery of services to the community whether it be roads, hospitals, schools, housing, health centres or many other forms of essential public infrastructure. Over the 2015-16 Budget and Forward Estimates period, the Government allocated $1.80bn to infrastructure investment. Major infrastructure expenditure over this period includes:

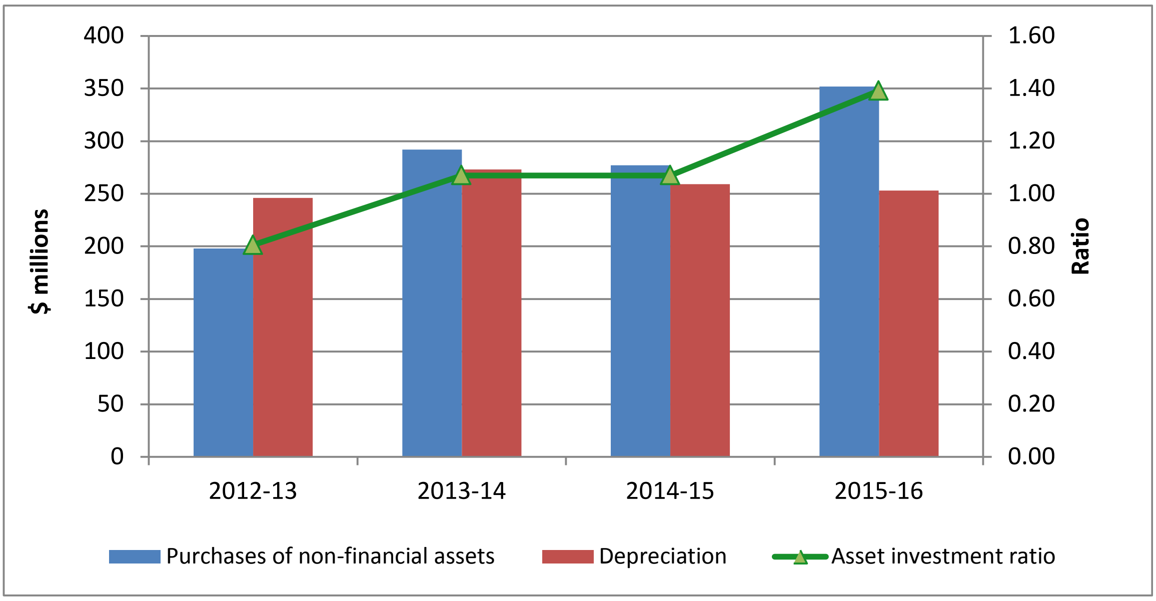
- $496m for the Royal Hobart Hospital Redevelopment
- $728m for roads funding
- $95m for education and LINCs infrastructure projects
- $60m for the Northern Cities Major Development Initiative
- $220m of capital provisions set aside by the Government, which will be allocated to future infrastructure investment projects or used to provide capacity to meet cost variation and the impact of the re-scheduling of projects.

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 was the most appropriate measure to use.

As at 30 June 2016, GGS depreciation was reported as being $259m, while infrastructure investment totalled $352m. This shows that for the 2015-16 financial year, this target, at the GGS level, was achieved. Capital spending was driven mainly by investment in the health, transport and education sectors.

Figure 14 shows the trend in the purchases of non-financial assets to depreciation over the past four years.

Figure 14: Purchases of non-financial assets and depreciation



Source: Tasmanian Audit Office

The current year figure of $352m was $62m below the original budget, and this was primarily due to reduced cash flows for:

- State Growth of $11m, primarily related to adjustments to the Roads Program, including the Midlands Highway project
- Finance-General of $9m, primarily related to adjustments to the Parliament Square fitout program;
- Education of $8m, primarily related to various School Upgrade Projects
- the Department of Police, Fire and Emergency Management (DPFEM) of $7m, primarily related to the Emergency Services Computer Aided Dispatch System
- DHHS of $15m, primarily related to Tasmania's Affordable Housing Strategy
- THS of $4m, primarily related to plant and equipment purchases.

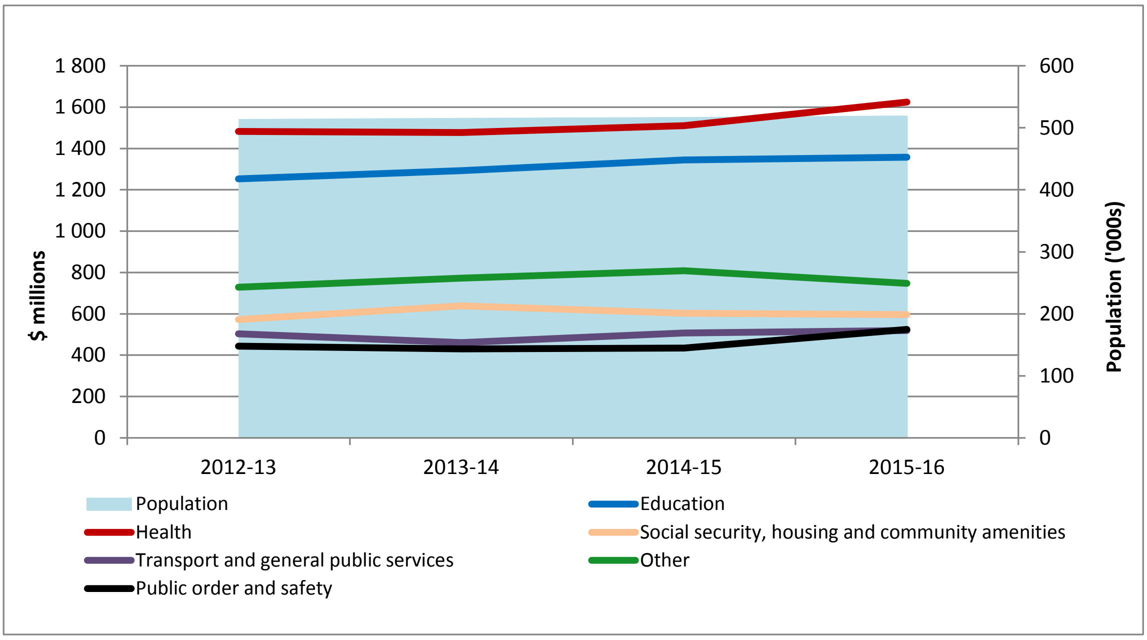
The Asset Investment Ratio is a measure of investing sustainability. This ratio compares annual net purchases of non-financial assets to annual depreciation expense. A ratio of less than one indicates that the size or condition of the overall asset base is diminishing, and a ratio of greater than one suggests an expanding asset base. Figure 14 above indicates that the Asset Investment Ratio has exceeded a ratio of one since 2013-14.

General Government expenses by function

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

Figure 15 depicts graphically recurrent expenditure incurred over the past four years by function, unadjusted for CPI, compared to growth in population.

Figure 15: Government Expenses by Function



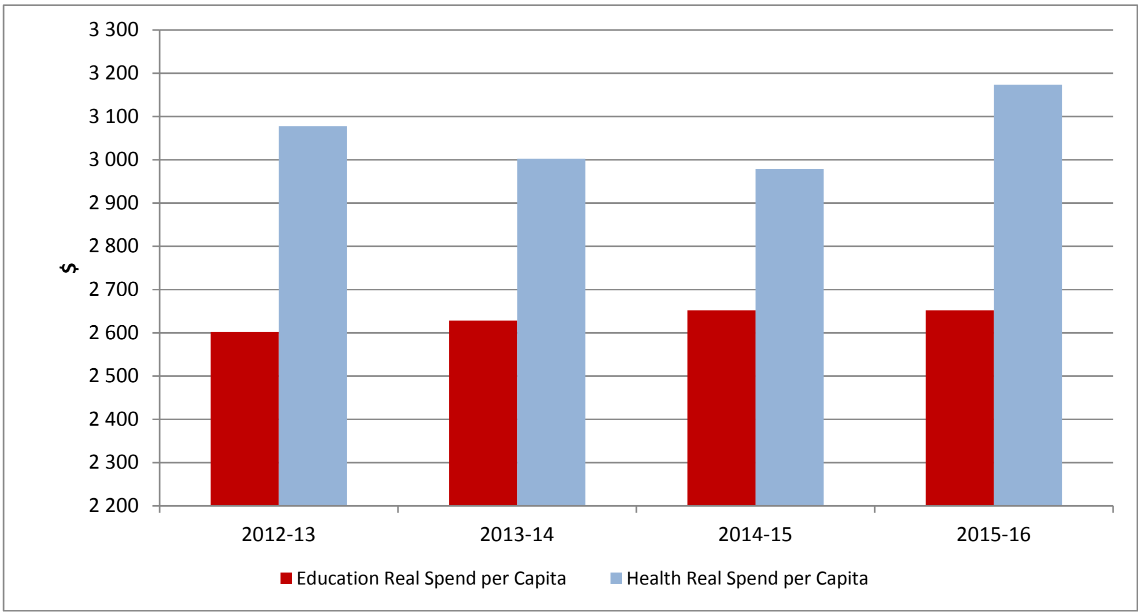
Source: Tasmanian Audit Office

Note: Other included 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 expenses.

Figure 15 highlights that the majority of GGS expenditure was spent on health, 30.1% (2014-15, 29.0%), and education, 25.3% (25.8%). This meant that, in total, expenditure on health and education absorbed 55.4% of the State budget this year, a slight increase on the prior year share of 54.8%.

Figure 16 shows average spend per capita on health and education over the past four years.

Figure 16: Health and Education Average Spend per capita



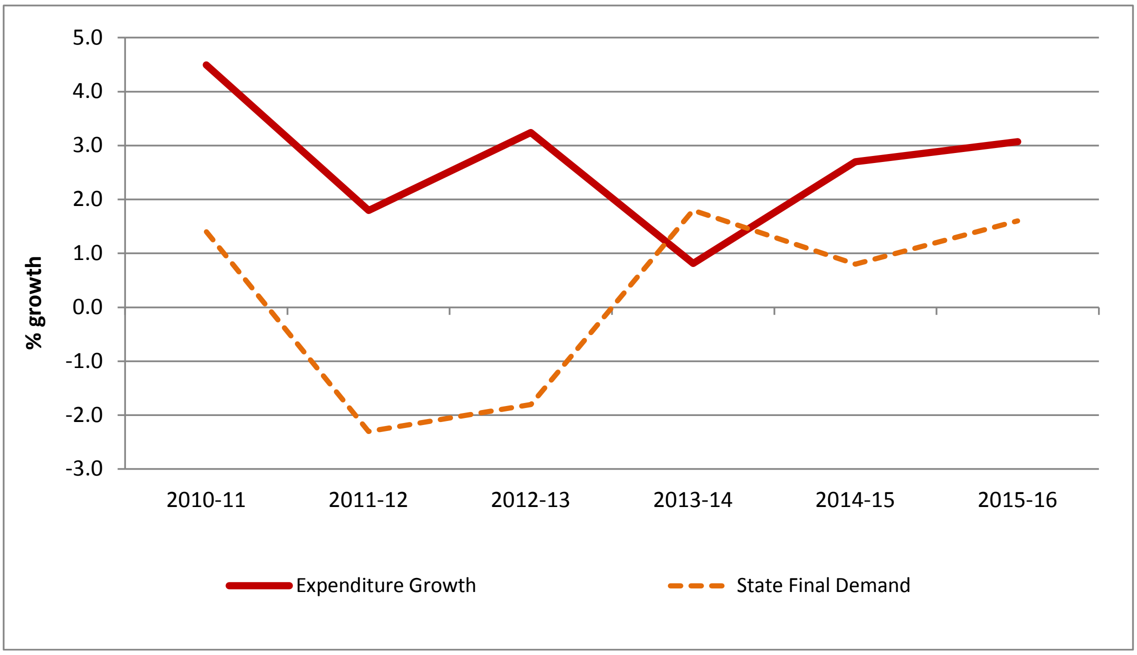
Source: Tasmanian Audit Office

Adjusted for CPI, spending on health per capita increased by 3.1%, while spending on education per capita increased by 1.9% between 2012-13 and 2015-16. These percentages equate to compound annual growth rates of 0.8% on health and 0.5% on education respectively. Health funding per capita increased by 6.5% in the current year, after consecutive decreases in each of the past two financial years. The increase in health spending was driven predominantly by increased employee costs due largely to an increase in FTEs. Education funding per capita was consistent with the prior year.

Comparison of operating expenditure with state final demand

Figure 17 shows the trend in expenditure growth over the past six years against State Final Demand (SFD). SFD is a measure of economic demand for products in the economy. It is an aggregate 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. It is different from gross state product (GSP) as it excludes international and interstate trade as well as change in inventories.

Figure 17: Trend in expenditure growth



Source: Tasmanian Audit Office

The trend showed that expenditure growth declined until 2011-12 and again in 2013-14 and then increased in the past two years.

In the graph, SFD was expressed as a percentage change from the previous year. The graph shows that expenditure growth exceeded the percentage increase in SFD of 1.6% in 2015-16 consistent with the result identified in the prior year.

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.

STATEMENT OF FINANCIAL POSITION

	2016 Original Budget	2016 Preliminary Outcome	2016 Actual	2015 Actual	2014 Actual	2013 Actual
	$m	$m	$m	$m	$m	$m
Total Assets	17 964	17 802	17 762	17 683	18 185	20 024
Total Liabilities	7 206	10 581	10 607	9 069	8 855	8 232
Net assets	**10 758**	**7 222**	**7 155**	**8 614**	**9 330**	**11 792**
Net Worth	10 758	7 222	7 155	8 614	9 330	11 792
Net Financial Worth	(726)	(3 652)	(3 708)	(2 210)	(1 627)	570
Net Financial Liabilities	(5 241)	(8 065)	(8 103)	(6 591)	(6 158)	(5 605)
Net Debt	(252)	(750)	(746)	(532)	(208)	(220)

Source: Tasmanian Audit Office

Net worth, also referred to as net assets, decreased by $1.45bn to $7.16bn at 30 June 2016. Net worth was calculated as total assets less total liabilities. Net worth incorporated non-financial assets such as land and other infrastructure assets, which may be sold and used to repay debt. It also incorporated certain financial assets and liabilities not captured by the Net debt measure, most notably, accrued employee superannuation liabilities, ownership of equities, debtors and creditors.

Net financial worth was calculated as financial assets less total liabilities. Net financial worth decreased further to negative $3.71bn (2015, negative $2.21bn) meaning that, for the third consecutive year, total liabilities exceeded total financial assets. The 2015-16 decrease was mainly attributable to the $1.69bn increased in the superannuation liabilities of $1.69bn.

Net financial liabilities comprised total liabilities less financial assets, excluding equity investments in Government businesses. Net financial liabilities increased by $1.51bn to $8.10bn at 30 June 2016 in line with the increase in the unfunded superannuation liability, partly offset by lower borrowings. Borrowings totalled $625m at 30 June 2016 (2015, $802m) and included lower overnight borrowing of $385m ($575m). The decrease in borrowings, $177m, was better than the budgeted decrease of $134m.

Net debt is a measure used to help assess the overall strength of a Government's fiscal position. Net debt comprises borrowings less the sum of cash and deposits and investments. 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 negative $746m at 30 June 2016. The position was better than budgeted Net debt of negative $252m and the level of negative Net debt has continued to grow since June 2014.

Table 4 shows the summarised Statement of Financial position for the past seven years.

Table 4: Net Assets (2010-2016)

	2016 Actual	2015 Actual	2014 Actual	2013 Actual	2012 Actual	2011 Actual	2010 Actual
	$m	$m	$m	$m	$m	$m	$m
Total Assets	17 763	17 683	18 185	20 024	19 901	18 573	19 031
Total Liabilities	10 608	9 069	8 855	8 232	8 835	6 081	5 966
Net assets	**7 155**	**8 614**	**9 330**	**11 792**	**11 066**	**12 492**	**13 065**
Net Worth	7 155	8 614	9 330	11 792	11 066	12 492	13 065
Net Financial Worth	(3 708)	(2 210)	(1 627)	570	175	2 033	2 136
Net Financial Liabilities	(8 103)	(6 591)	(6 158)	(5 605)	(6 123)	(4 145)	(3 814)
Net Debt	(746)	(532)	(208)	(220)	(409)	(416)	(748)

Table 4 shows that after Net worth peaked in 2010 (largely due to inclusion of regional water corporations) it has steadily decreased since then due to a combination of operating deficits, decreased assets and increased liabilities. Major movements from 2010 were:

- the cumulative impact of operating deficits over this period which totalled $5.83bn
- for assets, equity in GBEs and SOCs decreased by $1.56bn, primarily due to the $1.80bn reclassification of TasWater as a Local Government Sector entity at 1 July 2013. However, over the period of review, total assets primarily went up due to:
  - assets transfered from Forestry Tasmania, which were subsequently reclassified and revalued
  - capital expenditure
  - asset revaluations.
- for liabilities, the increase was almost entirely due to superannuation obligations which rose by $3.98bn 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 highest in 2014, negative $208m. The improvement since that time was due to higher cash holdings in SDTF accounts, a direct result of operating deficits decreasing.

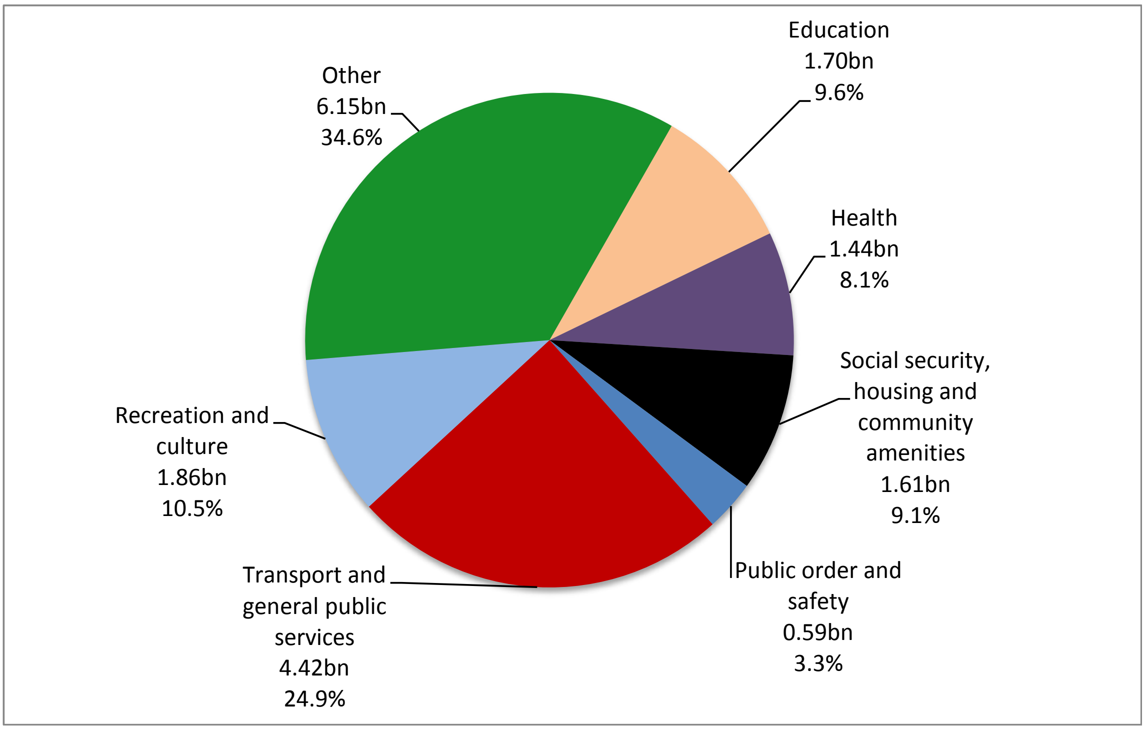
Cash

Since 30 June 2013 Government introduced funding of any overdraft or shortfall in SDTF accounts by a temporary overnight borrowing which totalled $385m at 30 June 2016 (30 June 2015, $575m). 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 $1.33bn ($1.28bn).

General Government Assets by Purpose

Figure 18 depicts GGS asset balances classified according to their function at 30 June 2016, excluding equity investments in Government businesses.

Figure 18: GGS Assets by Function (excluding Equity Investments in PNFCs and PFCs)



Source: Tasmanian Audit Office

The largest category, Other, which made up 34.6% of the total, included Fuel and energy, Agriculture, forestry, fishing and hunting, Mining and mineral resources, Other economic affairs. Other significant asset categories were Transport and general public services, 24.9%, followed by Recreation and culture 10.5%, Education, 9.6% and Social security, housing and community amenities, 9.1%. This was consistent with previous years, although the transfer of housing properties under the BHF program resulted in decreased value of assets classified under Social security, housing and community amenities. Since the program commenced in 2012-13, over 3 896 properties valued at $478m were transferred to community housing organisations. Legal title over these properties was retained by the Director of Housing, however the tenancy and property management have been transferred to a number of community housing providers. Given that the Director of Housing no longer exercised control over these assets nor received future economic flows arising from these assets, they were no longer recognised in the Statement of Financial Position, but were included as a contingent asset in the notes to the Financial Statements.

