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PARLIAMENT OF TASMANIA

AUDITOR-GENERAL
SPECIAL REPORT No. 58

FBT, PAYMENT OF ACCOUNTS AND BRIDGES

October 2005

Presented to both Houses of Parliament in accordance with the provisions of Section 57 of the Financial Management and Audit Act 1990

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President

Legislative Council

HOBART

Speaker

House of Assembly

HOBART

Dear Mr President

Dear Mr Speaker

SPECIAL REPORT NO. 58

FBT, Payment of accounts and Bridges

This report has been prepared consequent to examinations conducted under section 44 of the *Financial Management and Audit Act 1990*, for submission to Parliament under the provisions of section 57 of the Act.

This report contains two compliance audits and one performance audit. Compliance audits assess how well public sector bodies comply with a selection of legal requirements, government policies, internal controls or central agency directives. Performance audits seek to provide Parliament with assessments of the effectiveness and efficiency of public sector programs and activities, thereby identifying opportunities for improved performance.

Yours sincerely

H M Blake

AUDITOR-GENERAL

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FOREWORD

This report contains one performance and two compliance audits conducted in 2005. The compliance audits concern the management of Fringe Benefit Tax (FBT) liabilities and payment of accounts in government agencies. The performance audit reviews the management of the State's bridge assets.

FBT legislation is complex and provides agencies with different options for calculating their liability. We reviewed compliance with FBT legislation to determine whether agencies were complying with legislative requirements whilst minimising their FBT liabilities to ensure that tax was not being over or underpaid. In general we found FBT was minimised and calculated correctly.

Government agencies spend millions of dollars purchasing goods and services. In 1998, we conducted an audit of payments of accounts in government agencies that found satisfactory processes were in place. After seven years, we decided it was appropriate to again review this important system. The audit examined whether agencies were complying with Treasurer's Instructions and their own internal policies. Compliance with such policies is essential if good management control is to be maintained. We found overall compliance with policies but made some recommendations where processes could be improved.

Bridges play a vital role in the State road network. The issues that are important to the community are:

- Access is unrestricted; and
- The bridge is safe to use.

Maintenance of bridges is critical to ensuring bridges operate at an appropriate service and safety level. This audit looked at the performance of the Department of Infrastructure, Energy and Resources in managing bridges and related maintenance. We concluded that the Department manages bridges to an appropriate service and safety level.

HM Blake

Auditor-General

October 2005

LIST OF ACRONYMS AND ABBREVIATIONS

Agencies	Collective term used in this Report to cover Government departments and other entities reviewed
ATO	Australian Taxation Office
Aurora	Aurora Energy Pty Ltd
BAMP	Bridge Asset Management Plan
DCC	Devonport City Council
DED	Department of Economic Development
DIER	Department of Infrastructure, Energy and Resources
DoE	Department of Education
DPIWE	Department of Primary Industries, Water and Environment
EFT	Electronic Fund Transfer
FBT	Fringe Benefits Tax
GST	Goods and Services Tax
IT Auditors	Information Technology Auditors
KPMG	Private accounting firm
LCC	Launceston City Council
MAIB	Motor Accidents Insurance Board
PoL	Port of Launceston Pty Ltd
SFC	State Fire Commission
Sorell	Sorell Council
TAO	Tasmanian Audit Office
TI 208	Treasurer's Instruction No. 208
TI 304	Treasurer's Instruction No. 304
TOTE	TOTE Tasmania Pty Ltd
Treasury	Department of Treasury and Finance

Executive summaries

EXECUTIVE SUMMARY – MANAGING FRINGE BENEFITS TAX LIABILITIES

Fringe Benefit Tax (FBT) is tax paid on those benefits provided in place of, or in addition to, salaries or wages of employees. Application of FBT law is complex and requires some of the larger agencies to commit considerable resources in order to comply.

There is an added complexity inasmuch as there are specific requirements relating to different categories of benefits and the employer is given some choice of method in calculating their FBT liability for certain benefits.

These complexities and the number of changes to legislation increase the risk of non-compliance. We examined six public sector bodies and assessed their compliance with legislative requirements.

AUDIT OPINION

Responsible staff were aware of FBT requirements and adequately trained

On the whole, we were satisfied that agencies were complying with Australian Taxation Office (ATO) requirements in respect of their FBT responsibilities. Relevant senior staff were aware of those requirements and regularly attended accredited training courses.

Adequate internal policies and procedures existed

There was a clear lack of documented policies and procedures in some agencies, particularly emphasising minimisation of liability. Instead, agencies relied on ATO and other professional guidelines for fulfilling FBT obligations. Inclusion of FBT requirements in Treasurer's Instructions would greatly assist agencies in meeting their FBT obligations.

There is room for improvement in record keeping. Specifically, agencies need to disseminate relevant information to operational staff to ensure that they are made aware of their responsibilities.

Correct calculation of FBT liability

In the main, agencies were calculating their FBT liabilities properly. Exceptions were however noted in calculating car parking fringe benefits. These related to incorrect application of the ATO's definition of what constitutes a 'commercial car parking station' and the conditions under which a car parking fringe benefit arises.

Errors of an immaterial nature relating to reporting and calculating meal entertainment and other expense fringe benefits could have been reduced through the maintenance of better records.

Agencies minimised FBT liability whilst still complying with ATO requirements

We concluded that the most appropriate methods of calculation were being used and that FBT liability was being minimised with some exceptions noted.

FBT Returns were submitted promptly

Only one agency failed to lodge a final return by the due date. Owing to inaccuracies, an amended return had to be submitted. At the time of finalising this Report, we were awaiting receipt of a copy of the amended return.

SUMMARY OF RECOMMENDATIONS

The following table reproduces the recommendations contained in the body of this report.

Rec No	Report section	Recommendation
1	1.1	**Agencies should retain adequate source documentation to ensure accurate preparation of the FBT return and to enable compliance with ATO requirements.**
2	1.2	**Agencies should maintain broad policies on FBT in line with ATO requirements. More detailed procedures should then be prepared and promulgated to all relevant staff to assist with accurate preparation of FBT returns. These procedures should address minimum documentation requirements.**
3	1.3.2	**Agencies should ensure that car parks used as the basis for calculating car parking fringe benefits actually conform to the ATO definition.**
4	1.3.4	**Agencies should ensure that all relevant expense fringe benefits are captured in their FBT calculations and that the 'otherwise deductible' rule be invoked to minimise liability.**
5	1.4	**Agencies should consider available alternative methods of calculating taxable value of fringe benefits to ensure that their FBT liability is minimised whilst still complying with ATO requirements.**

MANAGEMENT RESPONSE

Department of Infrastructure, Energy and Resources

The Special Report demonstrates the complexity of the Fringe Benefits Tax legislation and regulations. This complexity would make it difficult for employees who may infrequently undertake procurement that could be subject to FBT, to confidently choose the best alternative, which minimises FBT. For this reason the Department is developing awareness sessions for all staff who have a Corporate Credit Card or financial delegation or both to provide simplified FBT guidance. The awareness sessions will also encourage staff to seek advice before making the procurement decision. DIER is working with its FBT advisors to develop this simplified FBT guidance information.

DIER has undertaken extensive work with its FBT advisors to ensure that the FBT calculations in the Department's FBT return are appropriate and justifiable while minimising the FBT liability. DIER takes care to lodge accurate information with the ATO by the required dates. The Department uses the Otherwise Deductible rule where appropriate.

Before the audit was advised to DIER, discussion had already commenced with its advisors to review the Department's practices and recording processes to facilitate more regular reporting to managers. These revised practices will also facilitate easier calculation of the FBT liability using the alternative methods available so that DIER can minimise its annual FBT liability. There are sound business reasons for incurring expenditure on which FBT is payable, such as the attendance of staff at the annual WorkPlace Safe Awards. Consequently, the Department's aim is to legitimately minimise its FBT liability rather than seek to eliminate it entirely.

The findings of the Special Report indicate that DIER is managing its FBT responsibilities well and that there are no areas of FBT responsibility, not identified in conjunction with our advisors, which require attention.

Department of Primary Industries, Water and Environment

DPIWE introduced a comprehensive policy on FBT compliance in January 2005 and this has been made widely available to all staff via the Department's Intranet. In addition, information sessions on FBT compliance were conducted early in 2005 to all relevant staff members.

DPIWE moved to the 50/50 split method for calculating meal entertainment fringe benefits commencing with the 2004-05 FBT return. An analysis conducted of the prior three year's FBT returns indicated that this method would result in a cost saving, in addition to the reduced administrative effort required to prepare the FBT return.

Aurora Energy

Finance staff in the divisions have been instructed on the records that need to be kept and specific general ledger codes are used where appropriate to track expenses subject to FBT. Aurora has in place the necessary policies and procedures to comply with the law and to minimise the cost of FBT.

The 50/50 methodology for meal entertainment FBT is a practical method of assessing the liability. The higher value transactions were individually checked to ensure that they were valid meal entertainment and in all cases the 50/50 method gave a more favourable result than the expense payment method.

There are limited opportunities available to apply the "Otherwise Deductible" rule, however this has been applied where relevant.

