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12 March 2007

The Secretary
Senate Standing Finance and Public Administration
PO Box 6100
Parliament House
Canberra ACT 2600
(also e-mailed to statefinance.sen@aph.gov.au)

Dear Sir

SELECT COMMITTEE ON STATE GOVERNMENT FINANCIAL MANAGEMENT

Thank you for your letter dated 22 February 2008 inviting me to make a submission to the inquiry. I submit the following in relation to this invitation. My comments relate only to the situation in Tasmania.

a. Commonwealth funding to the states and territories – historic, current and projected

I have no comments to make.

b. The cash and fiscal budgetary positions of state and territory governments – historic, current and projected

Each financial year the Treasurer prepares two separate financial reports as follows:

- The Treasurer's Annual Financial Report which includes a consolidated financial report prepared under the Government Finance Statistics (GFS) basis of the financial results of the General Government Sector. This report is referred to as the Budget Outcomes Statements. Also included as a separate financial report is a cash based report referred to as the Public Account Statements. Both reports are audited by my Office.
- Consolidated Financial Statements for the State of Tasmania which are accrual based and prepared under Australian Accounting Standards including AAS 31 *Financial Reporting by Governments*.

In my reports to the Tasmanian Parliament following completion of my financial audit cycle I provide an analysis of each of the above financial reports. In recent reports I have concluded that the financial position of the State is sound although I have drawn attention to the need to manage the fact that staffing costs are increasing at rates higher than revenue growth. Copies of recent reports can be found at –

My Report No. 1 of 2007 which analyses the 2006 Consolidated Financial Statements for the State of Tasmania – see –
<http://www.audit.tas.gov.au/publications/reports/report1/index.html>
and

My Report No. 2 of 2007 which analyses the 2007 Budget Outcomes Statements and the Public Account Statements – see the Executive Summary at –
<http://www.audit.tas.gov.au/publications/reports/report2/index.html>.

c. The level of debt of state/territory government businesses and utilities – historic, current and projected

Levels of debt are commented upon in the reports referred to under (b) above. In addition, my No. 2 Report includes commentary on the financial performance of Government Businesses (in Tasmania this includes Government Business Enterprises (GBEs) established under the *Government Business Enterprises Act 1995* and State-owned Companies (SOCs) established under State legislation and the *Corporations Act 2000*. Details are in volume two of Report No. 2 – see <http://www.audit.tas.gov.au/publications/reports/report2/index.html>.

d. The level of borrowing by state/territory governments – historic, current and projected

See term of reference items (b) and (c) above.

e. An examination of state/territory net government debt and its projected level – historic, current and projected

See term of reference items (b) and (c) above.

f. The reasons for any government debt including an analysis of the level and efficiency of revenue and spending

See term of reference items (b) and (c) above.

g. The level of investment in infrastructure and state-owned utilities by state and territory governments

See terms of reference (c) above. Volume 2 of my Report No. 2 includes a chapter comparing the financial performance of Tasmania's three electricity utilities. See also my Report No 1 of 2007 referred to under (b) above which includes a chapter on each of the State's three water entities (which are part of local government) plus a chapter

assessing comparative performance.

h. The effect of dividends paid by state-owned utilities on their ability to invest

The reports to Parliament referred to above provide details of dividends paid in a section headed "Financial Analysis".

i. Present and future ownership structures of current and former state-owned utilities and the impact of ownership on investment capacity

In 2007 I supported, and contributed to, a review conducted by Tasmania's Department of Treasury and Finance into ownership and governance structures of GBEs and SOCs.

j. The effect of investment by state-owned utilities on Australia's capacity constraints

I have no comments to make.

Other matters

This opportunity is taken to raise one matter perhaps not specifically covered by the terms of reference.

Audit requirements as it relates to Special Purpose Payments by the Commonwealth to the States

Discussions with colleagues in other public sector Audit Offices inter-state and with the Department of Treasury and Finance in Finance in Tasmania confirm that the Commonwealth is reviewing arrangements relating to making Special Purpose Payments (SPPs) to the States and Territories. A component of this arrangement includes reporting by States and Territories on outcomes associated with/achieved by them as a result of receiving these SPPs.

In most but not all cases these agreements specify reporting and related audit requirements. In my view all such agreements should:

- Articulate clear reporting arrangements which should address, as a minimum, both inputs and outputs and where possible, outcomes
- Specify the form, content timing of reporting with the Head of the responsible Agency required to sign each report, and
- Require the relevant State Auditor-General to audit the report in a specified format within a specified time period.

In my view it would be advantageous to include Auditors-General in discussions on the content and timing of audit requirements prior to agreements being finalised.

Thank you again for the opportunity to comment.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'H M Blake', with a stylized flourish at the end.

H M Blake
AUDITOR-GENERAL