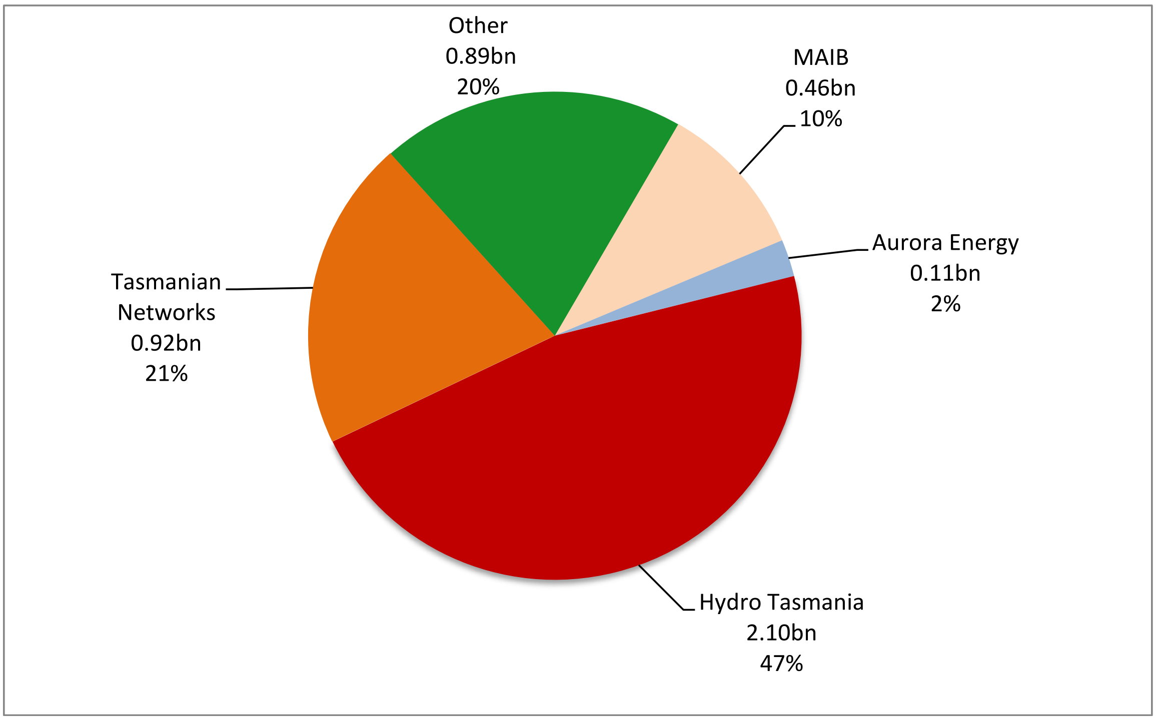
Investment in Government Businesses

The State's equity in Government businesses totalled $4.40bn at 30 June 2016, $14m more than at 30 June 2015. During 2015-16, the Government withdrew equity of $120m from Tasmanian Networks and provided equity contributions to the following Government businesses:

- Hydro Tasmania $70m
- Forestry Tasmania $30m
- Metro Tasmania $13m
- Tasmanian Railway $31m
- Tasmanian Irrigation $8m
- Tasmanian Port Corporation $10m.

Figure 19 shows Net Assets of Government businesses at 30 June 2016 by entity.

Figure 19: Net Assets of Government Businesses



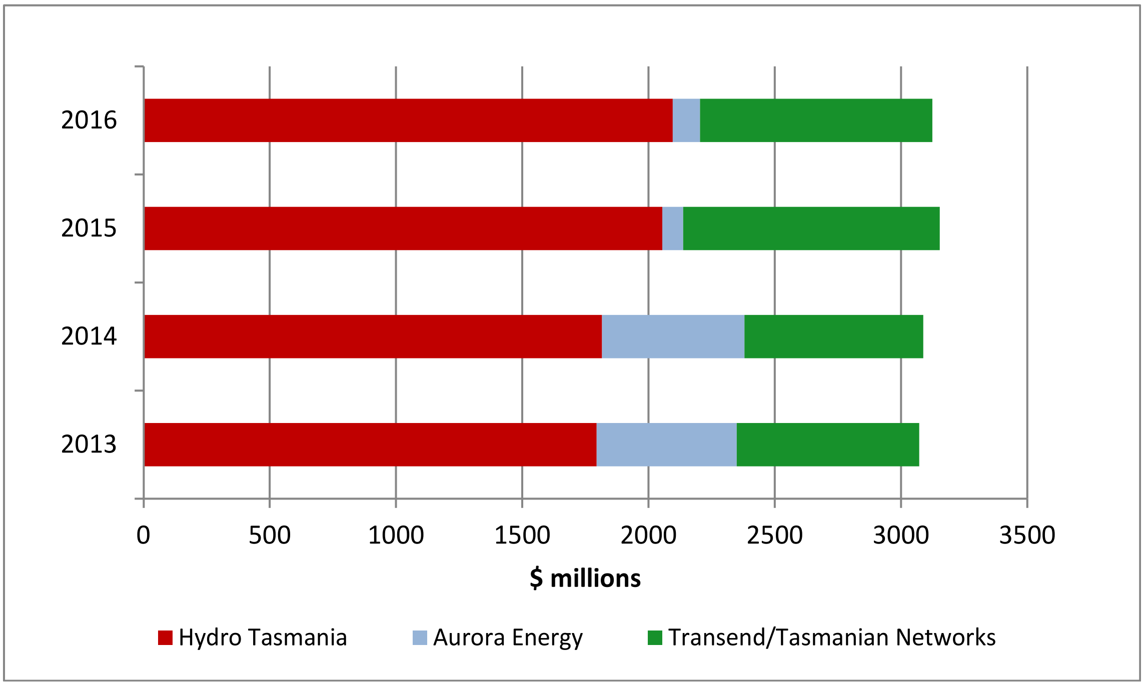
Source: Tasmanian Audit Office

Note: Net assets disclosed in the financial reports of individual entities and the value of State's equity in Government businesses will be different due to TAFR consolidation adjustments to reflect mainly differences in accounting for Government grants and measuring the superannuation liability between GGS and for-profit entites.

Figure 19 shows that electricity businesses represented a significant investment for the State at 69.8% of total Net Assets, with Hydro Tasmania having the largest share of 46.8%.

Figure 20 illustrates the movements in electricity business Net Assets over the past four years.

Figure 20: Net Assets of Electricity Businesses (four 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 was the result of revaluation increases and impairment reversals of $232m and an equity transfer of $205m.

Defined Benefit Superannuation Liability

At 30 June 2016, the unfunded liability was $8.84bn (30 June 2015, $7.15bn).

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

- Retirement Benefit Fund (RBF) Contributory Scheme, $8.76bn ($7.08bn)
- Parliamentary Superannuation Schemes (Parliamentary Superannuation Fund and Parliamentary Retiring Benefits Fund) administered by the RBF Board, $20m ($17m)
- Judges Contributory Pensions, $46m ($43m)
- Housing Tasmania superannuation liability, $13m ($13m), recognised in the financial statements of DHHS
- Tasmanian Ambulance Service Superannuation Scheme (TASSS), $5m ($2m), administered by the RBF Board, recognised in the financial statements of DHHS.

The increased net liability of $1.69bn in 2015-16 was caused by a combination of:

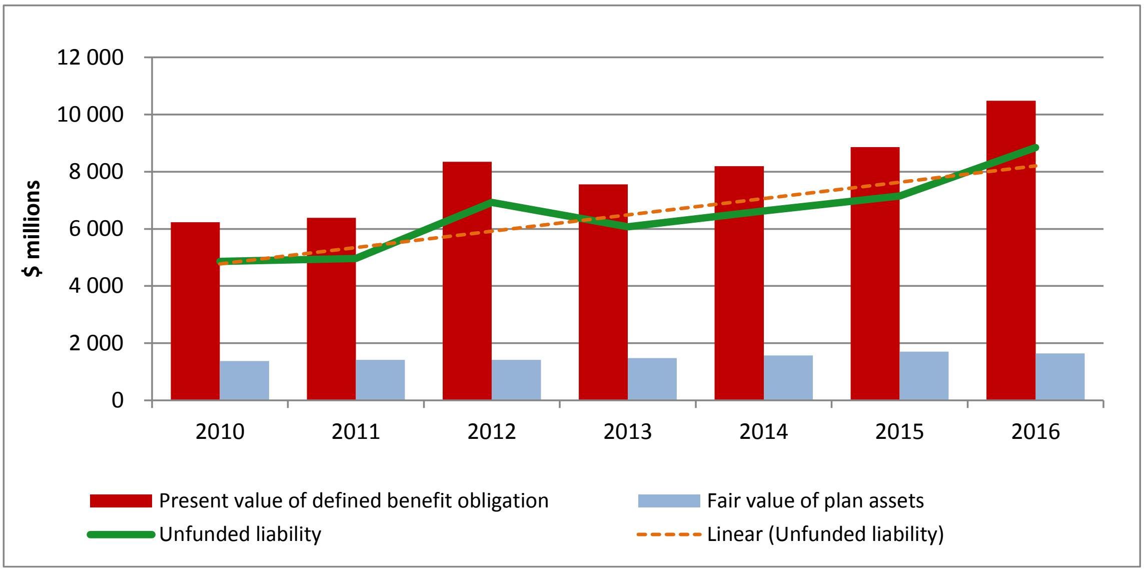
- increased present value of the superannuation liability of $1.63bn, primarily made up of:
    - changes in financial assumptions, $1.44bn, which mainly reflected a change in the discount rate from 3.7% at 30 June 2015 to 2.7% at 30 June 2016. Because of the inverse relationship between the discount rate and the valuation of the liability, the liability will increase when the discount rate falls
    - current service cost and interest costs of $144m and $321m, respectively
    - offset by benefits paid of $340m.
- a decrease in the fair value of Plan assets of $63m, which included:
    - employer contributions of $224m
    - 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 6.0% of General Government cash receipts. During 2015-16, the total of borrowing costs and defined benefits superannuation expense amounted to $234m. This figure equated to 4.1% of GGS cash receipts, which meant that, for the 2015-16 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 aim at ensuring that the RBF Contributory Scheme will have assets to partially meet benefit payment obligations in future years. The State Actuary also assessed the two Parliamentary funds, recommending additional contributions so that the schemes were fully funded.

Figure 21 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 21: Unfunded Superannuation Liability (seven year trend)

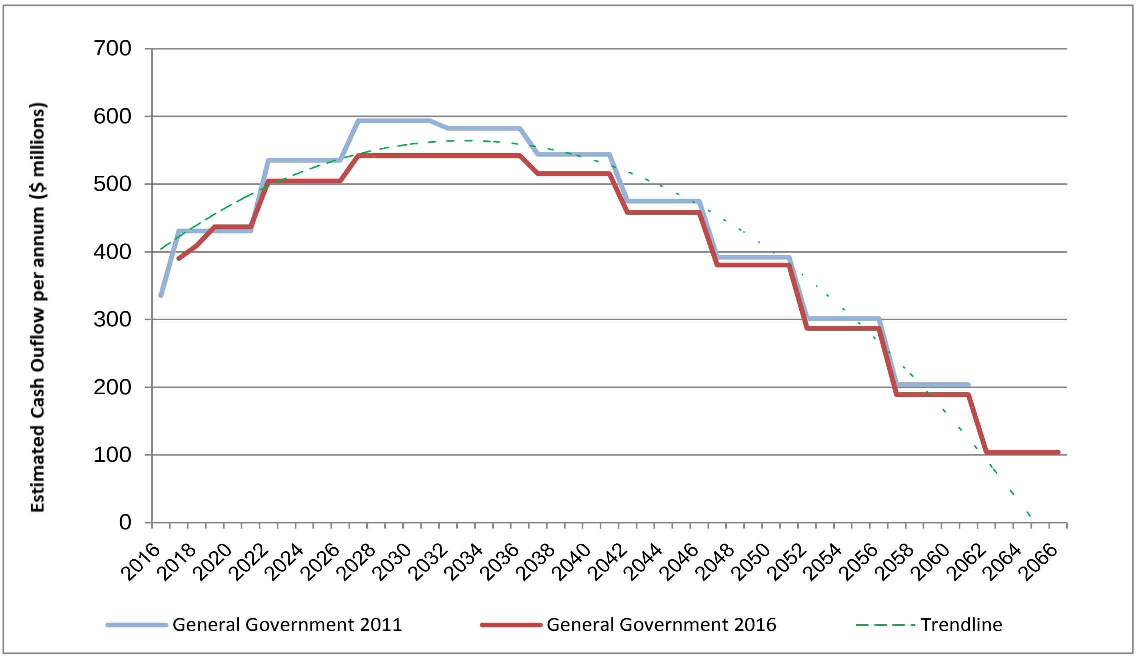


Source: Tasmanian Audit Office

The graph illustrates the upward trend of the State's obligation, arising from current and former members, for unfunded or partially funded public sector defined benefit superannuation schemes, all of which are now closed to new membership. As these schemes were 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 CF, funded partly by agency contributions and by a Reserved by Law contribution, which comprises the balance of the Government's share of pension and lump sum benefit costs.

Figure 22 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 2016. The estimated cash outflows represent the total cost of benefits payable, and they do not take into account the current arrangement where a proportion of pension costs and lump sum payments are met by the RBF from plan assets.

Figure 22: Undiscounted Defined Benefit Superannuation Cash Outflows (2016–2066)

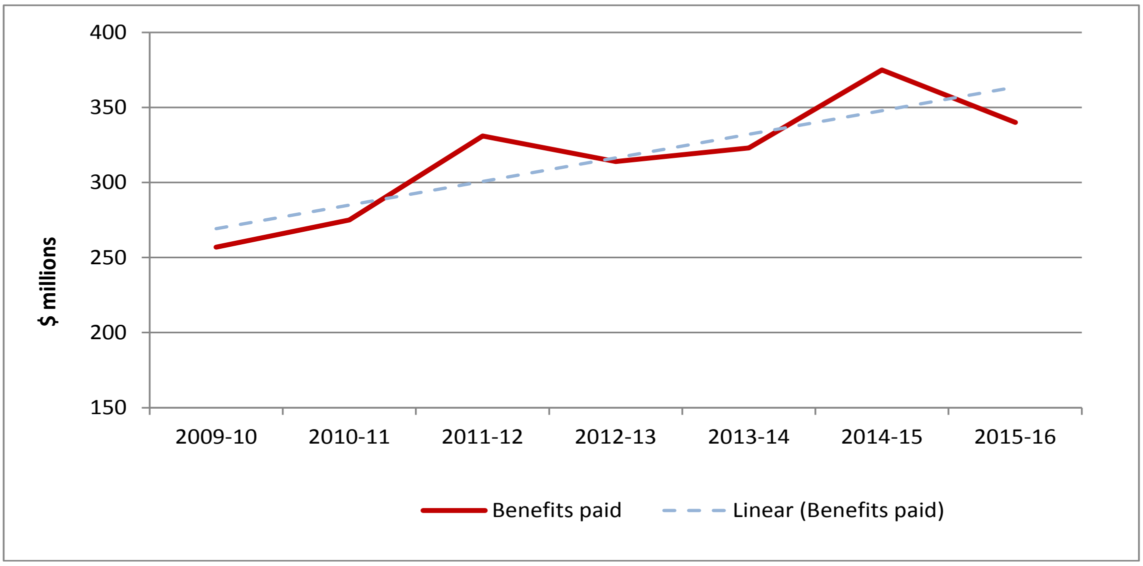


Source: Tasmanian Audit Office

Figure 22 shows that cash required to meet defined benefit pensions and lump sum payments will peak approximately 16 to 20 years from now at around $542m per annum. A key budget risk is that the cost to the Budget will increase significantly in coming years, increasing by 68.0% over the next 14 years and peaking in 2029-30, rather than 2030-31 as was projected in the 2014-15 Budget.

Figure 23 illustrates the increase in benefits paid over the past seven years. The information was obtained from actuarial reports and included all GGS defined benefit schemes and arrangements. The RBF Contributory Scheme accounted for 97.6% of all benefits paid.

Figure 23: 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 32.3% from $257m in 2009-10 to $340m in the current year. The peak recorded in the prior year was due to the impact of the increased number of WRIP and TNVR packages offered to GGS employees, as part of saving strategies in that year.

GGS expects to make a contribution of $271m to the defined benefit schemes in 2016-17 to assist in funding the benefit payments.

The cumulative effect of demographic changes, such as a decrease in mortality rates, and the increase in members 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.

STATEMENT OF CASH FLOWS

	2015-16 Original Budget	2015-16 Preliminary Outcome	2015-16 Actual	2014-15 Actual	2013-14 Actual	2012-13 Actual
	$m	$m	$m	$m	$m	$m
Cash at the Beginning of the Year	**1 136**	**1 308**	**1 282**	**1 308**	**1 298**	**1 252**
Net Cash flows from (used in) operating activities	324	536	488	536	241	(27)
Net cash flows (used in) investing activities	(436)	(308)	(265)	(213)	(257)	(157)
Net cash flows from (used in) financing activities	(135)	(183)	(177)	(349)	26	230
Net increase (decrease) in cash held	(247)	45	46	(26)	10	46
Cash at the End of the Year	**889**	**1 353**	**1 328**	**1 282**	**1 308**	**1 298**

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.

In our analysis of the Statement of Cash Flows, Australian Government one-off capital funding (as per Table 2) was reflected in cash flows from investing activities, whereas Treasury included these receipts within operating cash flows for the GGS financial statements.

Cash held by the GGS increased by $46m to $1.33bn at 30 June 2016. The balance included an overnight loan of $385m (2015, $575m) from Tascorp on 30 June 2016 in order to gross up cash holdings to at least equal the estimated balances of accounts in the SDTF.

The main components of cash flows in 2015-16 were:

- operating cash surplus of $488m ($536m). Reasons for the decreased operating cash flow amounts reflected increased supplies and consumables payments, $148m, and lower dividend, tax and rate equivalents received, $313m, partly offset by the increased grants received of $344m
- investment in non-financial assets, net $230m ($167m), driven predominantly by capital programs in health, infrastructure assets, predominantly made up of roads, and social housing
- net outflows for equity injections, $41m ($35m), paid to Government businesses, offset by net advances of $6m ($11m), related to loans to Local Government, Government departments and the private sector
- cash used in financing activities, $177m, comprising the decrease in the overnight borrowing amount of $190m and the annual instalment in respect of the Commonwealth housing debt of $7m.

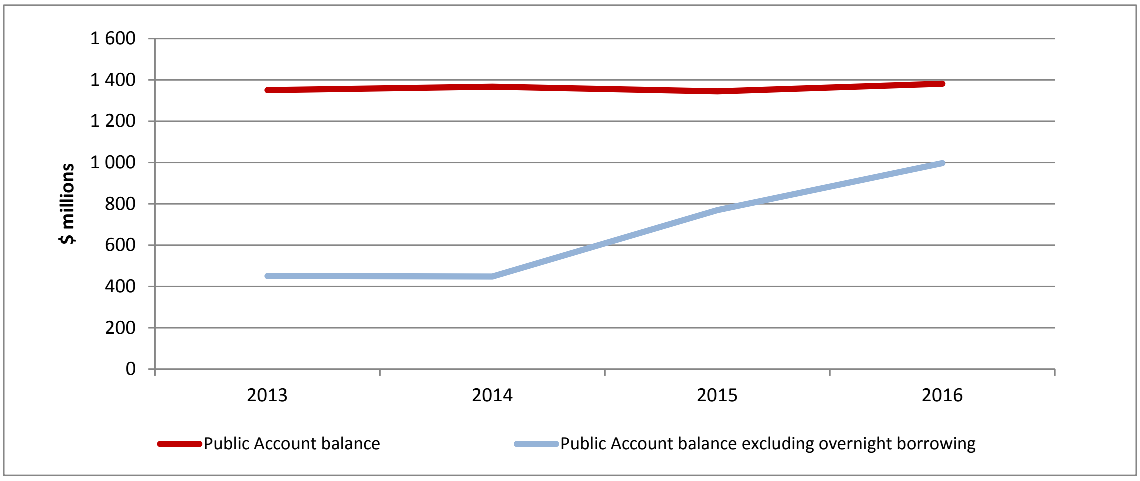
The composition of cash held is detailed under the PA statements section of this Chapter.

FINANCIAL ANALYSIS – PUBLIC ACCOUNT

When reviewing the commentary below, it should be noted 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.

Figure 24 shows the total cash held by the GGS at the end of June for the last four years.