State Fire Commission

Recommendations 1 and 2.

State Fire Commission (SFC) uses software developed by KPMG to determine its FBT liability and this software contains documentation summarising the FBT rules. The SFC also utilises KPMG to review its FBT return prior to lodgement. The SFC will however look to provide specific instructions and procedures in regard to FBT that will compliment the software developed by KPMG. There are very few SFC staff involved in calculating the FBT liability and they have been involved for a number of years. Their knowledge is considered adequate.

Recommendations 3, 4 and 5.

The SFC has reviewed its car parking fringe benefit and the use of the 50/50 rule for meal entertainment in order to minimise its FBT liability. Whilst the financial impact of the issues raised by your staff were considered small, the audit provided a useful catalyst for discussion on these matters, and as a result improvements to processes will be implemented.

Launceston City Council

Generally accept the comments and recommendations but would caution about creating too much of our own documentation due to the potential for it to become out-of-date as legislation changes.

Port of Launceston

There should be something in the report to acknowledge that in a smaller organisation there are not as many levels/less resources. As a result, the policies and procedures are not as comprehensive as for larger organisations as one person is doing most, if not all, of the work.

EXECUTIVE SUMMARY – PAYMENT OF ACCOUNTS IN GOVERNMENT AGENCIES

The Audit Office conducted a performance audit into payments of accounts in Government Agencies in 1998. With minor exceptions, Audit found that controls over the payment of accounts processes were satisfactory in the agencies reviewed.

Now, seven years after that previous audit we have undertaken a compliance audit to ensure that adequate controls are still being maintained.

In conducting this compliance audit our objective was to establish whether accounts payable processes within agencies were in accordance with TI 208 and/or agencies' own policies and instructions.

AUDIT OPINION

Where issued, agencies' in-house policies and procedures were consistent with TI 208.

However, our audit revealed a variety of instances of non-compliance and error rates. The most common problems that the audit revealed were:

- Lack of policies detailing account payment procedures;
- Inappropriate authorisation of accounts;
- Incorrect costing;
- Delayed payments; and
- Failure to take advantage of discounts offered.

Examples of non-compliance could be reduced by more rigorous and regular review combined with reinforcement of existing procedures.

We found some deficiencies relating to processing of electronic fund transfers (EFTs) and recommended means by which the integrity of processing could be enhanced.

We also recommended that management regularly review agency performance against payment terms with a view to continuous improvement.

SUMMARY OF RECOMMENDATIONS

The following table reproduces the recommendations contained in the body of this report.

Rec No	**Report section**	**Recommendation**
1	2.1	**Agencies should ensure that adequate policies and procedures, reflecting the principles of TI 208, are in place to manage accounts payable processes. These policies and procedures should be made available to all relevant staff.**
2	2.2.2	**Agencies should ensure that delegations for authorisation of expenditure specify monetary limits.**
3	2.2.2	**Agencies should consider the requirements of the *Electronic Transactions Act 2000* relating to e-mail authorisations and review existing policies to ensure proper payment approval processes are being applied.**
4	2.2.4	**Agencies should ensure that all offered discounts are realised in compliance with TI 208 and late payment fees avoided.**
5	2.2.6	**Agencies should ensure that password controls are strengthened to ensure that password changes occur regularly.**
6	2.2.6	**Agencies should ensure that they have adequate documentation relating to EFT processing to support staff in that function.**
7	2.2.6	**Agencies should ensure strict segregation of duties relating to creation of new creditors to prevent fraudulent payments being made.**
8	2.3	**Agencies should systematically review accounts payable procedures to ensure compliance with payment terms.**

MANAGEMENT RESPONSE

Department of Education

DoE is aware of the importance for agencies to have appropriate policies, procedures and controls around the payment of accounts and agrees with the recommendations you have outlined.

It is apparent that some of the 35 errors relating to payments not being made in accordance with payment terms outlined in the report were made in DoE. DoE Officers have analysed these payments and observed that the payments generally relate to decentralised organisational units located in various areas of the state. While it is DoE policy for all payments to be made by due dates, there are some occasions where invoices are slow to reach the central office accounts payable unit due to approval processes required. Importantly, no interest was paid by DoE in respect of these late payments.

The issue of segregation of duties involving the creation of new creditors in the accounts payable system is noted. Accordingly, DoE will consider further restricting authority within the financial management system and also establishing a specific report to ensure that the supervisor of the area approves all creditors created.

The report noted that there was not sufficient review of compliance of payment terms within DoE. It is DoE policy for all payments to be made in accordance with due dates and this is achieved in the vast majority of cases.

Department of Economic Development

The Department of Economic Development supports the recommendations stated in the report. However, in regard to section 2.2.6 Verifying integrity of EFT transactions, the report should reflect that the matter associated with the changing of passwords was only associated with Deskbank (Westpac's electronic banking software) and the deficiency was corrected immediately upon the department being made aware of the issue.

Tote Tasmania Pty Ltd

Adequacy of Policies and Procedures.

Management does in fact have documented procedures in relation to processing payments and authorisation matrices and other controls around invoice processing, all of which has resulted in an adequate system of control, as reported. The need for additional procedures will be reviewed.

Verifying Integrity of EFT Transactions.

Comment noted and agreed. Management has since amended the EFT system (CBA Diamond) to automate enforced password changes every 30 days.

Management Reviews.

Comment noted. Responsible General Manager completes ad hoc reviews of the Accounts Payable Listing as part of his review of reconciliations and this is considered an appropriate review of compliance with payment terms.

Sorell Council

We have reviewed the areas in the report relating to Sorell Council. We acknowledge your comments and advise that we will take appropriate action in these areas.

Devonport City Council

Adequacy of Agencies' Policies and Procedures.

It is acknowledged that more detailed written procedures may be beneficial and these will be improved over the next few months.

Accountability for Accounts Payable Transactions.

It is worth mentioning that no exceptions were noted for Devonport City Council in this area. There may be scope for improved efficiencies by increased use of EFT and this will be investigated.

Motor Accidents Insurance Board

So far as the MAIB is concerned, the report accurately reflects the policies and procedures in place and to that effect we note we could improve certain details in those policies.

EXECUTIVE SUMMARY – ASSET MANAGEMENT: BRIDGES

The Department of Infrastructure, Energy and Resources (DIER) is responsible for the management of the State's classified bridge and road assets. The bridge asset is valued at approximately $1.2 billion and is a vital component of the Tasmanian road network. We examined DIER's management strategies and maintenance issues to assess whether appropriate service levels and safety standards were maintained.

AUDIT OPINION

We found evidence of strategic planning that incorporated objectives and goals based on national standards for bridge maintenance.

DIER uses risk-based strategies to efficiently manage the bridge asset.

We found evidence that DIER satisfactorily develops and prioritises the bridge maintenance program.

However, achievement of the program has suffered from lack of resources in recent times that will need to be resolved to prevent excessive costs or safety issues eventuating.

SUMMARY OF RECOMMENDATIONS

The following table reproduces the recommendations contained in the body of this report.

Rec No	Report section	Recommendation
1	3.2.1	**DIER should ensure all bridges are inspected within the scheduled timeframe, or where appropriate amend inspection timeframes to more accurately reflect inspection needs.**
2	3.3.3.2	**DIER should ensure that the maintenance register is promptly updated with information about work performed.**

MANAGEMENT RESPONSE

Department of Infrastructure, Energy and Resources (DIER)

As an overall comment we are pleased that the audit has found that bridge maintenance policy and procedures operate at a high level and are achieving the outcomes set out in the Bridge and Road Asset Management Plan.

The low number of bridge inspection in 2003-04 has been addressed with the number of inspections increasing to 523 in 2004-05, and a further 500 are planned for 2005-06. Typically one-third of the bridge stock, or about 400 bridges, is inspected annually.

The inspection timeframes referred to in Recommendation 1 are based on factors such as bridge condition, age, load rating and location. Following a bridge inspection, consideration of these factors allows the inspector to set the next inspection date.

The first part of Recommendation 1 is being addressed by the increased inspection program referred to above while the second part of Recommendation 1 is already part of the operating procedures of the Roads and Public Transport Division.

DIER advises that regardless of economic growth, the required level of bridge maintenance funding will be increased in line with the Maintenance First Policy with other improvement works reducing in order to fund the maintenance increases. DIER remains committed to developing and delivering a bridge inspection and maintenance program which delivers the outcomes of an efficient and effective road network and unfettered accessibility across the road network for all legal vehicles as set out in the Bridge Asset Management Plan.

In relation to Recommendation 2, DIER has already commenced a process to review the mechanism for updating the maintenance register, principally from completion report data provided by contractors. The internal mechanisms to deliver this data from the contractor to the appropriate area of the Roads and Public Transport Division without excessive data handling, is part of that review.

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1 Managing Fringe Benefits Tax liabilities

1 MANAGING FRINGE BENEFITS TAX LIABILITIES

INTRODUCTION

The Commonwealth Government introduced Fringe Benefits Tax (FBT) on 1 July 1986 to 'improve the fairness of the taxation system'. It was designed to overcome perceived deficiencies in the income tax law that allowed non-salary benefits to be, in effect, a form of tax-free income. FBT ensures that tax is paid on those benefits provided in place of, or in addition to, salaries or wages of employees. The liability to pay FBT rests with employers. The rate of FBT is currently 48.5% of the value of the benefit provided.