Figure 24: Cash Balance (four-year trend)

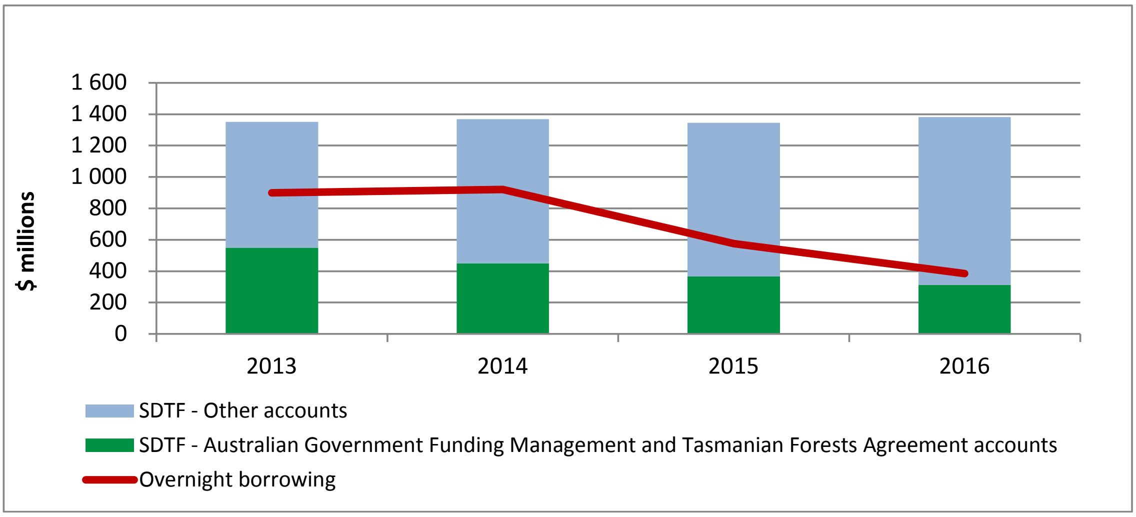


Source: Tasmanian Audit Office

As shown in Figure 24, cash held in the PA totalled $1.38bn at 30 June 2016 (30 June 2015, $1.35bn). Included in the balance was the overnight loan of $385m ($575m), which was repaid on 1 July 2016. If the overnight loan was eliminated, the cash balance would have been $997m ($770m).

Figure 25 shows the composition of the PA by separating the Australian Government Funding Management and Tasmanian Forests Agreement accounts from other SDTF accounts.

Figure 25: Public Account Composition



Source: Tasmanian Audit Office

The balance of cash and deposits in the PA of $1.38bn at 30 June 2016 ($1.35bn) comprised $313m of Australian Government funds ($367m) and $1.07bn in other SDTF accounts ($978m). The balance of Australian Government funds included unspent monies held in:

- Tasmanian Forests Agreement Account, $10m, for implementation of the Tasmanian Forests Intergovernmental Agreement (TFIA)
- Australian Government Funding Management Account, $303m, which included unspent funding of $177m ($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 $575m in 2015 to $385m in 2016, as a result of the Consolidated Fund Surplus of $197m, which is available to repay debt.

Consolidated Fund Outcome

	2015-16 Original Budget	2015-16 Preliminary Outcome	2015-16 Actual	2014-15 Actual	2013-14 Actual	2012-13 Actual
	$m	$m	$m	$m	$m	$m
Receipts						
Australian Government sources	2 785	2 799	2 799	2 476	2 302	2 171
State sources	1 462	1 545	1 545	1 791	1 523	1 347
Total	**4 247**	**4 344**	**4 344**	**4 267**	**3 825**	**3 518**
Expenditure						
Recurrent services	3 956	3 966	3 966	3 773	3 640	3 609
Works and services	162	181	181	149	175	166
Total	**4 118**	**4 147**	**4 147**	**3 922**	**3 815**	**3 775**
Consolidated Fund Outcome	**128**	**197**	**197**	**345**	**10**	**(257)**

Source: Tasmanian Audit Office

Consolidated Fund Outcome was a surplus of $197m in 2015-16, compared to a surplus of $345m in 2014-15. The reduction of $148m reflected higher receipts, $77m, offset by increased expenditure, $225m, all discussed previously in the Statement of Comprehensive Income section of this Chapter.

The Consolidated Fund Surplus was $69m higher than the surplus in the published Budget. This was primarily due to State sourced receipts exceeding budget by $83m, offset by total expenditure increasing by $29m.

FINANCIAL ANALYSIS - TOTAL STATE SECTOR

Statement of Comprehensive Income

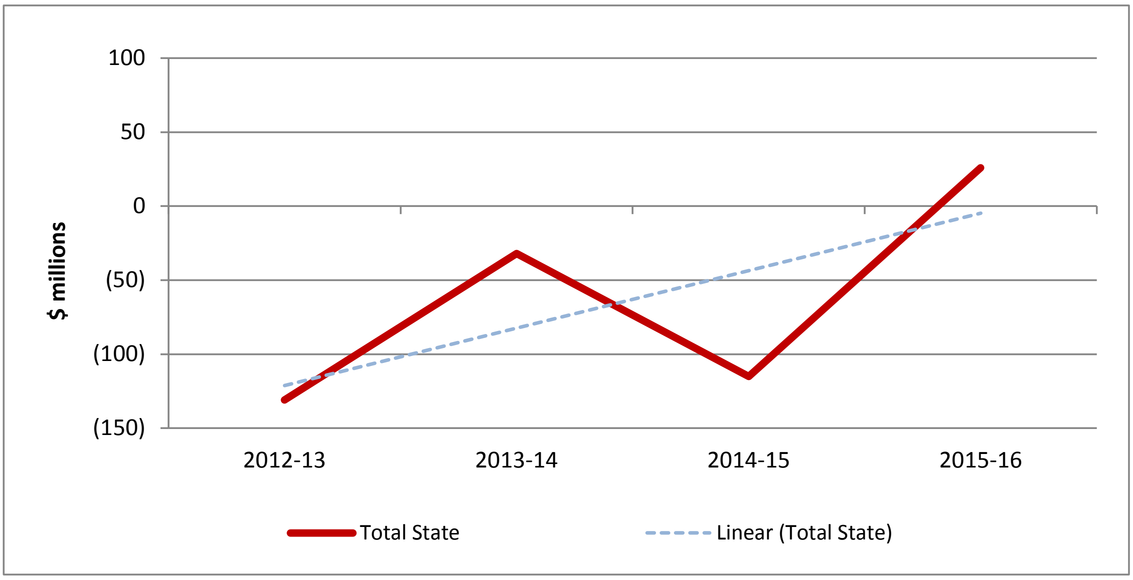
	2015-16	2014-15	2013-14	2012-13
	$m	$m	$m	$m
Total Revenue	8 070	7 950	8 394	8 330
Total Expenditure	8 044	8 065	8 426	8 461
Underlying Net Operating Balance before:	**26**	**(115)**	**(32)**	**(131)**
One-off Australian Government Capital Funding	81	54	94	101
Net Revenue from discontinued operations	0	0	0	0
Net Operating Balance	**107**	**(60)**	**63**	**(29)**
Plus Other economic flows - Included in Operating result				
Other economic flows - net	(1 944)	(601)	(945)	729
Operating Result	**(1 837)**	**(661)**	**(883)**	**700**
Plus Other economic flows - Other movements in Equity				
Total Other equity movements	378	(55)	(1 579)	25
Comprehensive Result	**(1 459)**	**(716)**	**(2 462)**	**725**

Source: Tasmanian Audit Office

Underlying Net Operating Balance

Total State Underlying Net Operating Balance was a surplus of $26m in 2015-16. This was a $141m improvement on last year's deficit of $115m. Figure 26 shows underlying results for the past four years.

Figure 26: Total State Underlying Net Operating Balance (four-year trend)

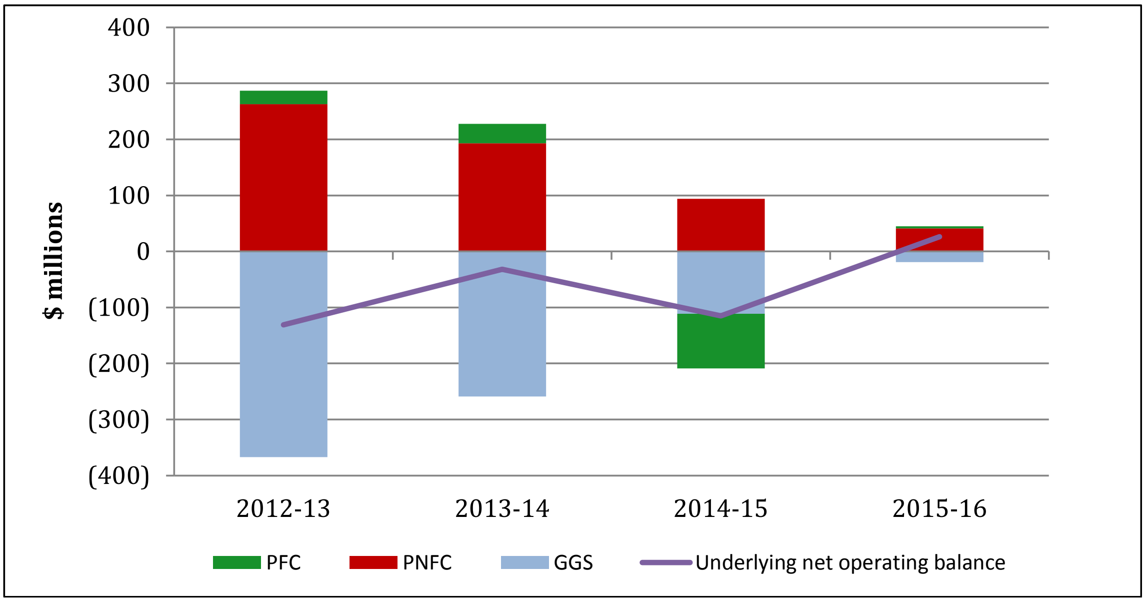


Source: Tasmanian Audit Office

The surplus recorded in 2015-16 was due to a significant increase in Grant revenue of $342m, offset by decreased Sales of goods and services of $216m, which included decreases for Hydro Tasmania of $135m and Aurora of $78m. Increased Supplies, consumables and other expenses of $65m and employee expenses of $35m were offset by lower grants and subsidy expenses and borrowing expenses of $61m and $45m, respectively.

Figure 27 shows the Net Underlying Operating Balance disaggregated into GGS, Public Financial Corporations (PFC) and Public Non-Financial Corporations (PNFC) sectors, before inter-sector eliminations.

Figure 27: Disaggregated net underlying operating balance



The graph illustrates that GGS results was the main cause of deficits reported at the Total State level, although the deficits from GGS have declined over the last four years. Even though the returns were declining, the PNFC sector recorded positive Net Underlying Operating Balances in each of the four years, while the PFC sector incurred a deficit in 2014-15 only.

Operating result

Total State Operating Result for 2015-16 was a deficit of $1.84bn, compared to a deficit of $661m in the prior year. This year's result was impacted by actuarial losses on the State's superannuation liability, $1.65bn, caused by changes in financial and demographic assumptions discussed previously in the GSS defined benefit superannuation liability section.

Statement of Financial Position

Table 5 shows the Statement of Financial Position for the past seven years.

Table 5: Net Assets (2010-2016)

	2016	2015	2014	2013	2012	2011	2010
	$m	$m	$m	$m	$m	$m	$m
Total assets	28 133	26 069	26 665	27 929	28 706	28 216	26 377
Total liabilities	20 978	17 455	17 335	16 137	17 640	15 724	13 312
Net assets	**7 155**	**8 614**	**9 330**	**11 792**	**11 066**	**12 492**	**13 065**
Net worth	7 155	8 614	9 330	11 792	11 066	12 492	13 065
Net financial worth	(12 455)	(10 523)	(10 008)	(9 945)	(11 042)	(8 867)	(8 276)
Net financial liabilities	12 455	10 523	10 008	9 945	11 042	8 867	8 276
Net debt	196	415	410	973	1 201	1 309	961

Source: Tasmanian Audit Office

Over the seven year period shown above, Net worth, also referred to as Net assets, decreased by $5.91bn. This movement was primarily due to increased total liabilities of $7.67bn, with superannuation liabilities and borrowings making up $4.26bn and $2.17bn, respectively, of this total.

The increased Total Assets over the seven-year period of $1.76m, principally related to higher investments of $2.69bn and land and buildings assets of $0.58bn. These were offset by decreased infrastructure assets of $2.19bn.

In the current year, Net worth decreased by $1.46bn to $7.15bn, in line with the Comprehensive Result. The movement primarily reflected actuarial losses on the State's superannuation liability offset by asset revaluation increases.

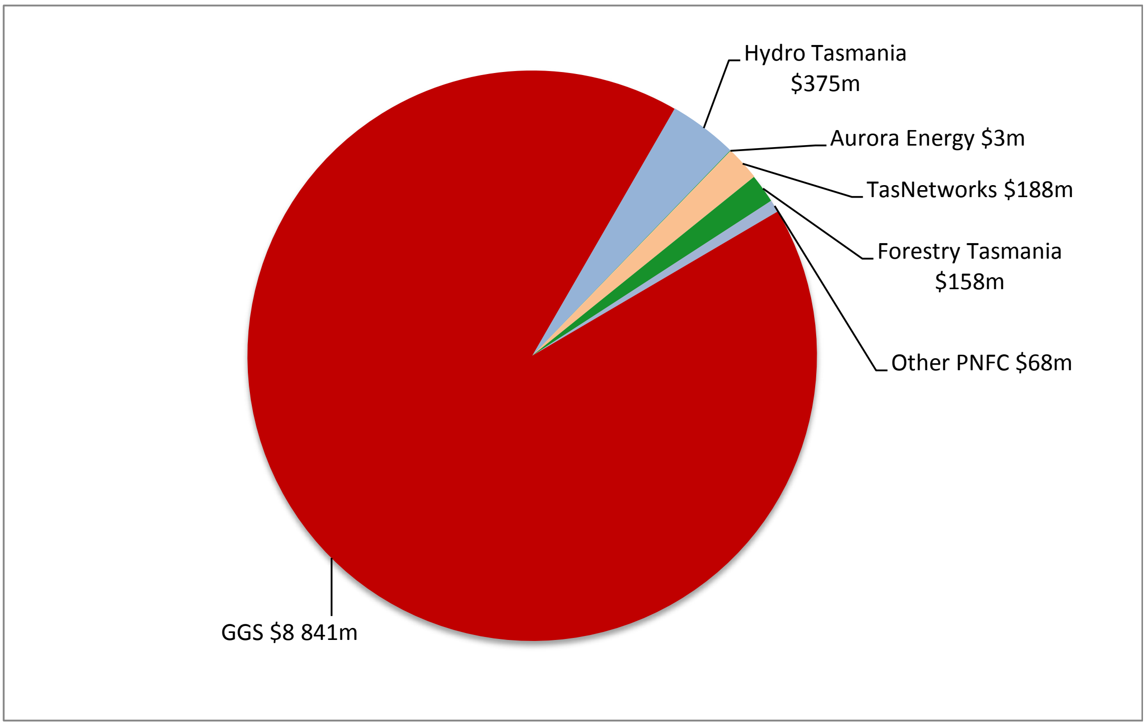
Net financial liabilities were $12.46bn as at 30 June 2016, which was $1.93bn higher than last year. The unfunded defined benefit superannuation liability represented the majority of Net financial liabilities at 78.3% (2015, 75.3%).

Borrowings at 30 June 2016 were $6.58bn ($5.53bn), and comprised largely of deposits and borrowings held by Tascorp. The increase in deposit and borrowings liability balances was offset by a $1.26bn increase in investments and client advances.

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 $9.75bn at 30 June 2016 (2014-15, $7.93bn). Figure 28 breaks down the obligation between GGS and Government businesses that have members in the defined benefit schemes administered by the RBF Board.

Figure 28: Net Defined Benefit Superannuation Liabilities



Source: Tasmanian Audit Office

Figure 28 shows that the GGS sector accounted for 90.6% of the Total State's defined benefit superannuation liability. Both the GGS and Government businesses now meet the costs associated with the defined benefit schemes on an emerging cost basis.

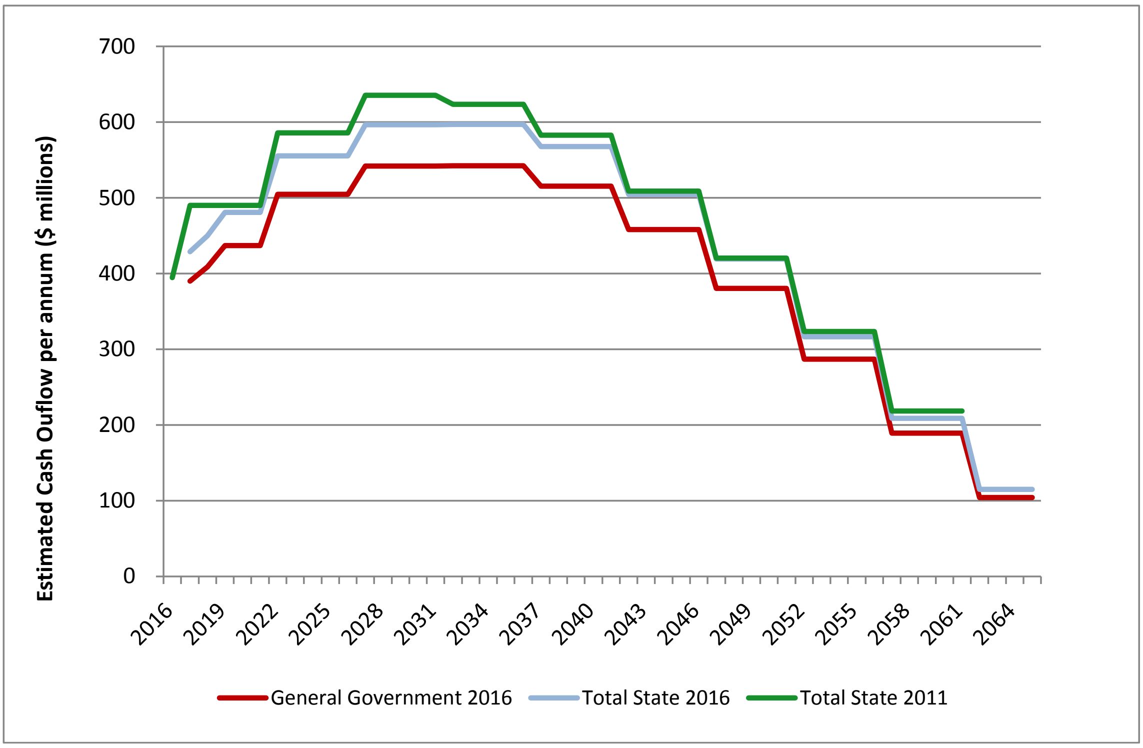
Government businesses are for-profit entities and, in accordance with AASB 119 *Employee Benefits,* must value the superannuation liability using high quality corporate bond rates. Not-for-profit public sector entities must continue to use market yields on government bonds in accordance with the requirement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

The corporate bond rates were higher than the government bond rates at 30 June 2016. The average discount rate based on corporate bonds was 3.6%, compared to the average discount rate based on government bonds of 2.7% (2014-15, 3.7%).

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 our Report on Government businesses.

Figure 29 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 2016. 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 29: Undiscounted Defined Benefit Superannuation Cash Outflows (2015-2064)



Source: Tasmanian Audit Office

Figure 29 shows cash required to meet defined benefit pensions and lump sum payments will peak approximately between 16 to 21 years from now, amounting to $597m in the year 2032. Higher superannuation payments by Government businesses will impact on annual profits and subsequently returns to the Government.

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DEPARTMENT OF EDUCATION (EDUCATION)

INTRODUCTION

Education was responsible for providing educational services to students from birth. It provided educational services through child and family centres, primary and high schools and colleges. It also provided education to international students through Government Education and Training International (GETI).

Education was also responsible for LINC Tasmania which provided library services, adult literacy support, online access and archive and heritage services through the Tasmanian Archive and Heritage office (TAHO).

KEY RESULTS AND DEVELOPMENTS

In 2015-16, Education recorded an Underlying surplus of $5.91m, after recording consecutive Underlying deficits for the prior three years.
Comprehensive income of $18.88m was a significant improvement from the comprehensive loss of $124.18m from the prior year. The prior year result was adversely impacted by a devaluation of property, plant and equipment of $112.83m.
Total revenue increased by $52.20m primarily due to the increase in Appropriation revenue of $47.80m representing the commitment to fund several educational reforms. Commonwealth grant revenue decreased by $11.93m due to a reduction in National Partnership funding.
The increase in Total expenditure by $6.59m was primarily due to additional Supplies and consumables expense of $11.36m that was mainly driven by budgeted priority minor maintenance works and a widespread computer replacement program. This was partially offset by a decrease in Depreciation expense of $4.52m, largely a result of the valuation in 2014-15 and reassessment of useful lives.
Cash and deposits increased by $16.45m from the prior year.
The decrease in the Employee benefits liability was mainly due to less days in the salaries and wages expense accrual at year end (1 day accrued at 30 June 2016 compared to 9 days accrued at 30 June 2015). The impact of this was a reduction in current provisions of $21.60m from prior year.
In 2015-16, Education received $288.66m in administered revenue which was largely expended on payments of grants and subsidies to non-government schools totalling $287.85m.
Education committed $36.08m to the capital investment program. The majority of funding was allocated to upgrades and redevelopment of schools.

CONCLUSION

The signed financial statements were received on 15 August 2016 with an unqualified audit opinion issued on 15 September 2016.

In performing our audit we have not identified any significant deficiencies in internal control. We noted one low risk matter in the course of the audit which was reported to management and who agreed to take corrective action.

There were ten prior year issues identified that were followed up with management. We noted that one high risk, two moderate risk and one low risk issue were resolved and four moderate risks (mainly related to inter-agency wide IT changes) and one low risk issue were still being addressed.

AUDIT RESULTS

Key matters considered during the audit

Land and buildings

Education owned a significant number of properties throughout the State which were valued at $1.11bn. Many of these assets were specific purpose buildings with varying useful lives, which impacted both the estimated fair value recorded and subsequent depreciation expense.

In 2015-16 Education transferred asset records to a new asset register within its finance system.

We adopted a substantive audit approach that included analytical procedures and detailed tests of transactions and balances. We also tested the integrity of asset data transferred to the new asset register and reconciled the register to the general ledger.

Valuation of heritage collection

Education performed a revaluation of its heritage collection as at 30 June 2016. The revaluation resulted in a decrement of $23.71m.

In determining the values of assets, valuers exercised significant judgement and valuations were highly dependent on a range of assumptions and estimates.

We assessed the competence of the valuer, reviewed the valuation methodology and calculations and assessed the reasonableness of the inputs and assumptions adopted in the valuation. We also considered the adequacy of disclosure within the financial statements.

Administered activities

Education was responsible for a range of administered activities, including disbursement of funds to non-government schools.

Audit procedures included performing analytical procedures to assess revenue received and verifying material payment transactions relating to administered items.

Significant employee benefit expense and liability

Education employed approximately 7 600 full time equivalent employees. Employee benefits expense represented 79.0% of Education's recurrent appropriation revenue. Employee benefits liabilities also represented 90.0% of the Total liabilities of Education at year end.

We evaluated the design and implementation of relevant internal controls related to the payroll process, conducted analytical procedures over payroll expense and leave liabilities, recalculated provision calculations and reviewed the assumptions and estimations involved in determining the provision amounts.

FINANCIAL ANALYSIS

Financial snapshot 2015-16

Table 6 provides a snapshot of the Department's financial results for 2015–16 in comparison to prior years.

Table 6: Financial Snapshot

	2015-16		2014-15		2013-14		2012-13	
	$'000	Ind	$'000	Ind	$'000	Ind	$'000	Ind
Financial performance								
Reconciliation of Underlying result to net result								
Underlying result	5 911	▲	(31 721)	▲	(39 529)	●	(38 293)	▼
Non-operational and capital funding	35 686	▲	27 711	▲	18 392	●	17 714	▼
Other economic flows included in net result	(2 736)	▲	(38 642)	▼	(2 261)	▼	940	▲
Net result	38 861	▲	(42 652)	▲	(21 137)	●	(20 579)	▼
Changes in revaluation reserve	(19 980)	▲	(81 532)	▼	940	▼	64 642	●
Comprehensive result	18 881	▲	(124 184)	▼	(21 790)	▼	45 003	▼
Financial Position[1]								
Cash and deposits	103 038	▲	86 587	▼	81 711	▲	53 570	▼
Heritage assets	42 825	▼	66 513	●	66 116	●	64 153	●
Land and buildings	1 328 377	●	1 319 803	▼	1 448 820	▼	1 636 516	●
Employee provisions	(133 985)	▲	(153 029)	▼	(142 332)	▲	(150 544)	●
Net assets	1 364 057	●	1 346 843	▼	1 472 211	▼	1 647 806	●
Key Financial Ratios								
Net financial liabilities ratio	3.7%	▲	7.5%	▼	7.2%	▲	9.2%	▲
Underlying result ratio	0.6%	▲	(3.4%)	▲	(3.9%)	▼	(3.8%)	▼

Indicators -
▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

[1] *Assets are positive, liabilities are negative.*

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DEPARTMENT OF HEALTH AND HUMAN SERVICES (DHHS)

INTRODUCTION

DHHS was responsible for managing and delivering integrated services that maintain and improve the health and wellbeing of Tasmanians and the Tasmanian community as a whole.

DHHS consolidated the operations of Housing Tasmania (Housing) and Ambulance Tasmania (Ambulance) and funding for the Tasmanian Health Service (THS) was provided through DHHS and was reflected in the financial statements.

KEY RESULTS AND DEVELOPMENTS

In 2015-16, DHHS achieved an Underlying surplus of \$16.27m compared to an Underlying surplus of \$5.11m in 2014-15.
Capital funding increased by \$53.70m to \$96.60m in 2015-16 due to an increase in funding from both Tasmanian and Australian Governments to fund the Royal Hobart Hospital redevelopment and other capital works conducted by Housing. This increased funding was reflected in the increase in payments for the acquisition of non-financial assets of \$54.88m.
Community housing program grants decreased by \$132.57m due to the completion of the BHF program in the previous financial year.
The increase in cash and deposits of \$23.18m was primarily due an increase in cash from operating activities, which increased by \$18.24m to \$44.61m and a reduction in cash used by investing activities of \$4.80m.
The increase in the value of rental dwellings of \$8.27m was due to revaluation of the Housing stock of \$21.50m, the capitalisation of new completed works of \$17.66m, offset by depreciation of \$17.74m, transfers to assets held for sale of \$5.17m and disposals of stock amounting to \$7.60m.
The decrease in interest bearing liabilities of \$7.46m reflects DHHS making principal repayments in accordance with the Commonwealth-State Housing Agreement (CSHA), which was due to be paid in full by 2041-42.

CONCLUSION

The signed financial statements were received on 12 August 2016 and an unqualified audit opinion was issued on 27 September 2016.

In performing our audit we did not identify any significant deficiencies in internal control. We noted the following moderate risk audit findings:

- bypassing of the Community Sector Relations Unit (CSRU) of DHHS when completing funding agreements, which was contrary to DHHS policy
- the identification of a number of weaknesses in information technology (IT) general controls across DHHS and THS including:
    - weak password parameters setting in the four systems tested
    - database audit trail not active in two systems tested
    - weak access controls noted around provisioning and deletion of administrator and non-administrator users.

DHHS confirmed the observation of the audit team relating to the bypassing of the CSRU and informed all business units of the need to comply with the related policies. DHHS management also acknowledged the findings relating to the IT findings and will take action to strengthen controls, where appropriate, or where relevant refer the issue to the THS. A large number of findings from prior year relating to bank reconciliations, expenditure controls and payroll controls were satisfactorily resolved during the course of the year. However, two low rated control issues related to payroll issues were reported again in the current year and will be examined again in 2016-17.

AUDIT RESULTS

Key matters considered during the audit

Valuation of dwellings and vacant land

Rental dwellings and vacant land were measured at fair value. The fair value was based on information provided by the Office of the Valuer-General, including indices in years between revaluations. The size of the housing portfolio increased the risk that the financial statements may be materially misstated.

We agreed land and buildings valuations to the Valuer-General's advice and ensured that:

- accurate source data had been provided to the Valuer-General
- all properties had been recognised
- valuation adjustments were reasonable, by testing a random number of calculations as well as verifying the validity of large or unusual adjustments.

We also verified significant additions and disposals (including grants to NGO's and other organisations) in the year to supporting documentation.

Capital projects

DHHS budgeted to undertake significant capital works in 2015-2016, with payments for the acquisition of non-financial assets totalling $124.70m.

In addition to detailed testing of additions to property, plant and equipment, we reviewed capital expenditure to ensure it was capital in nature and should be capitalised. Asset additions and work-in-progress transfers and closing balances were reviewed and reconciliations tested, in addition to verifying the accuracy of assets transferred to THS as grant expenses.

Grants program

DHHS administered a significant grant program through its Grants Management team, operating within the Community Sector Relations unit. Excluding grants transferred to THS (which included recurrent funding and capital grants made by way of asset transfers) and BHF transfers, the unit administered approximately $326.94m in expenditure this year.

We tested internal controls within the Electronic Grants Management System (EGMS) to ensure that controls were operating effectively throughout the year. In addition we performed substantive procedures, including the testing of a sample of significant grants payments made during the year and conducted an analytical review of grants payments to selected organisations between the current and prior years.

Significant employee benefits expense and liability

DHHS employed approximately 1 711[7] full time equivalent employees and, therefore, employee expenses represented a significant balance within DHHS's total expenditure. Approximately 20.0% of employees were paid by timesheet. The remainder were paid a salary, which was generally a set amount each fortnight.

Employee entitlements and superannuation represented approximately 20.0% of DHHS's Total liabilities. (Defined benefit superannuation liabilities related to both Housing and Ambulance).

To obtain a sufficient level of assurance that employee expenses were not materially misstated and that employee annual and long service leave obligations were fairly stated, we:

- performed a combination of controls and substantive testing which included analytical procedures
- reviewed the work of internal audit in verifying leave calculation models
- tested the employee provisions against the requirements of AASB 119 *Employee Benefits.*

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[7] *FTEs disclosed in 2016 annual report, 1 665.94, were based on the final pay run processed at the end of the financial year. FTEs in this Report were based on leave reports which included employees not paid in the last pay run.*

FINANCIAL ANALYSIS

Financial snapshot 2015-16

Table 7 provides a snapshot of DHHS financial results for 2015–16 in comparison to prior years.

Table 7: Financial Snapshot

	2015-16		2014-15		2013-14		2012-13	
	$'000	Ind	$'000	Ind	$'000	Ind	$'000	Ind
Financial performance								
Reconciliation of underlying result to net result								
Underlying result	16 273	▲	5 110	▲	(5 630)	▼	(3 679)	▼
Non-operational Commonwealth funding	65 693	▲	30 377	▼	52 997	▲	30 378	▲
Non-operational State capital funding	30 910	▲	12 531	▼	13 665	▼	42 334	▼
Capital grants expenditure	(72 780)	▼	(20 185)	▲	(120 561)	▼	(64 010)	▼
Community housing program grants	(349)	▲	(132 921)	▲	(389 598)	▼	(62 858)	▲
Other economic flows included in net result	(6 108)	▼	2 301	▲	(2 788)	▼	(62)	▲
Net result	33 639	▲	(102 787)	▲	(451 915)	▼	(57 897)	▼
Changes in revaluation reserve	23 047	▲	(401)	▼	13 377	▼	34 396	▲
Comprehensive Result	56 686	▲	(103 188)	▲	(438 538)	▼	(23 501)	▼
Financial Position[1]								
Cash and deposits	115 165	▲	91 986	●	91 686	▲	76 385	▼
Rental dwellings	1 351 941	●	1 343 675	▼	1 500 605	▼	1 792 813	▲
Total property, plant and equipment	1 661 435	●	1 630 316	▼	1 758 465	▼	2 255 589	▼
Interest bearing liabilities	(180 909)	▲	(188 365)	▲	(195 693)	▲	(202 840)	▲
Net assets	1 556 482	▲	1 499 612	▼	1 602 800	▼	2 048 263	▼
Key Financial Ratios								
Operating margin	1.01	●	1.00	●	0.99	●	1.00	●
Underlying result ratio	1.20%	▲	(0.39%)	▲	(0.66%)	▼	(0.03%)	▲
Net financial assets (liabilities) ratio	(11.47%)	▲	(14.59%)	▲	(15.56%)	▲	(17.31%)	▲

Indicators -
▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

[1] Assets are positive, liabilities are negative.

DEPARTMENT OF JUSTICE (JUSTICE)

INTRODUCTION

Justice provided services in the areas of justice, protecting rights, improving laws, influencing positive behaviour and enforcing responsibilities. It also provided administrative support for the Supreme and Magistrates Courts and to a number of statutory authorities and offices.

KEY RESULTS AND DEVELOPMENTS

Justice reported an Underlying deficit of $2.11m in 2015-16 compared to an Underlying surplus of $0.29m the year before due to increased depreciation expense, up $2.36m following the completion of works undertaken as part of the Prison Infrastructure Redevelopment Program and an upward revaluation of buildings.
Net result was $2.37m in 2015-16, which was $3.99m lower compared to the year before. Apart from increased depreciation expense, the lower surplus was primarily due to a decrease in Capital grants, $4.16m, due to the completion of the Prison Infrastructure Redevelopment Program in 2014-15.
Justice revalued land, buildings (including prisons) and library assets during the year. The revaluation resulted in an overall increase in the value by $21.83m, although land decreased by $2.53m.
Justice administered the Asbestos Compensation Fund Provision for Compensation Payable. Future asbestos compensation payments were estimated to be $101.20m at 30 June 2016. This was $5.13m lower compared to the 30 June 2015 valuation, after adjusting for payments made during the year and the unwinding of the discount rate. All expenditure incurred by the Asbestos Compensation Scheme was recoverable from licensed insurers and self-insurers through a levy.
Civil litigation functions were transferred from the Office of the DPP to the Office of the Solicitor-General within Justice, effective 1 November 2015. The transfer was treated as an internal restructure rather than a restructure of administrative arrangements with Justice being reimbursed $0.75m for the cost by DPP for the remainder of the financial year.

CONCLUSION

The signed financial statements were received on 11 August 2016 with an unqualified audit opinion issued on 18 August 2016.

In performing our audit we have not identified any significant deficiencies in internal control and no other matters came to our attention during the audit.

AUDIT RESULTS

Key matters considered during the audit

Valuation of land and buildings

Land and buildings controlled by Justice were independently revalued by the Office of the Valuer-General as at 31 December 2015. Land values reflected market prices and specialised buildings were valued using the Depreciated Replacement Cost (DRC) methodology. In estimating the value of buildings, the valuer estimated the cost of replacing them based on modern equivalent assets at current costs and their economic lives.

As a result of the valuation, land value decreased by $2.53m. Values of buildings and prisons increased by $9.40m and $14.53m respectively, which reflected higher replacement costs.

In determining the values the valuer exercised significant judgement and the valuation was highly dependent on a range of assumptions and estimates. For these reasons, the valuation was an area requiring particular audit attention.

To ensure the value of land and buildings was not materially misstated we:

- assessed the competence of the valuer that performed the valuation
- evaluated the appropriateness and completeness of information provided by Justice to the valuer
- tested the inputs and assumptions into the valuation model
- tested additions throughout the year
- assessed the reasonableness of the methodology and calculations applied in the valuation
- examined financial statement disclosures
- ensured compliance with AASB 13 *Fair Value Measurement.*

Valuation of library assets

Library assets were revalued as at 31 December 2015 using the DRC methodology with replacement costs derived from market prices. Library assets included items of intrinsic value which were classified as heritage assets and valued based on prices in the antiquarian books and fine arts markets. The value of library assets increased by $0.43m as a result of the revaluation.

Our audit procedures were similar to those undertaken in auditing the valuation of land and buildings.

Significant employee costs and provision

At 30 June 2016, Justice and its divisions employed approximately 1 120 full time equivalent employees, with employee expenses totalling 59.0% of its Total Controlled expenditure. Employee entitlements represented 90.0% of Total Controlled liabilities.

To ensure employee expenses were not materially misstated we performed a combination of controls and substantive testing which included analytical procedures of payroll transactions. We also tested calculations of employee provisions for accuracy and compliance with requirement of AASB 119 *Employee Benefits*.

In addition, we utilised Computer Assisted Auditing Techniques (CAATs) to identify and investigate outliers in payroll data. Our testing provided us with the necessary level of assurance that payroll transactions were accurately processed and reflected events that had occurred.

Administered activities

Justice was responsible for a range of administered activities, including the collection and enforcement of monetary penalties imposed by courts and Tasmanian Government and local government authorities. These were required to be paid into the CF or to relevant third parties. Justice used a debtor and creditor system (FIND) designed to support the administration of fees and fines, including the collection and disbursement of payments and enforcement of unpaid penalties.

We performed the following audit procedures to ensure administered fees and fines revenue was not materially misstated:

- analytical procedures to assess revenue generated
- checked interfaces and match reconciliations between the FIND system and general ledger
- reviewed FIND debtors and assess the adequacy of the provision for impairment and write-offs.

In addition, Justice also administered the Asbestos Compensation Fund and the WorkCover Tasmania Board which were consolidated into the administered financial statements.

We verified material transactions and balances relating to administered divisions to the audited financial statements of those divisions, namely the WorkCover Tasmania Board and the Asbestos Compensation Fund.

Asbestos Compensation Scheme (the Scheme)

The Scheme was administered by the Asbestos Compensation Fund and funded through a levy on the premiums of licensed insurers and the notional premiums of self-insurers.

Future compensations payments were estimated to be $101.20m at 30 June 2016 and reflected the present value of both existing and future claims calculated by an actuary. Future claims represented 98.0% of the liability at $99.54m. The value of future claims, net of the Scheme's other assets, $88.96m, was recognised as a receivable based on the fact that all expenditure incurred by the Scheme over its entire life can be obtained from licensed insurers and self-insurers through the levy.

The value of, and movements in, the future compensations liability recognised in the financial statements were based on a valuation which contained a number of actuarial assumptions. The size of the liability and the inherent judgement involved in determining its amount contributed to this being a key audit matter.

In 2015-16, we engaged an expert to peer review the Scheme's actuary. Our expert noted that the actuary calculated the provision by projecting the expected number of claims based on the number of claims expected to be reported in the next financial year together with assumed incidence patterns reflecting the expected pattern of the emergence of future claim reports. The actuary then applied relevant costs to those claims to derive expected cash flows, which were then inflated and discounted to calculate the present value both accepted and future claims. The provision for compensation payable recognised by the Fund totalled $101.20m at 30 June 2016.

This year's estimate was $5.13m lower compared to the 30 June 2015 valuation, once adjusted for payments made during the year and unwinding of the discount rate. Those movements were attributed to:

- favourable actual versus expected experience over the year, in particular in relation to low number of reported claims compared to expectations
- changes to the Incurred But Not Reported claim numbers which decreased the liability. This reduction was partly offset by an increase in the average claim size due to the younger age profile assumed
- changes in the inflation and discount rates.

Overall, our expert was satisfied that the data, assumptions and methodology used by the actuary to determine the value of the provision for compensation payable as at 30 June 2016 were reasonable.

FINANCIAL ANALYSIS

Financial snapshot 2015-16

Table 8 provides a snapshot of financial results for 2015–16 in comparison to prior years..

Table 8: Financial Snapshot

	2015-16		2014-15		2013-14		2012-13	
	$'000	Ind	$'000	Ind	$'000	Ind	$'000	Ind
Financial performance								
Reconciliation of Underlying result to net result								
Underlying result	(2 112)	▼	289	▲	(999)	▲	(6 855)	▼
Capital revenue	3 082	▼	7 236	▼	10 593	▲	3 700	▲
Other economic (gains)/losses	1 404	▲	(1 189)	▼	(398)	▼	203	▼
Net result	2 374	▼	6 356	▼	9 196	▲	(2 952)	▼
Changes in revaluation reserve	21 047	▲	0	●	0	●	0	▼
Comprehensive result	23 421	▲	4 271	▼	9 196	▲	(2 952)	▼
Financial Position[1]								
Cash and deposits	25 534	●	24 821	▲	19 536	▲	17 356	▲
Property, plant and equipment	159 024	▲	138 488	●	134 329	▲	127 721	●
Employee provisions	(26 144)	●	(26 980)	▼	(25 325)	●	(24 780)	●
Net assets	161 174	▲	137 753	●	133 482	▲	124 286	●
Key Financial Ratios								
Operating margin	1.0	●	1.0	●	1.0	●	1.0	●
Underlying result ratio	(1.1%)	▼	0.8%	▲	(0.6%)	▲	(3.6%)	▼
Net financial assets (liabilities) ratio	(1.3%)	▲	(2.8%)	▲	(5.1%)	▲	(7.4%)	▼

Indicators -
▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

[1] *Assets are positive, liabilities are negative.*

DEPARTMENT OF PREMIER AND CABINET (DPAC)

INTRODUCTION

DPAC, as a central agency provided a broad range of services to Cabinet, other members of Parliament, Government agencies and the community.

In addition, it was responsible for the operations of:

- Service Tasmania which provided one stop access to government transactions, services and information through its service centres, over the phone and online
- Telecommunications Management Division (TMD) which provided telecommunication and computing services to agencies and managed the government's Networking Tasmania contract
- Training Consortium which operated within the State Service Management Office and coordinated the delivery of training and consultancy services in a wide range of areas.