In the State Service the kinds of benefits that attract an FBT liability include:

- Motor vehicles;
- Car parking;
- Living away from home allowance;
- Housing assistance;
- Assistance with board and lodging;
- Meal entertainment; and
- Other certain expenses incurred/re-imbursed.

The Australian Taxation Office (ATO) provides guidelines as to how the value of benefits is calculated for tax purposes. The introduction of GST has added an extra step in that the value of benefits needs to be grossed up depending on whether the employer is entitled to a GST input credit on the benefits supplied.

The FBT reporting year runs from 1 April until 31 March of the following year. Where an annual tax liability of more than $3 000 exists quarterly payments have to be remitted to the ATO.

As with other forms of taxation, penalties apply in relation to incorrect returns, late lodgement of returns and failure to lodge returns. A general interest charge is applied to all outstanding amounts of FBT, including instalments of FBT and understatements of FBT instalments. In addition, there are substantial penalties for underpayments of tax arising from false and misleading statements.

The FBT legislation was enacted in a package of four Acts that were passed by the Commonwealth Parliament in 1986:

- The *Fringe Benefits Tax Assessment Act 1986* establishes the rules for assessment and collection of the tax. The *Fringe Benefits Tax Assessment Act 1986* is quite separate from the *Income Tax Assessment Acts*;

- The *Fringe Benefits Tax Act 1986* imposes tax on the taxable value of the fringe benefits. Any change to the rate of tax is affected by amending this Act;
- The *Fringe Benefits Tax (Application to the Commonwealth) Act 1986* ensures that the FBT law applies also to Commonwealth Government authorities and departments; and
- The *Fringe Benefits Tax (Miscellaneous Provisions) Act 1986* amended the *Income Tax Assessment Act 1936* so that employees would not be liable for income tax on any fringe benefits received.

OBJECTIVE

The objective of the audit was to determine whether agencies were managing their payments to the lowest level while fully complying with FBT legislation. This was to ensure that tax was not being over- or underpaid and that adequate documentation existed to support payments remitted.

The audit reviewed whether:

- Staff were aware of FBT requirements (particularly where record keeping occurs in operational areas);
- Calculation of taxable values complied with ATO rules for the class of benefit;
- Tax records (registers, motor vehicle logs, declarations etc) were available to support calculations and payments;
- All liabilities had been captured; and
- FBT had been correctly included in employee group certificates.

There are instances where the employer can choose the method used to value the FBT taxable benefits, e.g.:

- Motor vehicles - operating cost or statutory formula;
- Entertainment – 50/50 or 12-week methods; and
- Car parking – choice of 5 methods.

Where choice is involved, it should be apparent that a comparison has been made and the cheaper option selected. Blanket application of one method can result in paying more tax than is necessary.

SCOPE

The scope of the audit focussed on FBT payments by six agencies, comprising two government departments, a state commission, two state-owned companies and a local government council, for the FBT reporting year ended 31 March 2004. The selection of these agencies provided a cross section of public sector operations and organisational size.

The agencies tested were:

- Department of Infrastructure, Energy and Resources (DIER);
- Department of Primary Industries, Water and Environment (DPIWE);
- Aurora Energy Pty Ltd (Aurora);
- The State Fire Commission (SFC);
- Launceston City Council (LCC); and
- Port of Launceston Pty Ltd (PoL).

CRITERIA

We applied the following audit criteria:

- Responsible staff were aware of FBT requirements and were adequately trained;
- Adequate internal policies and procedures existed;
- FBT liability was correctly calculated;
- Agencies minimised their FBT liability whilst still complying with ATO requirements; and
- FBT returns were submitted promptly.

AUDIT METHODOLOGY

The audit included review of:

- Agencies' policies and operating procedures in relation to capture and calculation of FBT liabilities;
- FBT record-keeping and selection of methods used to assess and compare taxable value of benefits; and
- Level of training and awareness of staff.

To determine whether the policies and guidelines applied by these agencies complied with ATO requirements, and to assist with our transaction testing, we obtained copies of these documents. In addition, we conducted interviews and discussions with key personnel responsible for the management and administration of FBT processes and carried out transaction testing to verify the accuracy of FBT calculations.

TIMING

Planning of the audit commenced in October 2004. The fieldwork was conducted from early March through to mid-May 2005. This Report was completed in July 2005.

ACKNOWLEDGEMENT

We acknowledge the assistance of the Office of the Auditor-General of Western Australia in providing information valuable to the planning and conduct of this audit.

RESOURCES

The total cost of the audit excluding report production costs was approximately $70 000.

1.1 RESPONSIBLE STAFF WERE AWARE OF FBT REQUIREMENTS

All agencies were able to demonstrate that senior finance staff responsible for FBT were familiar with the ATO's requirements and that they attended accredited training courses on a regular basis. There was evidence, however, that staff at the operational level were often not as well versed with FBT obligations resulting in inadequate information on source documentation. This made it difficult for finance staff to accurately determine the true extent of FBT liability, particularly relating to meal entertainment and other expense payments.

Recommendation 1

Agencies should retain adequate source documentation to ensure accurate preparation of the FBT return and to enable compliance with ATO requirements.

1.2 ADEQUATE POLICIES AND PROCEDURES

Application of FBT law is complex and requires some of the larger agencies to commit considerable resources in order to comply. The level of complexity and the amount of resources needed to administer FBT largely depends upon the range of fringe benefits being supplied and the number of people being provided with them.

There is an added complexity inasmuch as there are specific requirements relating to different categories of benefits and the employer is given some choice of method in calculating their FBT liability for certain benefits.

There have also been a number of changes to FBT law since its inception.

These complexities and the number of changes to legislation increase the risk of non-compliance.

Only two of the six agencies had comprehensive in-house policies and procedures in place at the time of our review. At Aurora, in-house policies and procedures were well documented and promulgated to staff via intranet and emails.

At LCC, procedures for identifying and processing FBT also appeared well documented. However, there were no formal procedures to ensure staff complete the documentation required for processing the information.

The other agencies relied upon ATO documentation and general guidelines but did not have their own policies and procedures documented. SFC has advised us that preparation of in-house policies and procedures was being considered.

Finding

The implementation by agencies of appropriate policies and procedures covering FBT requirements is considered to be a significant aid to compliance. The inclusion by Treasury of FBT in TI 304 *"Taxation Management Framework"* since the audit fieldwork was completed should further enhance compliance by government departments.

Recommendation 2

Agencies should maintain broad policies on FBT in line with ATO requirements. More detailed procedures should then be prepared and promulgated to all relevant staff to assist with accurate preparation of FBT returns. These procedures should address minimum documentation requirements.

1.3 FBT LIABILITY WAS CORRECTLY CALCULATED

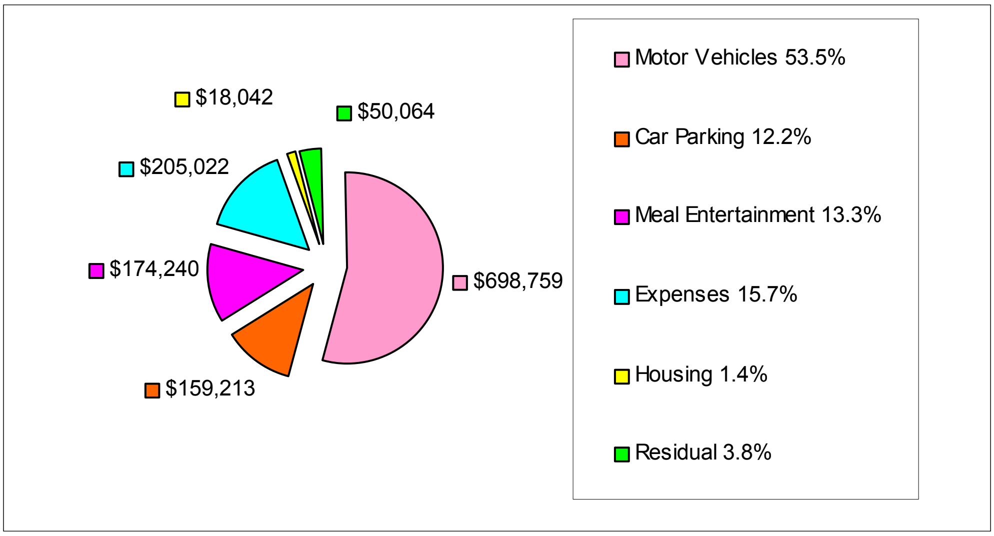
In the conduct of our audit we considered those categories of FBT liability applicable to most agencies and re-tested them to ascertain whether the tax liability had been correctly calculated. The fringe benefit categories tested were:

- Motor vehicles;
- Car parking;
- Meal entertainment;
- Reimbursement of expense payments; and
- Residual and Housing benefits.

We also examined reportable fringe benefits.

The combined FBT liability for the year under review for the six agencies amounted to $1.305m as depicted in Figure 1.