DPAC also provided administrative support to the Tasmanian Community Fund, Tasmanian Early Years Foundation and the Anzac Day Trust.

KEY RESULTS AND DEVELOPMENTS

DPAC achieved an Underlying surplus of $1.42m in 2015-16 compared to a deficit of $4.87m the year before. The improved result was due to lower grants and subsidies expenses, as the prior year included a significant once-off grant to the Tasmanian Cricket Association for the Blundstone Arena upgrade of $15.00m and expenditure for election commitments of $6.00m. These decreases were offset by lower revenue from government of $9.87m, reflecting the reduced funding required for election commitments, and an increase in transfer payments to other state government agencies of $6.72m.
The value of land and buildings, including the Silverdome, increased $3.31m to $32.26m at 30 June 2016 following an independent revaluation.
DPAC borrowed $1.11m from Treasury to fund the cost of termination payments. The loan was repayable over three years.
Cash and deposits increased by $1.46m to $9.21m at 30 June 2016. The major factors contributing to the improved cash position were improved net inflows from operating activities and cash assumed on the transfer of Service Tasmania.
Responsibility for the management of Service Tasmania, which included service centres, phone services and Service Tasmania Online was transferred to DPAC effective 1 July 2015.

CONCLUSION

The signed financial statements were received on 12 August 2016. Following the audit the financial statements were re-signed on 13 September 2016 and an unqualified audit opinion was issued on the same day.

In performing our audit we have not identified any significant deficiencies in internal control and no other matters came to our attention during the audit. However, we recommended to DPAC that the monitoring software over its IT systems be configured to automatically alert key personnel of incidents, such as failed logon attempts and configuration changes. Automated notifications eliminate the risk that critical matters may not be identified in a timely manner. DPAC implemented the recommendation.

AUDIT RESULTS

Key matters considered during the audit

TMD

TMD facilitated the delivery of information and communication technology services across agencies. It relied heavily on external providers to deliver these services. TMD's turnover was $28.86m in 2015-16, which represented 23.0% of total departmental revenue.

We performed the following audit procedures to ensure TMD revenue was not materially misstated:

- documented and assessed key controls around the billing and payment systems, including the testing of change management controls over applications
- confirmed communication charges directly with external providers
- confirmed amounts billed directly with selected agencies
- performed subsequent receipts testing to ensure revenue was allocated to the correct period.

Valuation of land and buildings

Land and buildings were independently revalued by the Office of the Valuer-General as at 30 June 2016. Land and some buildings were valued based on market value and specialised buildings were valued using the depreciated replacement cost methodology. Both classes of assets increased in value, with the total increase being $3.31m.

In determining the values the valuer exercised significant judgement and the valuation was highly dependent on a range of assumptions and estimates. For these reasons, the valuation was an area requiring particular audit attention.

To ensure the value of land and buildings was not materially misstated we:

- assessed the competence of the valuer that performed the valuation
- tested the inputs and assumptions into the valuation model
- assessed the reasonableness of the methodology and calculations applied in the valuation
- examined financial statement disclosures
- ensured compliance with AASB 13 *Fair Value Measurement.*

Significant employee costs and provision

DPAC employed 450 departmental and 119 ministerial and parliamentary support employees at 30 June 2016, with employee expenses representing 49.0% of its total expenditure. Employee entitlements represented 65.0% of Total liabilities.

To ensure employee expenses were not materially misstated we performed a combination of controls and substantive testing which included analytical procedures of payroll transactions. We also tested calculations of employee provisions for accuracy and compliance with requirement of AASB 119 *Employee Benefits.*

Computer information systems

DPAC's computer information systems (CIS) environment was complex as it encompassed not only typical finance and payroll systems, but also systems hosted by TMD and, from 1 July 2015, Service Tasmania receipting and banking systems.

The complexity of CIS environment together with the significance of computer processing, both in the volume of transactions and their value increased the risk. The use of computers had implications for the processing, storage and communication of financial information presented in the financial statements. To address the increased risk we engaged an external consultant to audit key systems impacting financial reporting.

FINANCIAL ANALYSIS

Financial snapshot 2015-16

Table 9 provides a snapshot of DPAC financial results for 2015–16 in comparison to prior years.

Table 9: Financial Snapshot

	2015-16		2014-15		2013-14		2012-13	
	$'000	Ind	$'000	Ind	$'000	Ind	$'000	Ind
Financial Performance								
Reconciliation of underlying result to net result								
Underlying result	1 422	▲	(4 869)	▼	(2 551)	▼	(1 663)	●
Other economic gains/(losses)	(77)	▼	2	●	0	●	0	●
Net result	1 345	▲	(4 867)	▼	(2 551)	▼	(1 663)	▼
Changes in revaluation reserve	3 676	▲	5	●	0	●	0	●
Comprehensive result	5 021	▲	(4 862)	▼	(2 551)	▼	(1 663)	●
Financial Position[1]								
Cash and deposits	9 295	▲	7 832	▼	10 012	▼	12 419	▼
Buildings	28 440	▲	25 932	▲	0	●	0	●
Employee benefits	(13 514)	●	(13 131)	▼	(10 625)	▲	(11 776)	▼
Net assets	31 035	▲	27 655	▲	4 082	▼	6 631	▼
Key Financial Ratios								
Operating margin	1.0	●	1.0	●	1.0	●	1.0	●
Underlying result ratio	0.8%	▲	(4.0%)	▼	(2.7%)	▼	(1.8%)	▼
Net financial assets (liabilities) ratio	(5.0%)	●	(4.8%)	▼	(1.7%)	▼	0.60%	▼

Indicators -
▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

[1] *Assets are positive, liabilities are negative.*

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DEPARTMENT OF PRIMARY INDUSTRIES, PARKS, WATER AND ENVIRONMENT (DPIPWE)

INTRODUCTION

DPIPWE was responsible for the sustainable management, sensible development, promotion, use and protection of the State's natural resources and cultural heritage, for the benefit of the Tasmanian community.

KEY RESULTS AND DEVELOPMENTS

In 2015-16, DPIPWE recorded an Underlying deficit of $14.23m, which was an improved result from the previous year's Underlying deficit of $17.59m. The lower underlying deficit was mainly attributed to new revenue from the Three Capes Track (3CT) experience, increased Parks and Wildlife Service entry fee revenue attributed to increased visitor numbers and unexpected grant funding for a project to develop a vaccine to protect salmon.

The Net result of $5.92m for the year was a decrease of $46.38m on the previous year result. This is because the previous year's result included land and infrastructure assets transferred from Forestry Tasmania and some significant Crown Land Administration Fund (CLAF) sales, including the Parliament Square site and Jane Franklin Hall. The decrease in the value of the recognised assets was $45.04m.

During the year, DPIPWE received additional funding and grants for fighting bushfires (including the January 2016 wildfires) of $22.76m. This was offset by higher expenditure, which included $18.51m provided to the DPFEM under a wildfire suppression grant.

Cash and deposits increased by $10.21m, primarily due to:

- higher Crown property sales under CLAF, which resulted in additional cash of $3.52m
- $2.42m in 2015-16 Appropriation carried forward
- $1.68m in funding received for the Pacific Oyster Mortality Syndrome and a project to develop a vaccine to protect salmon, which had yet to be expended as at 30 June 2016
- 3CT bookings revenue received in advance of $1.45m.

Employee benefits decreased by $4.33m from the previous year due to the derecognition of leave provisions for the 162 Service Tasmania employees (with leave balances) transferred to DPAC and less days in the accrual for unpaid salaries and wages accrual at 30 June 2016.

The first two stages of the 3CT officially opened to the public on 21 December 2015, which allowed walkers to make a 46 kilometre journey around Cape Pillar and Cape Hauy with views to Cape Raoul. Expenditure of $21.97m, related to the first two stages of the 3CT project was capitalised in 2015-16.

Transfers of services effected on 1 July 2015 included:

- Service Tasmania transferred to DPAC
- the Office of Racing Integrity transferred from State Growth.

CONCLUSION

The signed financial statements were received on 12 August 2016 with an unqualified audit opinion issued on 17 August 2016.

In performing our audit we did not identify any significant deficiencies in internal control nor did we have any high risk audit findings.

There were two moderate risk findings identified, which comprised:

- recognition and valuation of the road networks and infrastructure assets on the land transferred to DPIPWE from Forestry Tasmania in 2013-14 as a result of the *Forest Management Act 2013* and the *Tasmanian Forest Agreement Act 2013* (now repealed), and the *Forestry (Rebuilding the Forest Industry) Act 2014* in 2014-15
- excessive annual leave balances.

One out of four low/moderate risk findings from prior years was satisfactorily resolved. DPIPWE was in the process of addressing the issues in 2016-17.

AUDIT RESULTS

Key matters considered during the audit

Diverse revenue streams

DPIPWE collected a substantial level of fees, fines and revenue from sales of goods and services. The diversity of revenue streams and systems together with numerous divisions operated from locations across the State increased the risk that revenue may not be correctly recorded or receipted.

We documented and tested controls around DPIPWE's revenue systems. As part of the review of controls, we undertook an IT review over a number of the revenue systems.

We performed substantive testing over various revenue streams using CAATs.

Decentralised procurement

The operations of DPIPWE were diverse with numerous divisions across the State. Procurement was decentralised and significant in terms of value and volume of transactions.

In completing our audit procedures to address this risk we tested controls over payments, which included:

- evidence of independent review
- authorisation in line with delegations.

We also performed substantive procedures, which included verification of the payment to an approved invoice, to ensure that payments were made correctly to bona-fide creditors.

Capital investment program

In 2015-16, DPIPWE spent $16.05m on capital investment program projects. This primarily comprised $10.08m on the 3CT. Other major projects included Parks high priority maintenance and infrastructure, $2.34m, and South Coast Track, $1.00m.

We reviewed the expenditure, which can be either maintenance or capital in nature, to ensure it was correctly classified. Expenditure related to asset additions and work-in-progress were also tested and reconciliations performed between the asset register and the general ledger.

Valuation of fixed assets

In accordance with DPIPWE's asset valuation policy, all property, plant and equipment including infrastructure assets were revalued using indexation during 2015-16. The revaluation resulted in an increment of $3.82m.

We reviewed the revaluation and ensured the indices were appropriate, values were accurately recorded and that asset data was reconciled between the asset register and the general ledger.

Employee benefits and entitlements

DPIPWE employed approximately 1 085 paid full time equivalent employees at 30 June 2016, with employee expenses representing 46.5% of its total expenditure. A large number of employees were paid based on timesheet information, which added complexity to the payroll process.

In addition, employee entitlements represented 52.7% of DPIPWE's Total liabilities at 30 June 2016.

To address risks related to employee benefits expense and liabilities, we:

- performed a combination of controls and substantive tests which included analytical procedures
- used CAATs to determine the accuracy of overtime payments, allowances and other areas of audit significance
- tested the employee provisions against the requirements of AASB 119 *Employee Benefits*.

FINANCIAL ANALYSIS

Financial snapshot 2015-16

Table 10 provides a snapshot of DPIPWE's financial results for 2015–16 in comparison to prior years.

Table 10: Financial Snapshot

	2015-16		2014-15		2013-14		2012-13	
	$'000	Ind	$'000	Ind	$'000	Ind	$'000	Ind
Financial performance								
Reconciliation of Underlying result to net result								
Underlying result	(14 229)	▲	(17 586)	▼	(15 364)	▲	(27 397)	▼
Other economic flows included in net result	(1 576)	▼	908	▲	(390)	▲	(32 023)	▼
Revenue from Government – capital	15 678	▲	8 017	▲	4 890	●	4 348	▼
Contributions provided	(1 414)	▲	(171)	▼	(1 512)	▼	(3 166)	▼
Contributions received	7 466	▼	52 506	▲	27 682	▲	20 333	▼
Water infrastructure fund[2]	0	▼	8 627	▼	35 668	▲	23 292	▼
Net result	5 925	▼	52 301	●	50 974	▲	(14 613)	▼
Changes in revaluation reserve	3 280	▼	5 838	▲	(26 991)	▼	2 740	▼
Comprehensive result	9 205	▼	58 139	▲	23 983	▲	(11 873)	▼
Financial Position[1]								
Cash and deposits	118 896	▲	108 686	▲	88 717	●	88 480	●
Property, plant and equipment	1 059 710	●	1 057 509	▲	921 860	▲	815 839	●
Infrastructure	202 248	●	204 428	▲	182 183	▲	154 694	●
Employee provisions	(27 504)	▲	(31 830)	●	(32 123)	▼	29 175	●
Net assets	1 356 715	●	1 346 475	▲	1 165 862	▲	1 028 644	●
Key Financial Ratios								
Net financial liabilities ratio	34.3%	▲	32.4%	▲	20.0%	▼	22.8%	▼
Underlying result ratio	(6.8%)	▲	(9.4%)	▲	(7.8%)	▲	(14.7%)	▼

Indicators -
▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

[1] *Assets are positive, liabilities are negative.*

[2] *Administration of the Water Infrastructure Fund was transferred to Treasury at the commencement of the 2015-16 financial year.*

DEPARTMENT OF POLICE, FIRE AND EMERGENCY MANAGEMENT (DPFEM)

INTRODUCTION

DPFEM was responsible for the delivery of policing, fire and emergency management services in Tasmania. The Police and Emergency Management Services transactions were reported in the DPFEM financial statements while State Fire Commission transactions were reported separately (and included in the Other General Government Sector and State entities Chapter of this Report).

KEY RESULTS AND DEVELOPMENTS

In 2015-16, DPFEM recorded an Underlying deficit of $8.19m, a slight improvement of $0.28m from the prior year.
It reported a Net surplus of $1.35m in 2015-16, compared to a Net loss of $5.97m last year. The increase in Net result was primarily due to $9.05m in Non-operational and capital funding for Large Vessel Replacement, Emergency Services Computer Aided Dispatch (ESCAD) System and Upgrade Police Housing key deliverables. A balance of $2.33m for the ESCAD project was carried forward at year end with the majority of the remaining balance being capitalised.
Cash and deposits increased by $1.30m from the prior year to $4.40m at 30 June 2016. The increase mainly related to the carry-over of $2.33m to 2016-17 for the ESCAD project principally offset by approximately $0.90m in Commonwealth funds for projects received in June 2015 which were expended during July and August 2015.
The $7.78m decrease in Property, plant and equipment was primarily due to depreciation expenses, $9.19m and disposals, $3.38m, which were partly offset by capital additions, $4.47m. Capital additions primarily related to the new police vessel endeavour project, $3.35m, with the balance for equipment.
In accordance with the 'Loan Funding for Redundancy Payments' agreement, DPFEM borrowed $7.60m from Treasury in 2012-13, with the final repayment of $1.91m made in 2015-16.

CONCLUSION

The signed financial statements were received on 15 August 2016 and an unqualified audit opinion was issued on 28 September 2016.

In performing our audit we did not identify any significant deficiencies in internal control. All four matters raised in the prior year were satisfactorily resolved.

AUDIT RESULTS

Key matters considered during the audit

Property, plant and equipment

An external valuation of DPFEM's land and buildings was last conducted in 2011-12. In 2015-16 the Office of the Valuer-General assessed DPFEM's property portfolio to determine if there had been a material movement in asset values since the last revaluation. Because no material change had occurred, adjustment to the fair values reported at 30 June 2016 was not considered necessary. A full property revaluation is to be undertaken in 2016-17.

We performed the following procedures over assets recorded at fair value at 30 June 2016:

- considered management's assessment of the valuation of the land and buildings
- considered impairment indicators for plant and equipment
- vouched material additions and disposals to supporting documentation.

Employee benefits expense and liability

DPFEM employed approximately 1 519 full time equivalent employees (as at 30 June 2016) with employee expenses accounting for approximately 71.9% of the total expenditure for 2015-16. Employee benefits represented over 91.0% of DPFEM's Total liabilities as at 30 June 2016.

We:

- performed control testing over additions and terminations of employees, leave management and the fortnightly salary calculation and payment process
- performed a detailed analytical review over employee expenses
- reviewed the underlying assumptions in the annual leave and long service leave calculations and confirmed that the data that underpined these calculations had been appropriately extracted from DPFEM systems.

Procurement

Procurement was decentralised and was significant in value.

We reviewed controls over the processing and authorisation of expenditure and tested selected material payments.

Administered funds

Administered funds were funds that were collected by DPFEM for specific purposes such as firearms licences/registrations, document search fees and academy trainee board. These funds were remitted to the CF and DPFEM was required to report transactions related to these funds in its financial statements.

We tested a selection of administered funds transactions against the bank statements and invoices raised.

FINANCIAL ANALYSIS

Financial snapshot 2015-16

Table 11 provides a snapshot of DPFEM financial results for 2015–16 in comparison to prior years.

Table 11: Financial Snapshot

	2015-16		2014-15		2013-14		2012-13	
	$'000	Ind	$'000	Ind	$'000	Ind	$'000	Ind
Financial performance								
Reconciliation of underlying result to net result								
Underlying result	(8 194)	▼	(7 550)	▼	(11 139)	▼	(7 070)	▲
Non-operational and capital funding	9 546	▲	1 578	▼	7 605	▼	11 977	▲
Net result	1 352	▲	(5 972)	▼	(3 534)	▼	4 907	▲
Comprehensive result	1 352	▲	(5 972)	▼	(3 534)	▼	4 907	▲
Financial Position[1]								
Cash and deposits	4 397	▲	3 014	▼	3 516	▼	8 293	▲
Property, plant and equipment	188 197	●	195 972	●	200 473	●	201 510	●
Employee provisions	(53 554)	●	(54 305)	●	(51 813)	▼	(48 591)	●
Interesting bearing liabilities	0	▲	(1 905)	●	(1 905)	▲	(6 233)	▼
Net assets	141 052	●	142 341	●	149 091	●	152 625	●
Key financial ratios								
Net financial liabilities ratio	(24.0%)	▼	(26.5%)	●	(26.3%)	●	25.5%	▲
Annual average staff costs per FTE	108	●	105	●	102	●	107	▲
Underlying result ratio	(3.7%)	●	(3.9%)	●	(4.0%)	●	(4.0%)	▼

Indicators -
▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

[1] *Assets are positive, liabilities are negative.*

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DEPARTMENT OF STATE GROWTH (STATE GROWTH)

INTRODUCTION

State Growth was formed on 1 July 2014, bringing together the key services that were previously housed in:

- the Department of Infrastructure, Energy and Resources (DIER)
- the Department of Economic Development, Tourism and the Arts (DEDTA)
- Skills Tasmania.

KEY RESULTS AND DEVELOPMENTS

In 2015-16, State Growth recorded a Net surplus of $11.42m, an improvement on the prior year of $9.46m.
The Underlying deficit for the year was $76.24m compared to $76.23m for 2014-15. The deficit primarily reflected unfunded depreciation.
The Comprehensive loss of $33.86m was a deterioration of $57.04m from the previous year predominately due to a net revaluation movement of $45.28m in 2015-16, relating to land, buildings and infrastructure assets.
Replacement costs of infrastructure assets were indexed at 30 June 2016. This resulted in revaluation decrements for roads, $40.95m and bridges, $8.83m.
An increase in Net loss on non-financial assets of $34.41m mainly related to higher write-offs of replaced roads and bridges and assets transferred to Dorset Council.
State Growth and Dorset Council entered into a Deed of Transfer – Musselroe Tourist Road under which both entities agreed to exchange responsibility for certain roads, bridges and other related infrastructure. As a result, State Growth recognised a contribution received of $27.44m for assets transferred from Dorset Council, and also recognised a loss of $15.40m for assets transferred to Dorset Council.
Cash and deposits increased by $32.29m to $98.77m at 30 June 2016. The increase was primarily due to funding from the Australian Government for the Drought Concessional Loan Scheme, $10.00m, and Drought and Dairy Recovery Loan Scheme, $10.00m, Appropriation carried forward to 2016-17, $8.50m and higher road safety levy holdings, $3.00m.
Payments for acquisitions of non-financial assets during 2015-16 were $95.74m which was comparable to the amount of $93.94m expended in the previous year.
Heritage and cultural assets were valued by management and specialist staff from the Tasmanian Museum and Art Gallery (TMAG). This resulted in a revaluation increment of $7.00m.
Interest bearing liabilities increased by $14.23m primarily due to funding received from the Australian Government for the Drought Concessional Loan Scheme, $10.00m, and the Drought and Dairy Recovery Loan Scheme, $10.00m, offset by the repayment of borrowings, $5.77m.
The decrease in Employee provisions of $4.27m was mainly due to eight less days in the salaries and wages expense accrual at year end (1 day at 30 June 2016 compared to 9 days at 30 June 2015), resulting in a reduction of $2.20m. In addition, average FTEs reduced from 792 at 30 June 2015 to 680 this year.
Racing Services Tasmania were transferred to DPIPWE on 1 July 2015. This was treated as an administrative restructure and resulted in a net liability of $0.59m being transferred to DPIPWE.