Figure 1: Fringe Benefits Tax Payable by Category



1.3.1 Motor Vehicles

Of the total FBT paid, the liability arising from the provision of car fringe benefits was the most significant at $0.699m, representing approximately 54% of the total sum.

Car fringe benefits arise when a car held by an employer, whether owned or leased, is made available for the private use of employees. A car is deemed to be made available for private use by an employee on any day when:

- It is actually used for private purposes by the employee or associate; or
- The car is not at the employer's premises, and the employee is permitted to use it for private purposes.

ATO permits calculation of car fringe benefits liability by either of two methods; operating cost or statutory formula. The operating cost method requires the taxable value of the car fringe benefit to be calculated as a percentage of the total costs of operating a car during the FBT year. On the other hand, the statutory formula method enables the car fringe benefit to be calculated as a percentage of the car's value. ATO stipulates that the statutory formula method must be used unless the employer elects to use the operating cost method. The choice should be based on whichever method yields the lower taxable value for each car fringe benefit.

Finding

Our testing indicated that, except for minor discrepancies, FBT liability for motor vehicles was being correctly calculated and was supported by adequate documentation. We also found agencies had used both methods in calculating liability thereby ensuring that FBT liability was minimised.

1.3.2 Car Parking

The provision of car parking for staff represents approximately 12% of the total FBT liability among the agencies reviewed.

The conditions that give rise to a car parking benefit are precisely outlined by the ATO, all of which must be met for a fringe benefit to arise. Two of the agencies, PoL and LCC, did not meet all the conditions and did not therefore incur an FBT liability. The other agencies reviewed met all of the conditions and hence incurred car-parking liability.

ATO prescribes five methods by which taxable value may be calculated to establish the value of a car parking fringe benefit. All of the agencies that incurred liability adopted the statutory formula method.

Inherent in the legislation is the requirement that a car parking benefit arises if, *inter alia,* there is a commercial car parking station within a one-kilometre radius which charges more than the ATO's $6.16 per day threshold (for the year under review). Where a number of car parking stations exist within the one-kilometre radius, employers may opt for the lowest rate charged as the basis for their calculation of the car parking fringe benefit provided.

The ATO defines a commercial parking station as:

> "… one that charges a fee for all day parking, is permanent, and is commercial (that is, it operates with a view to making a profit)".

We were of the view that the car parks used by three of the agencies for calculating the value of the car parking fringe benefits did not conform to this definition. However, we considered that this was a matter for the agencies to determine.

On the other hand, another agency overstated its liability by incorrectly including car parking for staff when no actual liability existed. The car park did not meet all of the ATO conditions and thus no car-parking fringe benefit existed. The FBT liability was overstated by that Agency by approximately $5 200.

Finding

Whilst all agencies with car parking fringe benefits incurred a liability, it is possible that the actual amounts may not have been accurately determined in some instances. Agencies need to ensure that they fully understand and comply with the ATO's requirements relating to what constitutes a 'commercial parking station'.

We concluded that FBT liability for car parking may have been understated in total by approximately $38 000.

Recommendation 3

Agencies should ensure that car parks used as the basis for calculating car parking fringe benefits actually conform to the ATO definition.

1.3.3 Meal Entertainment

The provision of meal entertainment for staff is another significant FBT category accounting for approximately 13% of the total.

The provision of meal entertainment is defined by the ATO as meaning the provision of:

- Entertainment by way of food, drink or recreation, or
- Accommodation or travel in connection with, or to facilitate the provision of, such entertainment.

This is an especially complex area and meal entertainment liability was the most difficult FBT category for agencies to manage. This was due primarily to the intricacy of ATO guidelines and the requirement for agencies to maintain detailed tax records.

ATO permits the calculation of meal entertainment fringe benefits by two methods; the 50/50 split or the 12-week register method. Both are based on the employer's total meal entertainment expenditure. Included in the employer's total meal entertainment expenditure is expenditure that might otherwise be exempt from, or not normally subject to, FBT.

Aurora was the only agency to use the 50/50 split method and from our testing the liability was accurately calculated. We were unable, however, to determine whether this method actually produced a lower liability as insufficient records were maintained to enable a comparison to be made.

None of the other agencies elected to use either of these two methods. Instead, they treated meal entertainment as either expense payment fringe benefits or tax-exempt body entertainment fringe benefits. Minor errors were found in respect of the FBT liability calculations in each of these agencies. Testing was hampered by a common lack of documentation due mainly to insufficient details being maintained by agencies at the operational level.

Finding

Implementation by agencies of well documented policies and procedures promulgated to staff at the operational level (see Recommendation 2) would enhance the recording process and facilitate accurate preparation of FBT records.

1.3.4 Reimbursement of Expense Payments

Reimbursement of expenses to staff represents almost 16% of all FBT liabilities.

Expense payment fringe benefits may arise when an employer pays for or reimburses an expense incurred by an employee. When calculating the value of expense payment fringe benefits, consideration must be given as to whether payments are subject to the 'otherwise deductible' rule. Broadly, this means that the taxable value of a benefit may be reduced by the amount to which an employee would have been entitled to claim an income tax deduction in his/her personal tax return if the benefit was not paid for, reimbursed or provided by the employer. Two examples in the samples tested were reimbursement of telephone calls and payment of gym membership fees.

Audit testing revealed that the 'otherwise deductible' rule was not being applied by all agencies with the result that FBT liability might have been overstated. However, any overstatement was not considered to be material in value.

Testing carried out on other expense payment fringe benefits revealed some minor errors in calculation attributable chiefly to the lack of adequate documentation referred to previously.

We noted that some expense payments of a minor nature were omitted from the initial FBT return submitted by one agency. Our enquiries indicated that these had been corrected in an amended return that was not tested by Audit. Despite requests, the amended return was not provided for audit review.

Finding

Agencies need to take extra care to ensure that all relevant expense payments are appropriately captured in their FBT calculations and that the 'otherwise deductible' rule be invoked as required to minimise liability.

Recommendation 4

Agencies should ensure that all relevant expense fringe benefits are captured in their FBT calculations and that the 'otherwise deductible' rule be invoked to minimise liability.

1.3.5 Residual and Housing Fringe Benefits

At approximately 5%, residual fringe benefits and housing fringe benefits represent the smallest components of the total tested.

Housing fringe benefits may arise when an employer provides rental accommodation rent-free, or at a reduced rate, to an employee where that accommodation is the employee's usual place of residence. Only one of the agencies tested provided this benefit.

A residual fringe benefit may arise when employees are provided with any right, such as privilege, service or facility, which is not one of the specific types of fringe benefits recognized by the ATO. In the sample tested, only one agency provided residual fringe benefits. Those benefits related to payments to employees in recognition of outstanding service.

Finding

Testing of housing benefits revealed that FBT liability was accurately calculated.

However, payments to employees in recognition of service are more appropriately subject to PAYG, therefore their inclusion in FBT calculations was incorrect and liability was overstated by the agency concerned by around $10 000.

1.3.6 Reportable Fringe Benefits

ATO requires that any employer providing fringe benefits with a total taxable value of more than $1 000 in any FBT year to an employee must record the grossed-up taxable value of the benefits on the employee's payment summary (i.e. group certificate) for the corresponding income year.

The amounts reported on the payment summary are not included in employees' assessable income and do not affect the amount of standard Medicare levy payable. However, they are included in various income tests administered by the Federal Government in providing certain benefits and obligations. Included in this category are child support payments, superannuation co-contribution, superannuation surcharge, termination payments surcharge and entitlements to other income-tested Government benefits.

Finding

Testing of reportable fringe benefits revealed that these were appropriately included on employees' payment summaries.

1.4 AGENCIES MINIMISE THEIR FBT LIABILITY

To confirm whether agencies had minimised their FBT liability - whilst still complying with ATO requirements - we re-tested liabilities calculated by them where alternative methods are available, so as to determine whether the lowest liability was achieved.

For example, the statutory formula method for calculating car parking fringe benefits is less onerous than the other methods. However, it may not be the most appropriate where there are large car pools or where parking benefits are provided to employees not attending their place of work on a regular daily basis. Similarly, the treatment of meal entertainment as an expense payment fringe benefit and not adopting either the 12-week register or the 50/50 split method may result in agencies overstating FBT liabilities.

Finding

We concluded that the most appropriate methods of calculation were being used and that FBT liability was being minimised with the following exceptions:

- An overstatement of car parking fringe benefits liability by one agency owing to incorrectly including liability in respect of car parking;
- Payments properly subject to PAYG incorrectly treated by another agency as FBT; and
- The use of alternate methods for calculating meal entertainment expenses may have resulted in less liability being incurred.

Unfortunately, there was insufficient documentation available in some instances to reliably determine whether liabilities had actually been minimized. For example, an election to use the 50/50 method for calculating the value of meal entertainment may have reduced liability for some agencies.

Recommendation 5

Agencies should consider available alternative methods of calculating taxable value of fringe benefits to ensure that their FBT liability is minimised whilst still complying with ATO requirements.

1.5 PROMPT SUBMISSION OF FBT RETURNS

We finalised this audit with a review of agencies' timeliness in respect of lodgement of FBT returns.

The due date for lodgement of the final return for the 2004 FBT year was 21 May 2004.

Only one agency failed to lodge a final return by the due date. Owing to inaccuracies, an amended return had to be submitted. At the time of finalising this Report, we were awaiting receipt of a copy of that return.

1.6 CONCLUSION

On the whole, we were satisfied that agencies were complying with ATO requirements in respect of their FBT responsibilities. Relevant senior staff were aware of those requirements and regularly attended accredited training courses.

There was a clear lack of documented policies and procedures in some agencies, particularly emphasising minimisation of liability. Instead, agencies relied on ATO and other professional guidelines for fulfilling FBT obligations. Inclusion of FBT requirements in Treasurer's

Instructions should greatly assist agencies in meeting their FBT obligations.

There is room for improvement in record keeping. Specifically, agencies need to disseminate relevant information to operational staff to ensure that they are made aware of their responsibilities.

The most significant errors in calculating FBT liability were found in car parking fringe benefits. These related to incorrect application of the ATO's definition of what constitutes a 'commercial car parking station' and the conditions under which a car parking fringe benefit arises.

Finally, errors of an immaterial nature relating to reporting and calculating meal entertainment and other expense fringe benefits could have been reduced through the maintenance of better records.

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2 Payment of accounts in government agencies

2 PAYMENT OF ACCOUNTS IN GOVERNMENT AGENCIES

INTRODUCTION

The late 1990s was a time of broad reform in the public sector that aimed to improve efficiency, effectiveness and economy. The Department of Treasury and Finance (Treasury) had initiated a program of de-centralisation and delegation that saw agencies implementing their own financial management systems. The reforms, that also involved re-engineering of departmental account paying processes, were aided by the increased use of technology such as electronic fund transfers (EFTs) in daily operations.

The Audit Office conducted a performance audit into payments of accounts in Government Agencies in 1998 that culminated in Special Report No. 28 *Payment of Accounts in Government Agencies* tabled in Parliament in November 1998. With minor exceptions, Audit found that controls over the payment of accounts processes were satisfactory in the agencies reviewed.

Now, seven years after that previous audit we have undertaken a compliance audit to ensure that adequate controls are still being maintained.

Treasurer's Instruction No. 208 (titled *Cash Management*, issued in May 1997 and reviewed in January 2004) provides that the Head of Agency shall ensure that the agency applies the following practices in the payment of accounts:

- Where term or cash discounts are available from a supplier, and a net advantage exists, payment must be made within the required time so that the discount can be claimed;
- Notwithstanding the fact that benefits may accrue by delaying the payment of outstanding accounts, payment is always to be made in accordance with agreed terms and by the due date. Where discounts are not available, payments must only be made when due. A standard "terms of trade" does not apply to Government purchases; and
- Where no term has been specified, the account should generally be paid within 30 days.

OBJECTIVE

In conducting this compliance audit our objective was to establish whether accounts payable processes within agencies were in accordance with TI 208 and/or agencies' own policies and instructions.

SCOPE

The audit examined processes within each selected agency and transaction testing covering the six-month period from 1 July to 31 December 2004. Specifically, the agencies that we audited were:

- Department of Education (DoE);
- Department of Economic Development (DED);
- Tote Tasmania Pty Ltd (Tote);
- Sorell Council (Sorell);
- Devonport City Council (DCC); and
- Motor Accidents Insurance Board (MAIB).

CRITERIA

We applied the following audit criteria:

- Adequacy of documentation to support payments;
- Appropriate authorisation and verification procedures;
- Time elapsed between invoice date/receipt of goods and date of payment;
- Whether discounts offered have been realised;
- Agreed payment terms have been met; and
- Ensure integrity of EFTs.

AUDIT METHODOLOGY

To determine whether agencies' policies and guidelines complied with TI 208, we obtained copies of these documents from our clients. We conducted interviews and discussions with key personnel responsible for the management and administration of account payment processes and carried out transaction testing. Our IT auditors also reviewed the integrity of controls over EFT and electronic banking procedures.

TIMING

Planning of the audit commenced in November 2004. The fieldwork was conducted from early January through to mid-March 2005. This Report was completed in July 2005.

RESOURCES

The total cost of the audit excluding report production costs was approximately $57 200.

COMPLIANCE WITH TREASURER'S INSTRUCTION 208

2.1 ADEQUACY OF AGENCIES' POLICIES AND PROCEDURES

All government departments are required to comply with TI 208. Other public sector entities[1] may fall outside the ambit of TI 208, however all should develop their own policies and procedures governing the management and processing of account payments.

DoE, DED and MAIB had in-house policies and procedures at the time of our review, none of which conflicted with TI 208. With the exception of DoE these policies lacked detail relating to payment terms.

Tote advised us of their requirements that all invoices must be certified that goods and/or services have been received, that approving officers have the appropriate delegated authority and that all payments are settled within 30 days. Whilst it is acknowledged that Tote has detailed written procedures on account payment procedures, there is no reference to these requirements. Tote has subsequently advised us that their written procedures will be amended to include these obligations.

The other Agencies (Sorell Council and DCC) relied upon generally accepted commercial practices but did not have their own documented policies and procedures. Examples of the checks undertaken by these agencies included:

- Certification that the goods had been received;
- Confirming that the invoice agreed with the order;
- Ensuring extensions on the invoice were correct; and
- Verifying that agreed terms and conditions had been met.

Sorell Council has subsequently implemented its own policy and documented the relevant procedures.

We considered that all entities had adequate systems of control, although not all had documented procedures. Those agencies without policies could further enhance control by introducing written guidelines.

[1] This term includes government business enterprises, state-owned corporations, statutory authorities, or public bodies.

Recommendation 1

Agencies should ensure that adequate policies and procedures, reflecting the principles of TI 208, are in place to manage accounts payable processes. These policies and procedures should be made available to all relevant staff.

2.2 ACCOUNTABILITY FOR ACCOUNTS PAYABLE TRANSACTIONS

To confirm the adequacy of controls on account payment processes we tested to ensure that:

- Payments were supported by documentation;
- Expenditure was appropriately authorised;
- All transactions were correctly costed;
- Payment terms were met; and
- Discounts offered were taken up.

From a total sample of 301 transactions tested, we found 45 errors representing 14.95% of the sample. Thirty-five of these errors related to payments not being made in accordance with payment terms. Other errors included:

- Three were not appropriately authorised;
- Four were incorrectly costed;
- Two did not take advantage of discounts offered; and
- One incurred a late payment penalty.

2.2.1 Payments supported by documentation

All payments that we tested were adequately supported by invoices or other relevant documentation.

2.2.2 Appropriate authorisation

Proper authorisation and approval of payments is a requirement of TI 208 as well as a fundamental control for sound cash management.

Sorell Council did not have any documented delegations in place at time of audit. These have since been introduced, however, there are no monetary limits assigned to delegates. Instead, management relies upon delegates to authorise payments within the limits of the current budget allocations. We consider controls could be enhanced by establishing expenditure delegation limits.

Recommendation 2

Agencies should ensure that delegations for authorisation of expenditure specify monetary limits.

Two of the three payments reported above as not appropriately authorised were authorised by e-mail. Neither clearly showed the reason for the payment or the position held by the authorising officer.

As authority to authorise payments is delegated to positions, each payment authorisation should include the position and name of the authorising officer. The reason for the payment and the amount authorised should be obvious from the documentation. The authorisation can then be linked with the position and the appropriateness of the payment assessed against the delegated limit. In the two instances above there was no other documentation to support the requests for payment.

The use of e-mails to authorise expenditure is covered by the *Electronic Transactions Act 2000* and it is imperative that the requirements of that Act are complied with by Agencies when using e-mail for authorising expenditure.

Recommendation 3

Agencies should consider the requirements of the *Electronic Transactions Act 2000* relating to e-mail authorisations and review existing policies to ensure proper payment approval processes are being applied.

2.2.3 Payment terms

Of the 35 payments referred to above as not having been made in accordance with payment terms, 13 related to trading terms between 7 and 14 days. To comply with these terms, agencies may need to review their payment systems if the capacity to meet them does not presently exist. Agencies should also ensure that these terms were an agreed arrangement with the supplier prior to purchase otherwise 30-day terms should apply. Of the remaining 22 payments, 12 were made in excess of 40 days from invoice date, including two in excess of 50 days and two after 60 days. Whilst we received no satisfactory explanations regarding these delayed payments in a number of cases, it is acknowledged that delays can occur in larger decentralized agencies such as DoE.

2.2.4 Discounts offered and late payment penalties

The discounts foregone and the late payment penalty were of immaterial value. However in the latter case, the trader’s third overdue notice threatened the Agency with suspension of service. Agencies should be more aggressive in exercising their payment processes so as to ensure offered discounts are realised and that late payment fees are avoided.

Recommendation 4

Agencies should ensure that all offered discounts are realised in compliance with TI 208 and late payment fees avoided.

2.2.5 Classification of expenditure

Miscoding of payments can result in inaccurate reporting of financial data and may undermine decisions made on the basis of inaccurate information.