CONCLUSION

The signed financial statements were received on 12 August 2016. Following the audit the financial statements were re-signed on 23 September 2016 and an unqualified audit opinion was issued on 26 September 2016.

In performing our audit we identified two key areas where internal control can be improved, relating to:

- timely completion of bank reconciliations, which were impacted by documentation delays and transaction anomalies relating to motor registry transactions
- differences in the recording of road and bridge infrastructure transactions in the asset management system and the general ledger. These differences related to the non-recording of capital work in progress (WIP), different methodologies for calculating revaluation movements and the need to improve communication between the asset management team and finance team.

Other moderate risk findings that arose from the audit included:

- Motor Registry System (MRS) business continuity plan had not been updated since December 2012
- former employee user access to MRS was not disabled in a timely manner
- Abt Railway Ministerial Corporation (Abt Railway) needed to reassess useful lives of property, plant and equipment as part of a revaluation due in 2016-17.

Following the internal valuation of TMAG heritage and cultural assets, we provided information to TMAG management to assist them in reviewing their accounting policy and refining their valuation approach for future valuations.

There were 14 prior year issues identified that were followed up with management. We noted that four issues were resolved and the remaining issues were still under consideration or will be reassessed in future years.

AUDIT RESULTS

Key matters considered during the audit

Racing Services Tasmania

Racing Services Tasmania were transferred to DPIPWE on 1 July 2015.

We audited the accounting treatment of the transfer and ensured that it was appropriately disclosed in the financial statements.

Integrated finance system

State Growth integrated the former DIER and former DEDTA finance systems, including the asset register, into one system from 1 July 2015.

Audit procedures performed included:

- testing assets opening balances to ensure they were uploaded correctly into the new register
- auditing the opening balances to ensure that trial balances were aggregated correctly, with some reliance placed on the work carried out by the internal auditor.

Heritage and cultural asset valuation

TMAG conducted an in-house valuation of heritage and cultural assets as at 30 June 2016.

We examined key elements of the valuation, including:

- the valuation assumptions and approach adopted by management and ratified by the Board of Trustees to revalue the assets

- ensuring the valuation performed was suitable for financial reporting in accordance with Australian Accounting Standards.

Infrastructure assets – roads and bridges

Indexation of roads and bridges was performed by the Asset Management Branch to determine the fair value of those assets as at 30 June 2016.

To test whether the indexation adjustment was recognised appropriately, we:

- checked the indices used to ensure they were appropriate to use
- audited the calculations of indexed values and the accounting treatment of movements in those values
- ensured that key judgements and assumptions were adequately disclosed in the financial statements.

Capital expenditure program

State Growth undertook a number of significant capital expenditure programs to upgrade and maintain its road network. To address identified audit risks we:

- performed detailed testing of asset additions and asset revaluations during the year
- undertook audit procedures aimed at ensuring capital and maintenance expenditure was appropriately accounted for and disclosed
- audited commitments for capital expenditure at 30 June 2016.

Loan advances

State Growth offered a variety of different loan schemes to individuals and businesses. These included farm finance concession loans, loans offered under the AgriGrowth Loan scheme, Arts Tasmania, Community development and industry funding.

To assess the reasonableness of loan advances and balances, we:

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

Grants and subsidy payments

State Growth provided a large number of grants and subsidies during the year, including

- funding for rail infrastructure
- Regional Revival Fund grant program
- funding the Caterpillar Transition Taskforce
- grants for industry development and support.

Audit procedures performed included:

- verifying a sample of grants to grant deeds and assessing compliance with grant conditions, milestones being met, whether grant recipients met conditions to receive the grant and grant approval processes
- testing quantification of commitment disclosures in the financial statements.

Administered revenue and agency relationship

State Growth administered the collection of a considerable amount of fees and fines, including motor vehicle registrations and mineral royalties. These were collected on behalf of third parties, including Treasury, MAIB and State Fire.

We performed the following audit procedures to ensure that administered revenue and agency relationship transactions were not materially misstated:

- documented and tested controls surrounding the collection of administered revenue
- engaged an external expert to audit MRS application controls, including security, change management and operation controls
- examined the reconciliation of ancillary systems, such as MRS to the general ledger
- undertook detailed testing of the collection of revenue
- performed substantive analytical procedures.

Mineral royalties

Mineral Resources Tasmania (MRT) administered mineral royalties. The collection of mining royalties was based on self assessment which meant that mining companies were responsible for the calculation, payment and lodgement of returns. Mineral royalties were calculated based on mined volumes and sales value each quarter.

To ensure that revenue from mineral royalties was not materially misstated, we

- tested a sample of returns to ensure MRT reviewed and assessed information provided
- reviewed internal audit reports for relevance.

FINANCIAL ANALYSIS

Financial snapshot 2015-16

Table 12 provides a snapshot of the State Growth's financial results for 2015–16 in comparison to prior year.

Table 12 Financial Snapshot

	2015-16 $'000	Ind	2014-15 $'000
Financial Performance			
Reconciliation of Underlying result to net result			
Underlying result	(76 244)	●	(76 229)
Non-operational capital funding	101 544	▲	92 014
Net gain (loss) on non-financial assets	(46 877)	▼	(12 468)
Contributions received	27 691	▲	250
Fair value of land and buildings assets recognised	4 832	▲	0
Net gain (loss) on financial instruments and statutory receivables/payables	469	▲	(1 610)
Net result	11 415	▲	1 957
Changes in revaluation reserve	(45 277)	▼	21 224
Comprehensive result	(33 862)	▼	23 181
Financial Position[1]			
Cash and deposits	98 766	▲	66 472
Loan advances	33 282	▼	39 948
Road infrastructure	4 030 792	●	4 081 960
Heritage assets	407 879	●	400 618
Land and buildings	141 767	●	140 700
Interest bearing liabilities	(54 742)	▼	(40 513)
Other liabilities	(19 774)	▼	(18 599)
Employee provisions	(17 387)	▲	(21 654)
Net assets	4 642 457	●	4 675 731
Key Financial Ratios			
Operating margin	0.8	●	0.8
Net financial liabilities ratio	(0.5%)	▲	(6.0%)
Underlying result ratio	(19.8%)	●	(19.8%)

Indicators -
▲ improvement from prior year ▼ deterioration from prior year
● no material change from prior year

[1] *Assets are positive, liabilities are negative.*

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DEPARTMENT OF TREASURY AND FINANCE (TREASURY)

INTRODUCTION

Treasury was a central agency responsible for managing the Tasmanian Government's financial resources and for implementing strategies to achieve the Government's economic and fiscal objectives. It was predominately funded through Parliamentary Appropriations, under two divisions, Treasury and Finance and Finance-General.

Departmental activities were reported as controlled activities, including all funds through which Treasury controlled resources to carry out its functions. Administered statements encompassed all activities of Finance-General that were administered on behalf of the Government.

Financial analysis in this Chapter focused on controlled activities.

KEY RESULTS AND DEVELOPMENTS

In 2015-16, Treasury recorded an Underlying surplus of $5.11m, which was the same as its Net result, an improvement of $6.54m on the prior year. The improved Underlying result was primarily due to the timing differences for the Bass Strait Islands electricity subsidy and pensioner concession payments.
Cash and deposits increased by $0.96m from the prior year. The increase was primarily due to higher carry forwards, which included funding for the Client View System and the Budget Information Management System (BIMS) projects.
During 2015-16 Treasury implemented phase two of the Client View System for State revenue management, comprising payroll tax, insurance and motor vehicle duties and an enhanced web taxpayer portal. The capitalised cost of the Client View System project was $1.28m. Phase three planning had commenced and will deliver an enhanced duties portal for taxpayers including the capacity for land tax searches.
Treasury commenced phase four of the BIMS project, with $0.50m spent during the year and $0.82m recorded as work in progress at 30 June 2016. BIMS was a critical whole of government tool that will be used by all Government agencies to support the management of State Budget.
Employee provisions decreased by $0.69m, mainly due to eight less days (one day at 30 June 2016 compared to nine days at 30 June 2015) in accrued salaries at year end.
Other liabilities decreased by $2.22m primarily due to the timing differences of Bass Strait Islands electricity subsidy and pensioner concession payments.

CONCLUSION

The signed financial statements were received on 15 August 2016 and an unqualified audit opinion was issued on 29 September 2016.

In performing our audit we did not identify any significant deficiencies in internal control.

AUDIT RESULTS

Key matters considered during the audit

Intangibles

During 2015-16 Treasury implemented phase two of the Client View System and commenced phase four of the BIMS project. We audited the treatment of capitalised costs to ensure that intangibles were not materially misstated.

Employee benefits expense and liability

Treasury had a significant employee base, with employee expenses representing approximately 50.0% of controlled expenditure. Treasury had a significant employee provisions balance, which was derived from complex calculations. To assess the reasonableness of employee benefits, we:

- performed a combination of controls and substantive testing which included analytical procedures to examine salaries and superannuation costs
- tested calculations of employee provisions for accuracy and compliance with requirement of AASB 119 *Employee Benefits*.

Administered activities

Cash and financing

Finance-General held significant cash and investments, totalling $ 1.35bn at 30 June 2016 (30 June 2015, $1.31bn). Treasury funded the overdraft or shortfall in the SDTF accounts using a temporary overnight borrowing which totalled $385.00m at 30 June 2016 ($575.00m). The effect of this was to gross up Government's cash holdings to at least equal the balance of SDTF accounts.

We performed the following audit procedures to ensure that cash, investment and borrowing balances were not materially misstated:

- obtained third party confirmations for balances of operating and investment accounts
- recalculated year end bank reconciliations
- confirmed investments and loans balances with Tascorp.

Defined benefit superannuation liability

Finance-General administered the Government's unfunded defined benefit superannuation liability. The value of, and movements in, the superannuation liability recognised in the financial statements were based on an annual valuation which contained a number of actuarial assumptions. The size of the superannuation liability and the inherent judgement involved in determining its amount contributed to this being a key audit matter.

Last year, we engaged a specialist to undertake a peer review of the State Actuary. The peer review gave us assurance that assumptions and methodology used complied with AASB 119 and the relevant valuation framework, were reasonable and appropriate. We continued to place reliance on the result of last year's peer review in the current year.

In addition, we performed the following audit procedures to ensure the superannuation liability was not materially misstated:

- ensured the assumptions and methodology reviewed by our expert in the prior year were consistently applied in the current year
- evaluated actuarial calculations including the reasonableness of the assumptions used
- audited the accounting for superannuation costs and movements in the valuation of the superannuation liability as well as disclosures made in the financial statements to ensure compliance with AASB 119.

Tasmanian Risk Management Fund

Finance-General managed the Tasmanian Risk Management Fund. The liability for outstanding insurance claims was determined by an actuary and the estimation involved judgment and was subject to complex calculations.

This year, we engaged a specialist to undertake a peer review of the actuary. Our expert:

- reviewed the appropriateness of data inputs and data reconciliations undertaken
- reviewed methods for suitability in the circumstances and against current actuarial practice
- reviewed assumptions for consistency with available experience and trends
- reviewed judgements made by the Actuary for reasonableness
- reviewed whether key risks, sensitivities and uncertainties, and their implications, had been identified
- checked for any departures from relevant legislation, professional standards and guidance notes
- considered suitable weight to all material factors.

The peer review provided us with assurance that assumptions and methodology used by the actuary complied with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the relevant actuarial standards, were reasonable and appropriate.

In addition, we audited the accounting for movements in the valuation of the liability as well as disclosures made in the financial statements to ensure compliance with AASB 137.

State taxation revenue

Finance-General, through the State Revenue Office, collected and administered various state taxes. These revenue streams were significant, subject to calculations in accordance with relevant legislation and were captured through a number of applications.

To address identified audit risks we:

- reviewed internal audit reports for relevance
- verified that key controls over state taxation revenue were applied throughout the period
- performed substantive testing to ensure that taxation revenue was not materially misstated
- tested carrying value and performed impairment assessments of outstanding taxation revenue at 30 June 2016.

Investments in Government businesses

Finance-General collected returns from Government businesses in the form of dividends, income tax equivalents and guarantee fees. It also recognised deferred tax assets and equity investments. Equity investmentes represented the Government's equity interest in Government businesses measured as the value of their net assets.

To ensure that equity investments and related transactions were not misstated, we:

- confirmed the value of equity investments to audited financial reports of the entities
- ensured that equity movements were accounted for correctly with consideration given to equity contributions made during the year
- confirmed returns
- audited the calculation of deferred tax assets held.

Parliament Square

The redevelopment of Parliament Square will be delivered in multiple stages, with the Salamanca Building due for completion in early 2017. A lease contract, that included conditions to ensure the Government's long-term interest in the site was protected, was under negotiation. We reviewed the lease commitments payable for Government's long-term interest in the site, to ensure the disclosure was reasonable.

FINANCIAL ANALYSIS

Financial snapshot 2015-16

Table 13 provides a snapshot of the Treasury's financial results for 2015–16 in comparison to prior years.

Table 13: Financial Snapshot

	2015-16		2014-15		2013-14		2012-13	
	$'000	Ind	$'000	Ind	$'000	Ind	$'000	Ind
Financial Performance								
Underlying net operating result	5 106	▲	(1 436)	▼	412	▼	1 975	▲
Comprehensive Result	5 106	▲	(1 436)	▼	407	▼	1 975	▲
Financial Position[1]								
Cash and deposits	5 252	▲	4 295	●	4 161	●	4 354	▲
Intangibles	3 423	▲	2 358	▲	1 565	▲	1 002	▲
Employee provisions	(6 513)	▲	(7 202)	●	(7 170)	●	(6 984)	●
Other liabilities	(1 190)	▲	(3 406)	▼	(1 397)	▲	(1 653)	▼
Net assets (liabilities)	2 848	▲	(2 258)	▼	(822)	▲	(1 228)	▼
Key Financial Ratios								
Operating margin	1.1	▲	1.0	●	1.0	●	1.0	●
Net financial liabilities ratio	(4.6%)	▲	(13.3%)	▼	(9.3%)	●	(9.8%)	▲
Underlying result ratio	9.7%	▲	(2.9%)	▼	0.9%	▼	4.4%	▲

Indicators -
▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

[1] *Assets are positive, liabilities are negative.*

TASMANIAN HEALTH SERVICE (THS)

INTRODUCTION

THS was a Statutory Authority that had responsibility and accountability for governing and delivering integrated healthcare services through the public hospital system and primary and community health services (including mental health and oral health services).

THS commenced operations on 1 July 2015. Prior to this, health services in Tasmania were provided by three regionally based Tasmanian Health Organisations (THOs): THO-North, THO-North West and THO-South.

A service agreement between the Minister for Health and THS set the framework and performance targets within which the Governing Council and THS Executive work. The agreement is managed by DHHS.

The Governing Council consisted of a Chair and eight other members, appointed by, and accountable to, the Minister for Health.

THS organisational structure for 2015-16 reflected a period of transition from the previous structures of the three THOs. THS's executive structure was established during 2015-16, and the THS Chief Executive Officer commenced in February 2016.

KEY RESULTS AND DEVELOPMENTS

Net asset transfers of $776.97m were received from the three former THOs on establishment of the THS on 1 July 2015. Additional net liabilities of $0.18m for the Cancer Screening and Control Service were transferred to the THS from the DHHS on 1 July 2015 under an administrative restructure arrangement.
THS reported a Net surplus of $34.89m, which included capital grants (assets transferred from the DHHS on completion of construction) of $72.78m. Excluding these capital grants and other economic flows of $0.24m included in net result the Underlying result was a loss of $37.65m.
Completed capital additions included the North West Cancer Centre $29.00m, Launceston General Hospital (LGH) works $23.50m and Mental Health buildings in the Southern Region $12.00m.
Additional operational grant funding above budget estimates of $52.25m was received. This was received as part of a 2014-15 election commitment for Elective Surgery.
Hepatitis C medication was made available on the Pharmaceutical Benefits Scheme (PBS) for the first time during 2015-16 and resulted in increased revenue of around $13.50m included in the total $46.26m PBS revenue from Medicare.

CONCLUSION

Signed financial statements were received on 12 August 2016 and an unqualified audit opinion was issued on 15 September 2016.

In performing our audit we did not identify any significant deficiencies in internal control. Four moderate risk findings were reported to management and those charged with governance and included:

- system errors in the calculation of depreciation
- segregation of duties weaknesses within the purchasing process
- inability to provide requested documentation for several patient revenue transactions selected for audit testing
- a recommendation to review processes involving the generation of radiology services revenue.

Four of seven findings from prior years, relating to the former THOs, were satisfactorily resolved. The THS agreed to address all remaining matters during 2016-17.

AUDIT RESULTS

Key matters considered during the audit

Organisational Restructure

The amalgamation of the three former THOs into a single entity was an area of key audit focus due to the identification of inherent and significant audit risks related to:

- the initial recognition and measurement of transferred assets and liabilities
- the accuracy of recorded opening balances
- legislative disclosure requirements
- inherent challenges involved in aligning three regional organisations into one.

In undertaking our audit procedures we:

- reviewed legislative conditions surrounding the creation of THS
- reviewed accounting standards and Treasurer's Instructions and Treasurer's Guidelines to determine the relevant accounting framework and requirements for the restructure
- confirmed opening balances, ensuring all assets, liabilities and reserves were correctly accounted for
- assessed the adequacy of relevant disclosures in the financial statements.

Revenue recognition

THS recognised significant revenue from grants and sales of goods and services. Grants payable by Government were recognised when THS gained control of the underlying assets. Where grants were reciprocal, revenue was recognised as performance occurred. Non-reciprocal grants were recognised as revenue when the grant was received or was receivable. Capital grants were recognised as revenue when completed construction projects were commissioned and transferred from DHHS.

Sales of goods and services were recognised when consideration was received or receivable in respect of a wide range of services rendered, captured through discrete systems. The majority of services were for fee paying privately insured or otherwise compensable patients, reimbursements of services provided to other organisations and Medicare or PBS government payments.

Due to the number of revenue streams and systems at varying sites across the State, the manual nature of some billing processes, and the significant revenue amounts received, we identified a number of significant risks around the accuracy and completeness of revenue resulting in revenue recognition being considered a key audit area.

Audit procedures performed to ensure that revenue was not materially misstated included:

- confirmed a selection of grant receipts to external documentation and ensured the classification was correct
- grant receipts transferred via the National Health Funding Pool Account – Tasmanian State Pool Account (the Pool) were agreed to detail from a special purpose audit of the Pool conducted by our DHHS audit team
- evaluated the design and implementation of relevant application controls in selected systems
- confirmed process controls to support the completeness, accuracy and integrity of patient billing in selected systems
- examined reconciliations of information from subsidiary systems to the general ledger
- performed testing over a selection of sales of goods and services transactions
- conducted analytical review of revenue generated
- assessed the adequacy of relevant disclosures in the financial statements.

Valuation of Property, plant and equipment

Property, plant and equipment included land and buildings recorded at fair value. The THS real property portfolio predominantly comprised specialised non-market type assets. Land and buildings were initially recognised at 1 July 2015 at values transferred from the three former THOs.

Land and building values were updated at 30 June 2016 by an index provided by the Office of the Valuer-General. Indexation rates were determined by the Valuer-General with reference to construction costs with appropriate allowance for regional influences across Tasmania. The valuations were highly dependent on estimated construction costs.

This was a key audit matter due to the high dollar values involved and inherent subjectivity that was involved in the THS making judgements in relation to the assumptions and estimates applied in the valuation methodology, including asset lives.

Audit procedures included:

- assessed the appropriateness of the valuation approach and the key assumptions used
- assessed the competence of management's expert in accordance with Australian Auditing Standards
- assessed the adequacy of relevant disclosures in the financial statements.

Employee benefits

THS employed in excess of 9 000 full time equivalent employees. Employee expenses represented a significant balance within total expenditure. There were several risks that impacted the audit and included the use of manual timesheets and the number and complexity of industrial awards that existed. Payroll processing and disbursement was undertaken by DHHS under a service level agreement.

Employee entitlements represented approximately 70.0% of THS's Total liabilities. This was a key audit matter due to the amounts involved and the level of disclosure within the financial statements. Significant risks were identified around the accuracy, occurrence and completeness of employee expenditure and liabilities.

We undertook audit procedures that included:

- evaluated the design and implementation of relevant application controls
- obtained formal assurance via representations following completion of audit work by our DHHS Shared Services team, upon which we placed reliance to ensure identified controls were operating as documented and that employee entitlement provision calculations were accurate
- conducted analytical comparisons of actual expenditure to budget
- verified year end reconciliations
- assessed the adequacy of disclosures in the financial statements.

FINANCIAL ANALYSIS

Financial snapshot 2015-16

Table 14 provides a snapshot of financial results for 2015–16.