2.2.6 Verifying integrity of EFT transactions

With the exception of DCC, all the Agencies used EFT processes for the payment of accounts. However, MAIB was the only one where we considered EFT procedures to be acceptable. To enhance integrity of processing we raised three recommendations (numbers 5,6 and 7) that are detailed below.

At DED, Tote and Sorell Council there was a lack of evidence relating to regular change of passwords of staff responsible for EFT related transactions. In the interest of better security, passwords should be changed at prescribed intervals and policies should be implemented or reviewed to ensure that this actually happens.

This measure, which will enhance integrity of transaction processing, should apply equally to Deskbank access as well as to other systems.

Recommendation 5

Agencies should ensure that password controls are strengthened to ensure that password changes occur regularly.

Also, Sorell Council lacked written procedures for EFT transaction processing. There was reliance on staff expertise but in the event of turnover it is likely that corporate knowledge would be lost. A manual would ensure a framework for clearly articulated and consistent processes.

Recommendation 6

Agencies should ensure that they have adequate documentation relating to EFT processing to support staff in that function.

In DoE we noted a lack of segregation of duties relating to the creation of new creditors in the accounts payable system. We were advised that any user within the area concerned had the ability to create new creditors without authorisation from a second staff member. We were concerned that the weakening of this important control could enable the establishment of false creditors for the purpose of making fraudulent payments.

> **Recommendation 7**
>
> **Agencies should ensure strict segregation of duties relating to creation of new creditors to prevent fraudulent payments being made.**

2.3 MANAGEMENT REVIEW

We ascertained the extent to which management reviewed and evaluated the payment of accounts function. In particular, we placed emphasis on managements' checking of adherence to payment terms.

At all agencies, we found adequate control over certification and authorisation processes. With regard to confirming that payment was made within the specified terms of trade the situation was less certain. Our testing found that there was not sufficient regular review of compliance with payment terms at DoE, Tote and Sorell Council.

> **Recommendation 8**
>
> **Agencies should systematically review accounts payable procedures to ensure compliance with payment terms.**

2.4 CONCLUSION

Where issued, agencies' in-house policies and procedures were consistent with TI 208.

However, our audit revealed a variety of instances of non-compliance and error rates. The most common problems that the audit revealed were:

- Lack of policies detailing account payment procedures;
- Inappropriate authorisation of accounts;
- Incorrect costing;
- Delayed payments; and
- Failure to take advantage of discounts offered.

Examples of non-compliance could be reduced by more rigorous and regular review combined with reinforcement of existing procedures.

We found some deficiencies relating to processing of EFTs and recommended means by which the integrity of processing could be enhanced.

We also recommended that management regularly review agency performance against payment terms with a view to continuous improvement.

3 Asset Management: Bridges

3 ASSET MANAGEMENT: BRIDGES

INTRODUCTION

The Department of Infrastructure, Energy and Resources (DIER) is responsible for the management of the State's classified bridge and road assets. The bridge asset, which is the focus of this audit, is valued at approximately $1.2 billion and consists of:

- 815 bridges;
- 445 major culverts and underpasses; and
- 25 miscellaneous retaining wall and overhead sign gantry structures.

Throughout this report the term bridges will be used to refer to the abovementioned assets. Approximately 17% of Tasmania's bridges (212 structures) serve the Auslink National Network and are funded by the Commonwealth. DIER manages all bridges on State roads along with some specific bridges, such as those at Richmond and Ross that are considered important Tasmanian historic assets.

DIER has assessed the current condition of Tasmania's bridges as follows:

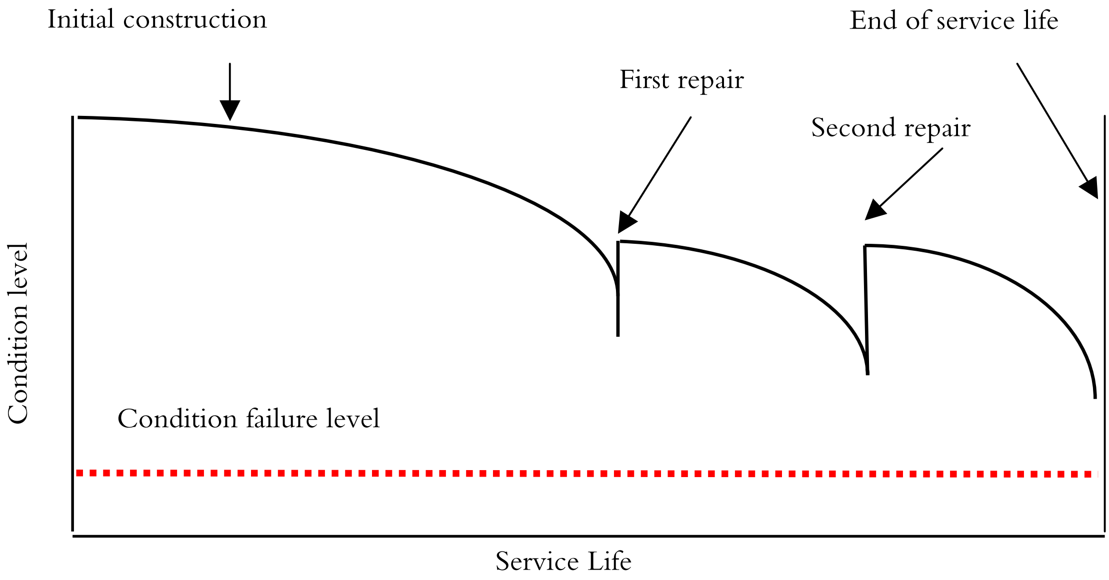
- Bridges serving National Route – 'good to very good'; and
- Bridges serving State roads – 'fair to good'.

The Bridge Asset Management Plan (BAMP) differentiates between life cycle and service life in the following way:

> 'Life cycle for a structure is that sequence of required activities and outcomes, that enable functionality across the service life and which lead to renewal or decommissioning; and
>
> The service life of a structure is that time period from construction to replacement and may or may not be equal to the design life.'

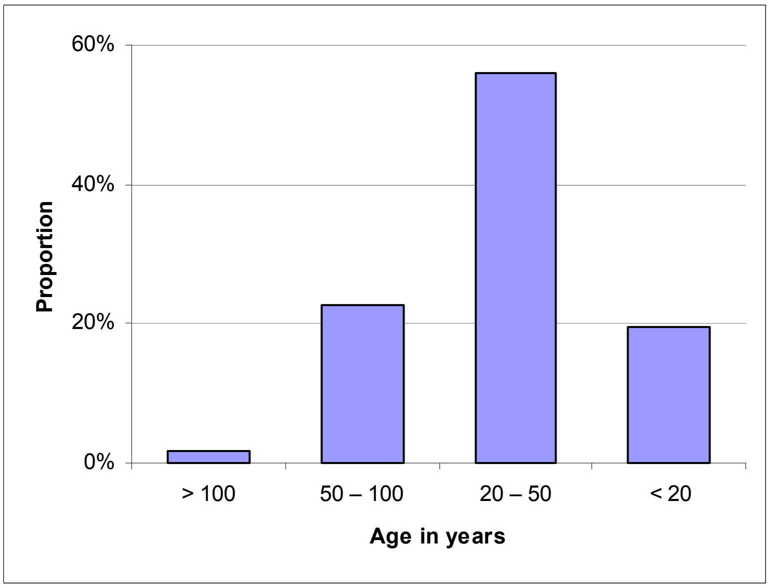
Figure 2 illustrates the concept of service life.

Figure 2: Simplified Bridge Deterioration Model



The age profile of the bridges for which DIER is responsible is illustrated in Figure 3.

Figure 3: Age Profile of DIER Bridges



Approx 270 bridges were built before 1955 and, on an age and condition basis, a considerable number will need replacement within the next 20 years.

OBJECTIVE

The audit objectives were to:

- Examine the effectiveness and efficiency of the management of the State's classified bridge assets; and
- Assess whether management had set appropriate objectives, standards, strategies and performance measures.

SCOPE

The audit was limited to those bridge assets that are managed by DIER. Smaller structures controlled by local government did not form part of the audit.

CRITERIA

The audit criteria are as follows:

- Were there clear objectives, strategies and performance measures?
- Is there evidence of a risk-based approach in managing the bridge asset?
- Was maintenance managed effectively?

AUDIT METHODOLOGY

The audit opinion was formed as a result of:

- Discussions with managers and line staff;
- Examination of relevant policies, plans, reports, and working papers, and
- Analysis of inspection data.

TIMING

Planning of the audit commenced in April 2005. The fieldwork was conducted from May 2005 through to June 2005. This Report was completed in July 2005.

RESOURCES

The total cost of the audit excluding report production costs was approximately $29 500.

3.1 CLEAR OBJECTIVES, STRATEGIES AND STANDARDS

We considered whether an effective strategic management framework existed.

In forming an opinion we looked at the existence of appropriate:

- Standards; and
- Strategic plan, goals and objectives.

3.1.1 Standards

Industry standards that apply to bridge design, construction and maintenance are determined by contemporary civil engineering practices. In addition, a national working group (AustRoads) provides guidance, advice and standards.

Bridge management policy

DIER's bridge management policy has an integrated approach that connects design, maintenance, risk assessment and levels of service. This integration aims to achieve an equitable, safe and environmentally compatible transport system. We found that the policy was formed by industry standards and the AustRoads guidelines and standards.

Standards have been established against levels of service for bridges. Examples are given in Table 1.

Table 1: Assessment of Bridges

Subject	Level of service	Standards
Heavy vehicle movements	Unimpeded movement	Existing bridges are competent for higher mass limit vehicles and B-doubles up to 68 tonnes.
General traffic	Unimpeded movement	Bridges are able to satisfy clearance requirements.
Safety	Minimise risk and severity of accidents	Bridges are structurally sound for the loads to be carried.
Life-cycle management	Maintain full functionality at minimum cost	Levels of service are not compromised.

We were satisfied that DIER has incorporated applicable standards in its Bridge Management Policy.

3.1.2 Strategic plan, goals and objectives

The importance of bridges has been recognised by the Tasmania Together project, which includes the objective to:

> 'Enhance Tasmania's development, lifestyle and community well-being through an effective, efficient and sustainable transport system.'

DIER's objective, as contained in its strategic planning document, *Strategic Directions 2000-2003 – "The Will and The Way"*, is to:

- Support the existing commercial and social structure; and
- Facilitate new development that will enable Tasmania to prosper.

At the time of our audit, DIER was developing a new strategic plan, which was to be its primary planning document. Supporting the strategic plan were the Bridge and Road Asset Management Plans.

3.1.2.1 Objectives in the Bridge Asset Management Plan (BAMP)

The aims for bridges blend with those for road infrastructure because they are integrally linked in the transport network. Amongst the aims expressed in the BAMP are that the State should have:

- An efficient and effective network; and
- Unfettered accessibility across the road asset for all legal vehicles.

In other words, the goal of BAMP is that there should be no hold-ups for road traffic because of an under-performing bridge asset.

3.1.2.2 Funding and strategies in the BAMP

Investment priorities for funding of bridge maintenance are based on:

- The road hierarchy (major highways, regional access roads, etc);
- Freight demands;
- Tourism and local traffic demands; and
- Bridge inspections and condition assessments.

Any load-limited bridge that serves an important commercial route is improved as a high priority, thus minimising any adverse commercial impact.

The BAMP contains detailed twenty-year cost projections for the maintenance of the six major bridges in the State, including the Tasman, Bowen and Batman bridges. Expenditure on the major bridges comprises approximately 35% of maintenance funding.

DIER indicated that there is a capacity for the plan to be flexible to meet emerging government priorities, such as a new pulp mill.

We were satisfied that DIER has a sound strategic planning process.

3.2 RISK-BASED ASSESSMENT OF BRIDGES

We considered whether DIER used a risk-based methodology to assess the condition of bridges.

In forming an opinion we looked at whether:

- Bridge condition is assessed; and
- Assessment takes account of technological change.

We also looked at whether there was an effective mechanism to transfer risk to local government, where appropriate.

3.2.1 Assessment of bridge condition

Background to inspection activity

Bridge inspection is a function that DIER had out-sourced but subsequently brought back in-house.

Maintenance crews do a Level 1 inspection (walk across) when they perform maintenance to ascertain any obvious safety problems such as missing guardrails or damaged fences.

Drawing on notes made after previous visits or from comments in the inspection database, the Bridge Inspector undertakes more detailed Level 2 inspections, supported by notes and photographs. As a result of the inspection, ratings are assigned to individual inspection criteria and an overall rating is determined for the bridge.

Level 3 inspections, including load limit testing or bridge core testing, can be carried out to obtain a detailed engineering report on a structure. DIER conducted 36 such inspections over a 3-year period.

Each year, for a more thorough review, an under-bridge inspection unit inspects approximately 40 high or difficult access bridges from a list of 140 structures.

Policy

DIER's policy as expressed in BAMP requires that maintenance should:

- Be appropriate and timely;
- Aim to improve functionality;
- Be cost-effective; and
- Ensure levels of service are not compromised.

DIER employs a Bridge Inspector to ensure the achievement of these objectives. The Bridge Inspector's schedule is based on risk factors such as construction type, age, location, traffic carried, etc. Consequently, higher-risk bridges are inspected more frequently.

Safety is a major concern with DIER's attention focussed on eradication of potential hazards to bridge users. In the last year, the Bridge Inspector identified 20 safety issues, including loose expansion joints, tripping hazards on walkways, broken pedestrian underpass lights and damaged guardrails.

In practice, the frequency of inspections varies between six-monthly to once every four years. Table 2 has details of the number of bridges that have been inspected annually since 2000.

Table 2: Bridge Inspections: 2000-2005

Year	Inspections
2004 – 05	523
2003 – 04	118*
2002 – 03	464
2001 – 02	404
2000 – 01	381

*Lower number due to disruptions associated with returning inspection function from outsourced to in-house operation.

We reviewed historical inspection data and found that at July 2005, more than 20% of all bridges were past the targeted inspection date and that three percent of bridges had missed two inspections. Table 3 has details of the backlog of bridge inspections.

Table 3: Backlog in Bridge Inspections

Inspection delay	No of bridges	Proportion of total
< 6 months	108	9%
6 – 12 months	32	3%
1 – 2 years	74	6%
2 – 3 years	24	2%
> 3 years	16	1%
Total	**254**	**21%**

In response to our query on the backlog, DIER advised that inspections had been deferred because the bridges in question were:

- Small in nature, such as culverts;
- Subject to maintenance at the time of scheduled inspection;
- Due for imminent replacement; or
- At remote locations and would be re-scheduled for inspection at a more convenient time.

As mentioned earlier, DIER also places some reliance on feedback from maintenance contractors that no obvious structural problems are present when contractors perform their Level 1 walkover inspections. Furthermore, the Bridge Engineer carries out additional inspections for those bridges that have been identified as requiring closer monitoring.

Recommendation 1:

DIER should ensure all bridges are inspected within the scheduled timeframe, or where appropriate amend inspection timeframes to more accurately reflect inspection needs.

3.2.2 Assessment takes account of technological change

Bridges are designed for specific load capacities but, in line with prevailing design codes, are engineered to have in-built safety margins. In the pre-computer age when it was not possible to so accurately model operational conditions as it is today, design calculations tended to be conservative, effectively resulting in more generous safety margins, the upper levels of which were uncertain.

These safety margins have enabled some bridges to cope with increases in loads, which have increased by approximately 10% per decade. Modern structures are designed to handle greatly increased loads, in accordance with more future-oriented design codes.

Following the introduction of computers, contemporary bridge designs are more likely to be finely tuned to match Bridge Code requirements.

As loadings have increased it appeared likely that DIER would not be able to economically extend the service life of older bridges. However, application of new technology has made some maintenance techniques (e.g. load testing) more affordable. Refined methods of calculation now provided through computer modelling have shown that the load bearing capacity is often higher than previously thought thus allowing better targeting of available maintenance funding.

We found that DIER had embraced technological change in managing bridge maintenance.

3.2.3 Transfer of risks

Major road building or upgrading projects can result in some bridge assets being no longer required as part of the principal State Road Network. Such works require the transfer of some pre-existing bridge assets to local government and we wished to verify that there was an effective mechanism for transfer of risk.

For example when the new Huon Highway was built, five bridges and 14.4 kilometres of road between Huon Road and Vinces Saddle, were transferred to Hobart City and Kingborough Councils. The transfer of assets to Kingborough Council occurred in 1988 but negotiations with Hobart City Council were not resolved until 1999.

For these transfers, DIER can offer some engineering consultancy to the new asset manager but maintenance responsibilities, including bridge inspections rest with local government.

There is an offset from the Commonwealth who provide additional funding to Councils needed to maintain transport infrastructure.

We were satisfied that DIER managed its risks to a low level by avoiding duplication of bridge inspection and maintenance by transferring assets to local government where appropriate.

3.3 EFFECTIVE MANAGEMENT OF MAINTENANCE

In forming an opinion we looked at:

- Development of the maintenance program;
- Prioritisation of maintenance; and
- Achievement of the maintenance program.

3.3.1 Development of the maintenance program

The maintenance program is developed from a number of sources including:

- Routine work, as programmed in the BAMP; and
- Problems identified by the Bridge Inspector.

3.3.1.1 Programmed work in the BAMP

Specific bridge management strategies exist for the State's six major bridges viz.:

- Bridgewater Bridge;
- Tasman Bridge;
- Bowen Bridge;
- Denison Canal Bridge;
- Batman Bridge; and

- Bruny Island Ferry terminals.

The BAMP contains 20-year projections detailing the individual management strategies of those bridges. For example, the Tasman Bridge has a schedule of inspections monitoring the movement of the *Lake Illawarra* wreck; the Batman Bridge plan has a 5-yearly cycle of structural painting. Collectively, these six bridges absorb approximately 35% of the annual maintenance budget due to their strategic importance and engineering complexity.

3.3.1.2 Bridge inspection input

Issues identified during bridge inspections are recorded in the inspections database. From that database maintenance jobs are extracted and classified as one of the following categories.