Table 14: Financial Snapshot

	2015-16 $'000	Ind	2014-15[1] $'000
Financial Performance			
Reconciliation from underlying result to net result			
Underlying result	(37 653)		n/a
Other economic flows included in net result	(238)		n/a
Assets transferred on completion	72 780		n/a
Net result	34 889		n/a
Changes in revaluation reserve	13 749		n/a
Comprehensive result	48 638		n/a
Financial Position[2]			
Cash and deposits	89 535	▲	84 453
Property, plant and equipment	982 222	▲	932 240
Employee entitlements	(224 895)	▼	(205 237)
Net assets	824 941	▲	776 972
Key Financial Ratios			
Underlying result ratio	(2.8%)		n/a
Net financial assets (liabilities) ratio	(13.8%)		n/a

Indicators -

▲ improvement from prior year ▼ deterioration from prior year

● no material change from prior year

[1] Balances recognised 1 July 2015 from three former THOs.

[2] Assets are positive, liabilities are negative.

RETIREMENT BENEFITS FUND (RBF)

INTRODUCTION

RBF's main undertakings included the:

- provision of superannuation products and services to Tasmanian public sector employees
- administration and management of approximately 75 000 members, through its five defined benefit schemes and an accumulation scheme.

TERMS USED IN THIS CHAPTER

Accumulation scheme (or defined contribution scheme) – under this scheme the employer's contribution was fixed according to the scheme requirements and legislative rules. The end benefit consisted of the accumulated contributions by the employer and employee, together with the investment earnings on the contributions less costs.

Defined benefit scheme – these schemes had benefits that accrue on resignation, retirement or death, and were 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 made regular contributions to the fund reflecting the currently accruing liability in regard to employees.

Unfunded scheme – a scheme in which the employer financed benefit component was met on an 'emerging costs' basis when the employee became 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 RESULTS AND DEVELOPMENTS

Investment revenue for 2015-16 was $235.26m, a decrease of $223.01m from the previous year. The decrease reflected a reduction in the net market value of investments during the year, which was reflected in the return on investments decreasing from 8.4% in 2014-15 to 4.1% for 2015-16.
Net assets reached $5.48bn at 30 June 2016. This was $0.18bn higher than at the same time last year.
The Tasmanian Accumulation Scheme liability of $3.60bn was fully funded by investments held by RBF, and represented 65.7% of the net liability for accrued benefits.
The accrued benefits of three of RBF's five defined benefit schemes were considered to be fully funded at 30 June 2016. The Contributory Scheme and the Parliamentary Superannuation Scheme were not fully funded and represent the unfunded liability of $4.61bn.
In 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 RBF's Tasmanian Accumulation Scheme. On 1 July 2016, RBF and Tasplan entered into a Deed to Successor Fund Transfer (SFT) RBF's accumulation scheme to Tasplan. The SFT date has been set as 31 March 2017. Tasplan will replace RBF as the default fund for Tasmanian public sector employees from that date.
AASB 1056 *Superannuation Entities* became effective on 1 July 2016. The standard replaced AAS 25 *Financial Reporting by Superannuation Plans*. The Standard is to be applied retrospectively for the 30 June 2016 financial year with comparatives needing to be restated.

CONCLUSION

Signed financial statements were received on 11 August 2016 and an unqualified audit opinion was issued on the same day.

In performing our audit we have not identified any significant deficiencies in internal control or any other matters. There were no outstanding findings from the previous year's audit to resolve.

BACKGROUND

RBF was Tasmania's public sector superannuation fund. Membership was 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 the RBF Tasmanian Accumulation Scheme via personal contributions (excluding superannuation guarantee contributions).

RBF prepared financial statements that were aggregated at a fund level and included the following sub-funds, for which RBF had management and administrative responsibilities as the Trustee:

- ***RBF Contributory Scheme*** – was the main defined benefit scheme established under the *Retirement Benefits Act 1993.* It has been closed to new members since 15 May 1999.
- ***Tasmanian Accumulation Scheme (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 was managed in accordance with the Tasmanian Accumulation Scheme 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 was managed in accordance with the Tasmanian Ambulance Service Superannuation Scheme Trust Deed.
- ***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 2006*. The sub-fund was managed in accordance with the State Fire Commission Superannuation Scheme Trust Deed.

RBF also had the following fully owned subsidiaries:

- RBF Financial Planning Pty Ltd
- RBF Direct Pty Ltd, the trustee for RBF Direct Trust
- RBF Property Pty Ltd, the trustee for RBF Property Trust.

All results in the analysis were based upon consolidated figures.

Public Sector Superannuation Reform

The purpose of the *Public Sector Superannuation Reform Act 2016* (PSSRA) was to formalise the new administration arrangements for the provision of public sector superannuation in Tasmania. These new arrangements provided for the transfer all current RBF accumulation members and associated investments to Tasplan, with the defined benefits schemes to be managed under new governance arrangements within the Government.

The PSSRA created the Superannuation Commission as an independent statutory authority, to be supported by staff within a branch of Treasury called the Office of the Superannuation Commission. Fiduciary responsibility for the RBF defined benefit schemes will be transferred to the Superannuation Commission.

The reform did not impact the 2015-16 financial report and was disclosed as a subsequent event in the notes to the financial statements.

RBF Financial Planning Pty Ltd

RBF Financial Planning Pty Ltd, a wholly owned subsidiary of RBF, provided RBF members with financial planning advice. Its revenue was derived predominately from financial planning fees charged to RBF members. RBF Financial Planning Pty Ltd held an Australian Financial Services (AFS) Licence, which authorised it to provide financial product advice to clients.

Signed financial statements were received on 10 August 2016 and an unqualified audit report was issued on 11 August 2016.

There were no key findings or developments. The audit of the AFS Licence gave rise to a number of special audit considerations. An AFS licensee is required to lodge a profit and loss statement, balance sheet and auditor's report with the Australian Securities and Investment Commission for each financial year. The signed audit opinion relating to the AFS Licence (FS71) was issued on 11 August 2016.

AUDIT RESULTS

Key matters considered during the audit

Outsourced providers

RBF outsourced the member administration function to Mercer (Australia) Pty Ltd (Mercer). Member administration included crediting member and employer contributions to individual member accounts, making benefit payments and allocation of funds between the RBF sub-funds.

The investment portfolio included investments for which JP Morgan Worldwide Securities Services (JP Morgan) was the custodian and over which the investment administration and registry functions were also outsourced to JP Morgan. The investment portfolio also included internally managed investments which included Tasmanian property and mortgage investments.

Both Mercer and JP Morgan issued an audit report relevant to the 2015-16 financial year to RBF under Guidance Statement GS007 *Audit Implications for the Use of Service Organisations for Investment Management Services* (GS007). These audit reports provided reasonable assurance with respect to the internal controls in place around service functions.

We conducted procedures in accordance with ASA 402 *Auditing Considerations Relating to an Entity Using a Service Organisation* that allowed us to:

- obtain an understanding of the services provided by the service entity
- review how RBF internally manages these relationships with regards to receiving accurate and timely information
- assess the risk framework in place to determine the adequacy of the reporting process for each of the key outsourced suppliers.

Australian Prudential Regulation Authority (APRA) prudential standards

After 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 RBF's Tasmanian Accumulation Scheme, RBF ceased pursuing Registrable Superannuation Entity status. Notwithstanding this, our audit procedures incorporated the minimum risk management strategies required by the APRA prudential standards.

Assets held by the custodian

Approximately 97.0% (2014-15, 97.0%) of RBF's investments are held by RBF's custodian JP Morgan. Assets under management increased in 2015-16, and represented an area of key audit focus.

To gain comfort over the existence and valuation of investments we:

- confirmed existence and valuation of investments on a sample basis through direct, third party confirmation
- relied on JP Morgan custodian certificates and investment reporting
- obtained GS 007/*Statement on Standards for Attestation Engagements* (SSAE) No. 16 assurance reports
- relied on the investment funds' independent auditor's report on a statement and factual findings report on assets subject to separate verification procedures to those charged with governance of the fund as at 30 June 2016
- reviewed RBF's internal control framework for monitoring JP Morgan
- documented and tested the governance structure implemented for monitoring investments with regards to valuation and measurement
- for property investments we:
    - utilised independent valuer reports to support carrying value of investments
    - reviewed the valuation policies and procedures with regards to rolling valuation practices
- for commercial mortgages we:
    - reviewed and tested adherence to credit policies and procedures
    - reviewed large exposures and any arrears
    - ensured balances in RBF's loan subsystem agreed to the general ledger.

Liability for accrued benefits

RBF operated a combination of defined benefit scheme and a defined contribution scheme. RBF obtained an actuarial valuation for the liability for accrued benefits of each of the defined benefit schemes. We placed reliance of the actuary's report to RBF for the valuation of the liability for accrued benefits.

Defined benefit schemes:

- ***Contributory Scheme***: The employer obligations to the Contributory Scheme are unfunded, and are being financed on an emerging cost basis. Employee contributions, which are fully funded by the members and vest fully in them, are made at a specified rate of salary. The State Actuary recommended that the level of employer support be increased from 1 July 2015 to help ensure that the Contributory Scheme will have sufficient assets to meet its obligations over the lifetime of the scheme.
- ***Parliamentary Superannuation Fund***: The employer obligations to the Parliamentary Superannuation Fund are unfunded, and are being financed on an emerging cost basis.

Employee contributions, which are fully funded by the members and vest fully in them, are made at a specified rate of salary.

- ***Parliamentary Retiring Benefits Fund***: This Fund is lump sum based, with any entitlement not being able to be converted to or paid in the form of a pension, other than an RBF Account Based Pension. On the advice of the State Actuary the Minister has made additional contributions to the fund which has resulted in this fund being fully funded as at 30 June 2016.
- ***State Fire Commission Superannuation Scheme***: This scheme was fully funded at the date of the last actuarial triennial review as at 30 June 2015.
- ***Tasmanian Ambulance Service Superannuation Scheme***: This scheme was fully funded for accrued benefits at the time of the last triennial actuarial review as at 30 June 2015.

Defined contribution plan:

During the 2015-16 financial year, employers contributed to the RBF Tasmanian Accumulation Scheme at the rate of 9.5% of gross salaries of those employees who were members of the scheme. Account based, transition to retirement and term allocated pensions are fully funded by members.

FINANCIAL ANALYSIS

Financial snapshot 2015-16

Table 15 provides a snapshot of RBF's financial results for 2015–16 in comparison to prior years.

Table 15: Financial Snapshot

	2015-16		2014-15		2013-14		2012-13[1]
	$'000	Ind	$'000	Ind	$'000	Ind	$'000
Financial Performance							
Revenue							
Investment revenue	235 261	▼	458 274	▼	512 728	▼	591 802
Employer contributions	484 920	▼	516 743	▲	445 315	●	426 771
Benefits accrued after tax	758 527	▼	1 027 583	●	1 003 896	●	1 027 852
Financial Position[2]							
Investments	5 475 582	●	5 313 304	▲	4 856 989	▲	4 325 031
Allocated to members' accounts							
RBF Tasmanian Accumulation Scheme	(3 598 926)	●	(3 441 481)	▼	(3 097 864)	▼	(2 723 868)
Defined benefit sub-funds	(1 865 841)	●	(1 850 942)	●	(1 768 434)	▼	(1 642 521)
Net unfunded liability defined benefit sub-funds (Note disclosure only)	(4 614 181)	●	(4 452 876)	●	(4 369 326)	●	(4 223 244)
Key Financial Ratios							
Return on investments	4.1%	▼	8.4%	▼	10.3%	▼	13.4%

Indicators -
▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

[1] 2013-14 was the first financial year RBF consolidated all its sub-funds into an aggregated set of financial statements. The 2012-13 comparatives were also restated.

[2] Assets are positive, liabilities are negative.

AUDIT SUMMARY – OTHER GENERAL GOVERNMENT SECTOR (GGS) AND STATE ENTITIES

INTRODUCTION

This Chapter includes all State entities other than:

- ministerial departments
- local government entities
- GBEs and SOCs
- RBF Board
- University of Tasmania
- State entities whose audits were dispensed with.

Entities included in this part of the Report were grouped into:

- Executive and Legislature
- Other GGS State entities
- Other State entities.

BACKGROUND

Executive and Legislature

The Parliament of Tasmania consisted of the Crown (represented by the Governor), the Legislative Council and the House of Assembly that collectively formed the Legislature. Legislature-General provided, amongst other matters, support for general parliamentary functions including reporting services and parliamentary catering.

Designated officers administered these functions and financial transactions were 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 provided 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 were reported in the financial statements of DPAC with details not included within this Chapter.

Other GGS State entities

GGS consisted of departments and non-profit State entities controlled and mainly financed by Government. The main purpose of non-profit State entities was to produce or distribute goods and services but not provide a source of income, profit or other financial gain for Government.

The following entities were consolidated into departments (with controlling departments shown in brackets), but were still required to complete financial statements in their own right.

- Abt Railway Ministerial Corporation (State Growth)
- Ambulance Tasmania (DHHS)
- Housing Tasmania (DHHS)
- Office of Tasmanian Assessment, Standards and Certification (Education)
- Tasmania Development and Resources (State Growth)

- Tasmanian Affordable Housing Limited (DHHS)
- Tasmanian Museum and Art Gallery (State Growth)
- Teachers Registration Board (Education).

The entities above were discussed, where significant, in departmental Chapters in this Report.

The following entities were stand-alone authorities and some formed part of administered activities of departments:

- Asbestos Compensation Fund
- Inland Fisheries Service
- Integrity Commission
- Marine and Safety Tasmania
- Office of the DPP
- Office of the Ombudsman and the Health Complaints Commissioner
- Royal Tasmanian Botanical Gardens
- State Fire Commission
- Tasmanian Economic Regulator
- TasTAFE
- Tourism Tasmania
- Workcover Tasmania Board.

Other State entities

Other State entities were statutory authorities and other non-profit entities not consolidated into GGS:

- 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 Community Fund
- Tasmanian Dairy Industry Authority
- Tasmanian Early Years Foundation
- Tasmanian Heritage Council
- The Nominal Insurer
- Wellington Park Management Trust.

KEY DEVELOPMENTS

Office of Tasmanian Assessment, Standards and Certification

The Office of Tasmanian Assessment, Standards and Certification replaced the Tasmanian Qualifications Authority (TQA) effective from 29 May 2015. It has many of the same functions as the TQA, including managing senior secondary examination processes, accrediting senior secondary courses and public reporting on years 11 and 12 student achievements.

As the TQA previously reported on a calendar year basis at 31 December, the Office of Tasmanian Assessment, Standards and Certification prepared, and we audited, financial statements for the six months ended 30 June 2015, in addition to financial statements for its first full year of operations ended 30 June 2016.

Tasmanian Early Years Foundation

Parliament recently passed the *Tasmanian Early Years Foundation (Winding Up) Bill 2016* which provided for the Tasmanian Early Years Foundation to be wound-up and its assets and liabilities transferred to the Crown. Net assets were $0.58m and were comprised entirely of cash. The Foundation will cease to exist on the day the Bill is proclaimed.

Special Purpose Financial Statements

Tasmania Development and Resources, Tasmanian Museum and Art Gallery and Forest Practices Authority prepared special purpose financial statements (previously, general purpose financial statements) for the first time in 2015-16. As part of our audit, we ensured the special purpose financial statements complied with relevant accounting standards and disclosure requirements.

CONCLUSIONS

Entities included in this Chapter submitted their financial statements within the statutory deadline, with two exceptions:

- the Office of Tasmanian Assessment, Standards and Certification submitted financial statements for the six months ended 30 June 2015 on 23 June 2016
- River Clyde Trust did not submit financial statements for the year ended 30 June 2016 and its financial statements for the year ended 30 June 2015 were incomplete and therefore not accepted.

Unqualified audit reports were issued in all cases except for the National Trust of Australia (Tasmania) discussed below:

National Trust of Australia (Tasmania)

Our audit opinion contained the following “except for” audit 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.*

It was pleasing to note that the Trust made further progress to value and record its heritage collections with an additional $0.52m recognised in 2015-16.

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

Specific matters noted during the audits were:

ABT Railway Ministerial Corporation

Credit card transactions were not reviewed and authorised by a person independent from the cardholder. It was agreed that the General Manager will review all credit card statements. We also noted an error in the payroll system set up which resulted in incorrect calculations of penalty rates for casual employees and subsequent underpayment of wages. Management rectified the issue and underpaid wages were subsequently paid.

Furthermore, infrastructure and rolling stock were last valued four years ago and management agreed to undertake a revaluation and reassess the useful lives of these assets in 2016-17.

Aboriginal Land Council

Land and buildings controlled by the Aboriginal Land Council totalled $24.59m at 30 June 2016, however land assets were last valued in 2012 and buildings in 2013. Because the last revaluations were done over three years ago there was a risk that the values recognised in the financial statements did not reflect current fair values of those assets. It was agreed that land and buildings will be reviewed and, if necessary, independently valued in 2016-17.

Inland Fisheries Service

During the year, the Inland Fisheries Service subdivided land it owned but it did not value the new lots. We recommended that the lots be independently valued in 2016-17 because of the change in land use.

Legal Aid Commission of Tasmania

Legal Aid Commission of Tasmania as a not-for-profit entity was required to recognise non-reciprocal contributions, such as grants, as income at the time it received the funding. This was irrespective of whether restrictions or conditions were imposed on the use of the contributions. It deferred the recognition of some grants as revenue until the grant conditions were met, which in our view was incorrect because the majority of grants it received were non-reciprocal. Financial contribution from both the Australian and Tasmanian Governments, which was the major source of income, was recognised correctly as a non-reciprocal contribution at the time it was received.

National Trust of Australia (Tasmania)

During the course of the audit we noted that the surplus in 2014-15 was overstated by $0.01m due to a prior period error related to the incorrect application of AASB 1004 *Contributions* where non-reciprocal grants are to be recognised immediately as revenue when received.

Royal Tasmanian Botanical Gardens

The carrying value of buildings was $5.20m at 30 June 2016, with the last revaluation being undertaken in 2011-12. It was agreed that the valuation of buildings, including the treatment of buildings categorised as heritage assets and their estimated useful lives, will be reviewed in 2016-17.

Tasmanian Museum and Art Gallery

Tasmanian Museum and Art Gallery (TMAG) maintained significant heritage and cultural assets which totalled $407.88m at 30 June 2016. Following the valuation of heritage and cultural assets performed internally by TMAG management in 2015-16, we provided information to TMAG management to assist them in reviewing their accounting policy and refining their valuation approach for future valuations.

AUDIT RESULTS

State Fire Commission (State Fire)

In 2015-16 Tasmania experienced a severe fire season. This had a significant effect on State Fire's income statement and cash flows with income totalling $139.36m and expenses $143.24m compared to $76.45m and $82.46m, respectively, in 2014-15.

Funding to cover the additional bushfire costs was provided by the Tasmanian Government, $31.64m, and reimbursements from other agencies, $27.79m. This funding covered the significant additional operational expenses incurred by State Fire which amounted to $56.66m, mainly comprised of:

- Bushfire support from other agencies, $24.73m
- Aircraft, $22.18m
- Equipment hire, $4.46m
- Travel and accommodation, $2.32m
- Catering, $1.58m
- Other bushfire expenses, $1.39m.

In addition, State Fire incurred higher employee related expenses, mainly overtime payments, in excess of $3.64m.

For 2015-16, State Fire reported an Underlying deficit of $6.80m which was the same as that incurred in 2014-15.

State Fire's Net assets totalled $80.43m at 30 June 2016, made up predominantly of:

- assets comprising buildings, $40.14m, fire appliances including vehicles, $33.82m, land, $17.75m, plant and equipment, $7.83m, and cash, $16.21m
- less liabilities comprising payables $16.98m, provision for employee related expenses, $14.96m, borrowings, $9.83m, and superannuation liability, $7.39m.

Most of these were relatively consistent with prior year except for

- cash, $15.34 higher
- payables and income in advance, $13.35m higher due to bushfire expenses paid after 30 June 2016
- additional borrowings of $5.92m to address funding needs
- superannuation liability, $7.07m higher due to changes in actuarial assumptions regarding estimated salary increases and a drop in the discount rate reflecting falling interest rates.

As we have noted in previous Reports, unless State Fire can address its ongoing underlying deficits, the capital expenditure program may have to be reduced or additional borrowings drawn to ensure sufficient cash reserves are maintained.

Key matters considered during the audit of State Fire's financial statements were:

Property, plant and equipment (PP&E)

Useful lives of assets and consequent depreciation policies can have a significant impact on the annual financial results of State Fire. Maintenance expenditure incurred is of a material nature. The allocation between operating and capital expenditure increased the risk of misstatement.

In performing our procedures, we:

- reviewed useful lives of assets
- tested depreciation

- reviewed repairs and maintenance expenditure for appropriateness of allocation
- verified all additions and disposals
- reconciled movements and closing balances to asset registers.