- Routine maintenance to be carried out (referred to the maintenance contract administration area for attention);
- Items outside general maintenance are prioritised in future works program; and
- Other items for information purposes, (e.g.: a concrete culvert had been repaired with timber). The issue can be flagged for an engineer to go out and review in the future.

Where no maintenance issues emerge as a result of an inspection visit, notes are uploaded into the database and are available for future reference.

3.3.2 Prioritisation of maintenance projects

Maintenance is funded and prioritised as follows:

- Essential work as programmed in the BAMP;
- Other work deemed urgent; and
- Other non-urgent work is prioritised across a five-year program.

The over-riding issue is to ensure the public's safety.

3.3.2.1 Programmed work in the BAMP

The critical issue for determining maintenance requirements is their potential impact on the level of service. We noted that bridge closure or load limitation had not been necessary in recent years despite the maintenance backlog reported above in section 3.2.1. This reflects well on DIER's management of maintenance priorities.

3.3.2.2 Other work

To manage other priorities successfully, DIER has to ensure that maintenance requiring immediate attention does not continually sideline work of a lower priority. DIER has tried to be proactive since non-essential jobs can quickly become essential or costly.

Urgent jobs are scheduled each year in a funded five-year program with a financial reserve provided for unforeseen or changing priorities.

In the event that monies allocated are insufficient for programmed work as outlined in the BAMP, then other work may be deferred.

We believe that DIER's policy of prioritisation based on safety issues is sound and ensures that essential transport networks remain operational.

3.3.3 Achievement of the maintenance program

3.3.3.1 Programmed work in the BAMP

In recent years, the bridge maintenance budget (currently $4.6M) has not been adequate to allow all projects to be completed and programmed works have dominated to the detriment of other work. The BAMP has detailed sustainable maintenance funding requirements with the aim to achieve such levels in 2008. At that time, it is anticipated that the budget would need to increase to $5.7M. This situation is shown in Figure 4.

Figure 4: Bridge Maintenance Actual against Budget

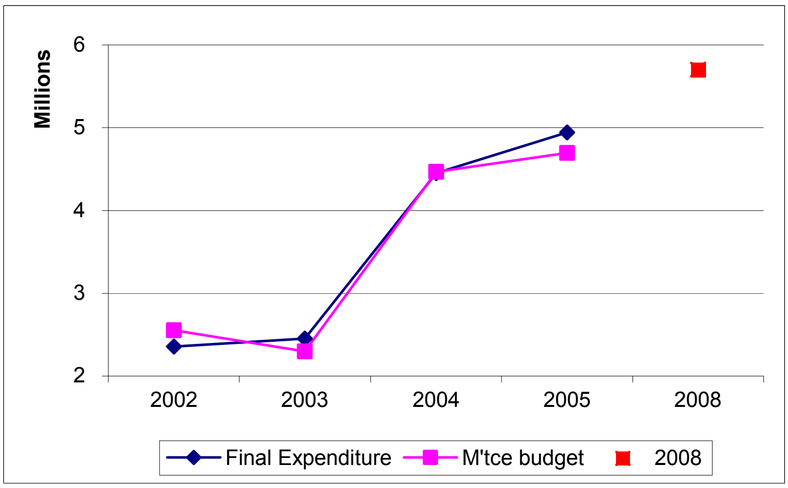


Figure 4 also shows the estimated funding level that DIER anticipates it will need to achieve by 2008. We note that the Tasmanian economy is in a time of significant growth and we are concerned that DIER is currently not meeting its preferred maintenance program although a marked increase in funding occurred during 2003 - 2004. If the economy does not continue to grow it is possible that that sustainable budget levels may not be reached by 2008. This will result in a greater backlog of non-essential maintenance.

We are concerned that continual deferral of non-essential jobs is unsustainable and may ultimately result in escalating costs or even safety issues.

3.3.3.2 Maintenance generated by bridge inspections

As noted in section 3.3.3.1 a backlog of maintenance work exists because of prioritisation of programmed work and a funding shortfall.

During the audit we observed that the inspection database does not receive information about maintenance completed and as a consequence it is not easy to determine if particular maintenance jobs are completed or outstanding. DIER is currently looking at how to upload this information to the inspection database.

A related issue is that feedback from contractors on completion of programmed maintenance was lacking or slow. Timely supply of information regarding work finalisation is an essential part of monitoring the maintenance program.

Recommendation 2:

DIER should ensure that the maintenance register is promptly updated with information about work performed.

3.4 CONCLUSION

We found evidence of strategic planning that incorporated objectives and goals based on national standards for bridge maintenance.

DIER uses risk-based strategies to efficiently manage the bridge asset.

We found evidence that DIER satisfactorily develops and prioritises the bridge maintenance program.

However, achievement of the program has suffered from lack of resources in recent times, with deferral of non-essential maintenance that will need to be resolved to prevent excessive costs or safety issues eventuating.

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4 Recent reports

4 RECENT REPORTS

2001	SPECIAL REPORT NO. 36	COLLECTION OF RECEIVABLES AND LOANS IN TASMANIAN GOVERNMENT DEPARTMENTS
2001	SPECIAL REPORT NO. 37	ARCHIVES OFFICE OF TASMANIA
2001	SPECIAL REPORT NO. 38	THE IMPLEMENTATION OF GOODS AND SERVICES TAX IN GOVERNMENT AGENCIES AND LOCAL GOVERNMENT ENTITIES
2001	SPECIAL REPORT NO. 39	BANK ACCOUNT RECONCILIATIONS
2002	SPECIAL REPORT NO. 40	ENVIRONMENTAL MANAGEMENT AND POLLUTION CONTROL
2002	SPECIAL REPORT NO. 41	KEEPING SCHOOLS SAFE
2002	SPECIAL REPORT NO. 42	FOLLOW UP OF PERFORMANCE AUDITS
2002	SPECIAL REPORT NO. 43	ORAL HEALTH SERVICE: SOMETHING TO SMILE ABOUT?
2002	SPECIAL REPORT NO. 44	MANAGING COMMUNITY SERVICE ORDERS
2003	SPECIAL REPORT NO. 45	BUSINESS NAMES AND INCORPORATED ASSOCIATIONS: WHAT'S IN A NAME?
2003	SPECIAL REPORT NO. 46	LEAVE IN GOVERNMENT DEPARTMENTS
2003	SPECIAL REPORT NO. 47	PUBLIC SECTOR WEB SITES
2003	SPECIAL REPORT NO. 48	GRANTS TO THE COMMUNITY SECTOR
2003	SPECIAL REPORT NO. 49	STAFF SELECTION IN GOVERNMENT AGENCIES
2003	SPECIAL REPORT NO. 50	POLICE RESPONSE TIMES
2004	SPECIAL REPORT	EX-GRATIA PAYMENT TO THE FORMER GOVERNOR MR R W BUTLER AC
2004	SPECIAL REPORT NO. 51	SPECIAL PURPOSE AND TRUST FUNDS: DEPARTMENT OF HEALTH AND HUMAN SERVICES
2004	SPECIAL REPORT NO. 52	INTERNAL AUDIT IN THE PUBLIC SECTOR
2005	SPECIAL REPORT NO. 53	FOLLOW-UP AUDITS
2005	SPECIAL REPORT NO. 54	COMPLIANCE AUDITS
2005	SPECIAL REPORT NO. 55	GUN CONTROL IN TASMANIA
2005	SPECIAL REPORT NO. 56	TT-LINE: GOVERNANCE REVIEW
2005	SPECIAL REPORT NO. 57	PUBLIC HOUSING: MEETING THE NEED?

5 Future projects

5 FUTURE PROJECTS

Details of performance and compliance audits that the Auditor-General is considering are:

PERFORMANCE AUDIT

- TRAINING AND DEVELOPMENT
- BUSINESS CASE FOR RISDON PRISON
- ELECTIVE SURGERY

COMPLIANCE AUDITS

- DELEGATIONS IN GOVERNMENT AGENCIES
- LOCAL GOVERNMENT DELEGATIONS
- BUILDING SECURITY
- OVERSEAS TRAVEL

Appendix

APPENDIX 1: AUDIT MANDATE AND STANDARDS

MANDATE

Section 44(a) of the *Financial Management and Audit Act 1990* states that the Auditor-General may:

> '… at any time conduct any investigation that the Auditor-General considers necessary concerning any matter relating to the accounts of the Treasurer, a Government department, or a public body or to public money, other money or money of a statutory authority or to public property or other property'.

The conduct of such audits is often referred to as compliance auditing.

Under the provisions of section 44(b) of the *Financial Management and Audit Act 1990* the Auditor-General may:

> 'Carry out examinations of the economy, efficiency and effectiveness of Government departments, public bodies or parts of Government departments or public bodies'.

The conduct of such audits is often referred to as performance auditing.

STANDARDS APPLIED

This audit was performed in accordance with Australian Auditing Standard AUS 806 ('*Performance Auditing*'), which states that:

> 'The objective of a performance audit is to enable the auditor to express an opinion whether, in all material respects, all or part of an entity's activities have been carried out economically, and/or efficiently and/or effectively.'

The audit included such tests and other procedures considered necessary in the circumstances.