Revenue and grant funding

State Fire received a significant portion of its revenue through contributions, levies and charges processed by third parties. There was a risk that amounts were incorrectly processed and recorded. It also received significant funds from the Australian Federal Government as well as the State Government and other agencies.

To ensure this revenue was not misstated, we:

- substantiated revenue received through external confirmations from third parties
- performed analytical review procedures over levies and charges for the period building changes from the prior period into our expectations
- performed substantive testing over transactions to supporting documentation.

Expenditure

State Fire had a large volume of expenditure transactions. In addition, a wide range of staff members possessed ordering capabilities under delegation limits within a centralised payment processing system.

To ensure expenditure was not misstated, we:

- performed detailed analytical procedures over the expenditure accounts against prior year and budget
- tested a selection of significant expenditure transactions to supporting documentation.

Employee benefits and superannuation liability

State Fire's employee expenses represented a major part of total expenses. The employee base included a number of different pay rates under Enterprise Bargaining Agreements.

Annual leave and long service leave balances were material for the Commission. Calculations of long service leave and some annual leave liabilities were based on a number of assumptions and, where applicable, discounting was applied.

State Fire also had employees who were members of a defined benefit superannuation scheme. The value of, and movements in, the superannuation liability were based on an annual valuation which contained a number of actuarial assumptions.

To ensure employee benefit expenses and the superannuation liability were not materially misstated, we:

- performed detailed analytical procedures to examine wages and salaries and superannuation costs
- audited leave balances and recalculated employee provision balances to ensure compliance with AASB119 *Employee Benefits*
- tested the allocation between current and non-current liabilities
- assessed the competence of the actuary that performed the superannuation valuation
- evaluated actuarial calculations including the reasonableness of the assumptions used
- audited the accounting for superannuation costs and movements in the valuation of the superannuation liability as well as disclosures made in the financial statements to ensure compliance with AASB 119 *Employee Benefits*.

TasTAFE

TasTAFE reported a Net deficit of $5.01m in 2015-16. The deficit reflected a transfer of the South Burnie campus to Education, $2.73m, and an impairment of library stock, $1.56m, discussed below. Its Underlying deficit of $0.95m was significantly lower compared to the previous year, largely due lower employee and depreciation expenses.

In 2015-16, TasTAFE received $81.26m in block funding and grants from the Tasmanian Government, which was $2.24m more than last year and included funding for an additional pay period in the financial year (27th pay) and the refurbishment of Drysdale House. It generated $24.89m in training and course fees, which was $5.35m less than the year before due to lower training related sales and contracts with the Australian Government.

TasTAFE's Net assets totalled $168.05m at 30 June 2016. It controlled land and buildings valued at $165.04m and held $7.62m in cash.

Key matters considered during the audit of TasTAFE's financial statements were:

Land and buildings

TasTAFE's land and buildings were revalued in 2014-15 by the Office of the Valuer-General and no changes were made to their values in the current year.

To ensure that assets were not materially misstated we:

- tested additions and disposals throughout the year
- ensured the correctness of the accounting for assets transferred to Education and assets designated as held for sale
- verified reconciliations between the asset register, general ledger and financial statements
- examined financial statement disclosures.

Impairment of library stock

TasTAFE libraries maintained collections measured at cost. In reviewing its library collections for impairment, TasTAFE applied an impairment test where, if an item was not borrowed in the last 30 months, its value was impaired to $nil.

The impairment test was applied for the first time in 2015-16 and resulted in an impairment expense of $1.16m. The value of library stock after impairment and annual depreciation was $1.11m at 30 June 2016.

We performed the following audit procedures to ensure that library stock was not materially misstated:

- reviewed the impairment for compliance with AASB 136 *Impairment of Assets*
- assessed underlying assumptions for reasonableness
- tested impairment calculations
- reviewed relevant disclosures in the financial statements for adequacy.

Significant employee costs and provision

TasTAFE employed 716 full time equivalent employees at 30 June 2016 and employee expenses represented 64% of its total expenditure. Employee entitlements represented 83.0% of Total liabilities.

Payroll support is provided by Education. To ensure employee expenses were not materially misstated we performed a combination of controls and substantive testing which included analytical procedures of payroll transactions. We also tested calculations of employee provisions for accuracy and compliance with requirement of AASB 119 *Employee Benefits.*

FINANCIAL ANALYSIS

Financial snapshot 2015-16

The following table summarises the financial results and position of Other GGS and State entities for 2015-16:

Table 16: Financial Snapshot

	Underlying surplus (deficit)		Net surplus (deficit)		Comprehensive surplus (deficit)		Net Assets	
	$'000	Ind	$'000	Ind	$'000	Ind	$'000	Ind
Executive and Legislature								
House of Assembly	30	▼	30	▼	(9)	▼	1 576	●
Legislative Council	111	▲	111	▲	78	▼	1 042	▲
Legislature-General	(383)	▲	(383)	▲	(460)	●	34 531	●
Office of the Governor	(122)	▲	(42)	▲	(5 289)	▼	35 166	▼
Total	**(364)**		**(284)**		**(5 680)**		**72 315**	
Other GGS State entities								
ABT Railway Ministerial Corporation	2 126	▲	2 126	▲	2 126	▲	38 480	▲
Ambulance Tasmania	(8 703)	▼	(8 293)	▼	(7 821)	▼	17 896	●
Housing Tasmania	520	▲	2 601	▲	24 187	▲	1 285 256	●
Office of Tasmanian Assessment, Standards and Certification	194	▲	194	▲	194	▲	80	▼
Tasmania Development and Resources	376	▼	661	▼	(1 962)	▼	32 504	▼
Tasmanian Affordable Housing Limited	(163)	▼	(163)	▼	(163)	▼	1 364	▼
Tasmanian Museum and Art Gallery	(510)	▼	1 000	▼	7 997	▼	438 564	●
Total	**(6 160)**		**(1 874)**		**24 558**		**1 814 144**	
Other GGS								
Asbestos Compensation Fund[1]	2 586	▼	0	●	0	●	0	●
Inland Fisheries Service	41	▼	48	▼	48	▼	8 502	●
Integrity Commission	(6)	▲	(6)	▲	(6)	▲	210	●
Marine and Safety Tasmania	637	▲	1 226	▲	4 783	▲	33 299	▲
Office of the Director of Public Prosecutions	454	▲	458	▲	458	▲	16	▲
Office of the Ombudsman and Health Complaints Commissioner	440	▲	440	▲	440	▲	514	▲
Royal Tasmanian Botanical Gardens	(438)	▼	(438)	▼	3 045	▲	14 061	▲
State Fire Commission	(6 769)	▲	(3 873)	▲	(10 861)	▼	80 431	▼
Tasmanian Audit Office [2]	657	▲	657	▲	657	▲	2 452	▲
Tasmanian Economic Regulator	38	▲	38	▲	38	▲	99	▲

	Underlying surplus (deficit)		Net surplus (deficit)		Comprehensive surplus (deficit)		Net Assets	
	$'000	Ind	$'000	Ind	$'000	Ind	$'000	Ind
TasTAFE	(948)	▲	(5 014)	▲	(5 010)	▲	168 046	●
Tourism Tasmania	189	▲	201	▲	201	▲	141	▲
Workcover Tasmania Board [1]	0	●	0	●	0	●	0	●
Total	**(3 119)**		**(6 263)**		**(6 207)**		**307 771**	

1 – Asbestos Compensation Fund and Workcover Tasmania Board record break even net results as revenue matches movements in expenditure. 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.

Other State entities								
Aboriginal Land Council	69	▼	69	▼	69	▼	25 187	●
Council of Law Reporting	0	▲	0	▲	0	▲	11	●
Forest Practices Authority	408	▲	408	▲	408	▲	1 771	▲
Legal Aid Commission of Tasmania	721	▲	721	▲	721	▲	2 563	▲
Legal Profession Board	187	▲	187	▲	187	▲	326	▲
National Trust of Australia (Tasmania) [1]	760	▲	1 351	▲	1 379	▲	10 685	▲
Property Agents Board	39	▲	39	▲	39	▲	526	▲
Property Agents Trust	(1 003)	▼	(1 003)	▼	(1 003)	▼	11 742	▼
Tasmanian Beef Industry (Research and Development) Trust	19	▲	19	▲	19	▲	623	●
Tasmanian Building and Construction Industry Training Board	444	▲	444	●	444	●	3 488	▲
Tasmanian Community Fund [3]	1 341	▲	1 341	▲	1 341	▲	11 111	▲
Tasmanian Dairy Industry Authority	84	▼	84	▼	84	▼	519	▲
Tasmanian Early Years Foundation [3]	0	▲	0	▲	0	▲	582	●
Tasmanian Heritage Council	(12)	▼	(12)	▼	(12)	▼	124	▼
The Nominal Insurer	(1 116)	▲	(1 116)	●	(1 116)	▲	424	▼
Wellington Park Management Trust	(10)	▼	(10)	▼	(10)	▼	304	▼
Total	**1 931**		**2 522**		**2 550**		**69 986**	

1 – The underlying surplus for National Trust included bequests and donations totalling $0.94m up from $0.39m in the prior year.

Indicators -
▲ improvement from prior year ▼ deterioration from prior year ● no material change from prior year

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DISPOSAL OF FIREARMS AND AMMUNITION

INTRODUCTION

DPFEM was charged with the responsibility for firearms and ammunition disposed of under the *Firearms Act 1996* (Firearms Act).

Under section 149 of the Firearms Act, the Auditor-General was to arrange for an independent audit of all firearms or ammunition disposed of under the Firearms Act to be carried out once every year and to report on the audit to Parliament annually. This commentary discharges that responsibility for 2015-16.

Firearms destruction encompasses not only firearms and ammunition, but also knives and other weapons. There are several ways by which weapons are surrendered or seized, with approximately 50.0% of weapons being surrendered by their owners. Section 109 of the Firearms Act refers to the surrender of firearms by unauthorised persons and Section 129 provides for a permanent amnesty when firearms are voluntarily surrendered.

Authority to dispose

Firearms and ammunition surrendered or seized under the Firearms Act can be disposed of under an order from a magistrate. A magistrate may also order that a firearm or ammunition be forfeited to the Crown. Following an amendment to the Firearms Act in 2007, the Minister was given discretion to determine the form of disposal where the magistrate's order to forfeit the firearm or ammunition to the Crown was made as a result of a breach of safekeeping provisions in the Firearms Act. DPFEM obtained a continuing delegation from the Minister that all firearms and ammunition forfeited to the Crown for firearms offences or by court order be destroyed, unless:

- the firearm or ammunition is required by the Ballistics Library for evidentiary purposes
- an application is received from the owner for the return of a firearm or ammunition.

What does 'disposed' of mean?

The Firearms Act does not define what 'disposal' means. The Macquarie Dictionary defines disposal as 'the act of disposing of ', which means 'to get rid of '. The Firearms Act does not prevent the sale of firearms or ammunition if a magistrate, or in certain circumstances the Minister or the Commissioner, determines that it is an appropriate method of disposal. However, it is our view that the sale of surrendered or seized firearms and ammunition is not in keeping with the spirit of the Firearms Act and the prevention of violence and self-harm in general. We have therefore accepted the view that 'disposed of ', unless otherwise authorised, means physical destruction.

AUDIT OF COMPLIANCE WITH THE ACT

Audit objective

The objective of the audit was to provide independent assurance that the process of disposing of firearms and ammunition is managed in compliance with the Firearms Act.

Assessment of control framework

We found the actual processes and control activities leading to the disposal of firearms to be appropriate and based on our audit work we concluded the requirements of the Act in relation to the disposal of firearms were complied with.

As reported in the prior year, the practice of recording the quantity of ammunition for the period of this audit was inadequate for us to conclude on compliance with the Firearms Act in relation to the acquisition and/or disposal of ammunition. Controls over the practice of recording the quantity of ammunition were put in place effective from 1 January 2016 which will enable compliance with the Firearms Act.

Conclusion as to compliance with the Firearms Act

Based on the audit procedures performed, we concluded DPFEM complied with the requirements of the Firearms Act in relation to the disposal of firearms. In relation to ammunition, guidelines have been developed to ensure disposal is in compliance with the Firearms Act. However, at the time of the audit we were unable to conclude on DPFEM's statutory compliance for the disposal of ammunition, or on the implementation of the new guidelines, as no disposals had occurred.

Firearms destroyed in 2015–16 in comparison to prior years are detailed below:

Table 17: Firearms destroyed

	2015-16	2014-15	2013-14	2012-13
Number of firearms destroyed	2 497	1 761	2 319	1 543

APPENDIX 1 - 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 – Treasurer's Annual Financial Report, General Government Sector and Other State entities 2015-16

Volume 2 – Government Business 2015-16

Volume 3 – Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2015-16

Volume 4 – University and Other State Entities - 31 December 2016.

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.

FINANCIAL ANALYSIS

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Financial Performance		
Earnings Before Interest and Tax (EBIT)		Result from Ordinary Activities before Gross Interest Expense and Tax
EBITDA		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)		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 Management		
Asset consumption ratio	Between 40% and 60%	Depreciated replacement cost of asset (eg. infrastructure, roads, bridges) divided by current replacement cost of asset

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
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)		Total liquid assets less financial liabilities
Net financial liabilities ratio	0 – (50%)	Liquid assets less total financial liabilities divided by total operating income
Net working capital		Current assets less current liabilities
Returns to Government		
CSO funding		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

Financial Performance Indicator	Bench Mark[1]	Method of Calculation
Dividends paid or payable		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		Amount of guarantee fees paid to owners (usually Government)
Income tax paid		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 or total return to owners		Dividends plus Income Tax and Loan Guarantee fees
Other Information		
Average leave per FTE		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]		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		Capitalised employee costs
Employee costs expensed		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
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** – 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** – represents employee costs that have been capitalised rather than expensed.
- **Employee costs expensed** – 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 2 - 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 misstatements, 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 misstatements, 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 restatement of items in its financial statements, or when it reclassifies 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 misstatements 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 misstated 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 misstatements, 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 misstatements, 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 3 - 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
AFMA	Australian Financial Markets Association
AFS	Australian Financial Services
AMSA	Australian Maritime Safety Authority
ANAO	Australian National Audit Office
ANCS	Advanced Network Train Control System
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
BBSW	Bank Bill Swap
BER	Building the Education Revolution
BHF	Better Housing Futures
BLW	Ben Lomond Water
BSPVES	Bass Strait Passenger Vehicle Equalisation Scheme
CASA	Civil Aviation Safety Authority
CC&SB	Customer Care and Billing System
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CLAF	Crown Land Administration Fund
CLP	China Light and Power
CMW	Cradle Mountain Water
CPI	Consumer Price Index
CPOL	Cargo and Port Operational Logistics
CREST	Crown Land Administration System
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CSA	Credit Support Annexes
CSO	Community Service Obligation
Cth	Commonwealth
CVA	Credit Risk Valuation Adjustments
DBP	Defined Benefit Pension

DEDTA	Department of Economic Development, Tourism and the Arts
DEPHA	Department of Environment, Parks, Heritage and the Arts
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
DIISRTE	Department of Industry, Innovation, Science, Research and Tertiary Education
DOC	Document of Compliance
DoE	Department of Education
DoJ	Department of Justice
DORC	Depreciated Optimised Replacement Cost
DPAC	Department of Premier and Cabinet
DPFEM	Department of Police and Emergency Management
DPIPWE	Department of Primary Industries, Parks, Water and the Environment
DRC	Depreciated Replacement Cost
DTF	Department of Treasury and Finance
DVA	Department of Veterans Affairs
EBA	Enterprise Bargaining Agreement
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EEP	Environmental Energy Products
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
FPPF	Future Potential Production Forest
FPM	Financial Procedures Manual
FRFI	Forestry (Rebuilding the Forest Industry) Act 2014
FSC	Forest Stewardship Council
FSI	Forest Services International
FSST	Forensic Science Services Tasmania
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
HIAPL	Hobart International Airport Pty Ltd

HoA	House of Assembly
HR	Human Resources
IAASB	International Auditing and Assurance Standards Board
IMAS	Institute of Marine and Antarctic Studies
IPSASB	International Public Sector Accounting Standards Board
IRR	Inter Regional Revenues
ISM	International Safety Management
IST	Island Speciality Timbers
IT	Information Technology
KIPC	King Island Ports Corporation
KAM	Key Audit Matter
KMP	Key Management Personnel
KPI	Key Performance Indicators
KV	Kilovolt
LGAT	Local Government Association of Tasmania
LGH	Launceston General Hospital
LIST	Land Information System
LSL	Long Service Leave
MAIB	Motor Accidents Insurance Board
MAR	Maximum Allowable Revenue
MAST	Marina and Safety Tasmania
MIC	Member Investment Choice
MHS	Mental Health Services
MHS-N	Mental Health Services - North
MPDC	Macquarie Point Development Corporation
MWh	Megawatt Hour
NDRRA	Natural Disaster Relief and Recovery Arrangements
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company Limited
NGER	National Greenhouse and Energy Reporting
NMR	Notional Maximum Revenue
NRAS	National Rent Affordability Scheme
NTER	National Taxation Equivalent Regime
NWRH	North West Regional Hospital
OIS	Overnight Index Swap
OPWG	Optical Ground Wire
ORI	Office of Racing Integrity
OTTER	Office of the Tasmanian Economic Regulator
PA	Public Account
PAHSMA	Port Arthur Historic Site Management Authority
PAYG	Pay As You Go
PFC	Public Financial Corporation
PFT	Private Forests Tasmania

PIRP	Prison Infrastructure and Redevelopment Program
PNFC	Public Non-Financial Corporation
PNT	Pacific National Tasmania
POAGS	P&O Automotive and General Stevedoring Pty Ltd
PRBF	Parliamentary Retiring Benefits Fund
PSF	Parliamentary Superannuation Fund
PT	Public Trustee
PV	Photovoltaic
PWC	PriceWaterhouseCoopers
RAB	Regulated Asset Base
RBF	Retirement Benefits Fund
RBFB	Retirement Benefits Fund Board
REC	Renewable Energy Certificates
RFDS	Royal Flying Doctor Service
RHH	Royal Hobart Hospital
RIN	Regulatory Information Notices
RMBS	Residential Mortgage Backed Security
ROGS	Report on Government Services
RWSC	Rivers and Water Supply Commission
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
SLA	Service Level Agreement
SLIMS	Technology One Student Management System
SOC	State Owned Corporation
SPA	Superannuation Provision Account
SPFR	Specific Purpose Financial Reports
SW	Southern Water
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
TCF	Tasmanian Community Fund
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
TIDB	Tasmanian Irrigation Development Board Pty Ltd
TIS	Tasmanian Irrigation Schemes Pty Ltd
TMRN	Tasmanian Mobile Radio Network
TRB	Tasmanian Racing Board
TUOS	Transmission Use of System
TUU	Tasmanian University Union Incorporated
TVPS	Tamar Valley Power Station
TWSC	Tasmanian Water and Sewerage Corporation
UPF	Uniform Presentation Framework
Utas	University of Tasmania
VaR	Value at Risk
VET	Vocational Education and Training
VoIP	Voice over Internet Protocol
WACC	Weighted Average Cost of Capital
WHA	World Heritage Area
WIF	Water Infrastructure Fund
WIP	Work in Progress

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APPENDIX 4 - RECENT PUBLICATIONS

Tabled	No.	Title
2015		
July	No. 1 of 2015-16	Absenteeism in the State Service
August	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 – Audits of General's Report on the Financial Statements of State entities - Government Business 2014-15
November	No. 6 of 2015-16	Volume 3 – Local Government Authorities and Tasmanian Water and Sewerage Corporation Pty Ltd 2014-15
December	No. 7 of 2015-16	Volume 1 – Analysis of the Treasurer's Annual Financial Report 2014-15
2016		
February	No. 8 of 2015-16	Provision of social housing
February	No. 9 of 2014-15	Funding of Common Ground Tasmania
May	No. 10 of 2014-15	Volume 4 – State entities 30 June and 31 December 2015, findings relating to 2014-15 audits and other matters
June	No. 11 of 2014-15	Compliance with legislation
August	No. 1 of 2016-17	Ambulance emergency services
October	No. 2 of 2016-17	Workforce Planning
October	No. 3 of 2016-17	Annual Report
November	No. 4 of 2016-17	Event Funding
November	No. 5 of 2016-17	Park Management

Auditor-General's reports are available from the Tasmanian Audit Office. These and other published reports can be accessed via the Office's website: ***www.audit.tas.gov.au/publications.***

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Tasmanian Audit Office

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
Audit Office

Phone	(03) 6173 0900	**Address**	Level 8, 144 Macquarie Street, Hobart
Fax	(03) 6173 0999	**Postal Address**	GPO Box 851, Hobart 7001
email	admin@audit.tas.gov.au	**Office Hours**	9am to 5pm Monday to Friday
Web	www.audit.tas.gov.au		

Launceston Office

Phone	(03) 6173 0971	**Address**	2nd Floor, Henty House 1 Civic Square, Launceston