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PARLIAMENT OF TASMANIA

**AUDITOR-GENERAL
SPECIAL REPORT No. 74**

**Follow up of performance audits:
April-October 2005**

June 2008

*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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17 June 2008

President
Legislative Council
HOBART

Speaker
House of Assembly
HOBART

Dear Mr President

Dear Mr Speaker

SPECIAL REPORT NO. 74

Follow up of performance audits: April-October 2005

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.

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.

The performance audit assesses the extent to which agencies have actioned recommendations made in six previous reports tabled between April and October 2005.

Yours sincerely



H M Blake

AUDITOR-GENERAL

CONTENTS

Foreword	i
List of acronyms and abbreviations	ii
Executive summary	2
Audit opinion	2
Management responses	4
Introduction	6
1 Infrastructure funds	10
The 2005 report.....	10
1.1 Expenditure Classification	11
1.2 Reporting	12
1.3 Status of recommendations	12
1.4 Conclusion	13
2 Gun control in Tasmania	16
The 2005 report.....	16
2.1 Is the Tasmanian community safer since the Firearms Act 1996 came into force?	17
2.2 Assessing firearm licence applicants	17
2.3 Safe-keeping of firearms	18
2.4 Dealers' records.....	19
2.5 Managing the firearms database	20
2.6 Status of recommendations	22
2.7 Conclusion	24
3 TT-Line: Governance review	26
The 2005 report.....	26
3.1 The Ministers.....	27
3.2 The Board	28
3.3 The Board and Executives.....	29
3.4 Chief Executive Officer	30
3.5 Executive management	30

3.6	Risk management	31
3.7	Company policies.....	32
3.8	Accounting	33
3.9	Status of recommendations.....	34
3.10	Conclusion	36
4	Public housing: Meeting the need?.....	38
	The 2005 report.....	38
4.1	Strategic Plan, Goals and Objectives.....	39
4.2	Are waiting times/lists reasonable?.....	41
4.3	Is supply of dwellings optimised?	42
4.4	Sale of dwellings.....	44
4.5	Status of recommendations.....	44
4.6	Updating of data	47
4.7	Conclusion	49
5	Asset management: Bridges	52
	The 2005 report.....	52
5.1	Risk-based assessment of bridges	52
5.2	Achievement of a maintenance program.....	53
5.3	Status of recommendations.....	53
5.4	Conclusion	55
6	Managing FBT liabilities.....	58
	The 2005 report.....	58
6.1	Responsible staff were aware of FBT requirements.....	59
6.2	Adequate policies and procedures.....	59
6.3	FBT liability was correctly calculated.....	60
6.4	Reimbursement of expense payments.....	60
6.5	Entities minimise their FBT liabilities	60
6.6	Status of recommendations.....	61
6.7	Conclusion	61
7	Recent reports.....	64
8	Current projects	66

LIST OF TABLES

Table 1: Gun Control in Tasmania—Degree of implementation of recommendations	22
Table 2: Firearms inspections since 2005	23
Table 3: TT-Line Management—Degree of implementation of recommendations	34
Table 4: Public Housing—Degree of implementation of recommendations	45
Table 5: Examples of categorisation (updated)	48
Table 6: Bridge inspections 2000–07 (updated)	54
Table 7: Backlog in outstanding bridge inspections	54

LIST OF FIGURES

Figure 1: Waiting list numbers—Yearly averages (updated)	48
Figure 2: Waiting Times (months)—Yearly averages (updated)	49
Figure 3: Bridge maintenance actual against budget (updated)	55

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Foreword

Performance audits are conducted with the goal of assessing the effectiveness, efficiency and economy of activities undertaken by the public sector. Identification of areas where improvements can be made is one of our primary objectives together with the client's acceptance and implementation of any resultant recommendations. Using a collaborative approach with our clients, we aim to reach agreement so that audit recommendations are practical and add value to public sector programs or processes. Accordingly, there is an expectation that our recommendations will be implemented.

This follow-up audit has been completed to provide Parliament with information about the extent to which clients have acted on recommendations made in selected performance audit reports tabled during the period April to October 2005, namely:

- No. 54: Infrastructure funds (one of three tabled)
- No. 55: Gun control in Tasmania
- No. 56: TT-Line: Governance review
- No. 57: Public Housing: Meeting the need?
- No. 58: Asset management: Bridges
- No. 58: Managing FBT liabilities.

We were pleased that for each report, management had made changes to implement the recommendations. In each of the six audits we revisited, our 70% implementation benchmark rate was achieved while three audits achieved 100% implementation. Where recommendations had not been implemented, we sought and received explanations as to why this was the case. This Report addresses each of the above audits examining the original context of the recommendations and detailing the subsequent rate of implementation.

H M Blake

Auditor-General

17 June 2008

List of acronyms and abbreviations

AHS	Affordable Housing Strategy
ATO	Australian Taxation Office
Aurora	Aurora Energy Pty Ltd
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIT	Corporate Information Technology
CSHA	Commonwealth State Housing Agreement
DHHS	Department of Health and Human Services
DIER	Department of Infrastructure, Energy and Resources
ESIF	Economic and Social Infrastructure Fund
FBT	Fringe Benefit Tax
IF	Infrastructure Fund
LCC	Launceston City Council
Treasury	Department of Treasury and Finance
TT-Line	TT-Line Company Pty Ltd

Executive summary

Executive summary

We conduct performance audits with the goal of assessing the effectiveness, efficiency and economy of public sector activities. Identifying areas for potential improvement is an essential part of such audits and recommendations are made in support of that objective.

Follow-up audits inform Parliament about the extent to which public sector entities have acted on recommendations made in previous Special Reports.

Our previous follow-up audit, Special Report No. 66, was tabled in June 2007. That report looked at six previous audits tabled between September 2001 and August 2004. Since then and October 2005 we tabled ten Special Reports, not all of which required follow up. The six reports that are suitable for follow up are:

- No. 54: Infrastructure funds (one of three tabled)
- No. 55: Gun control in Tasmania
- No. 56: TT-Line: Governance review
- No. 57: Public Housing: Meeting the need?
- No. 58: Asset management: Bridges
- No. 58: Managing FBT liabilities.

Audit opinion

Overview

In addition to being a yardstick on clients' performance, the follow-up process also provides feedback on our own effectiveness. A low rate of implementation would tend to indicate that recommendations were impractical or pitched at an inappropriate level. Consequently, in follow-up audits we regard an implementation rate of 70% as satisfactory.

Infrastructure funds

Eight departments were assessed during this audit which had two recommendations. These recommendations related to the need for appropriate ministerial approval and accurate reporting of infrastructure funds in annual reports. We found that all eight departments had fully implemented the two recommendations although there were instances where funds were directly allocated to departments by the Treasurer and did not require ministerial approval.

Gun control in Tasmania

The original audit identified a number of areas where the enforcement of the *Firearms Act 1996* by Tasmania Police could be improved. The eight recommendations related to improvements in the operation of Firearms Services, the responsible section within Tasmania Police. We recommended improved storage inspections of gun owners' premises and better data collection and reporting. This Report determined that the overall implementation level was 94% and that six of the eight recommendations had been fully implemented.

TT-Line: Governance review

The original audit was requested by the two stakeholder Ministers and focused solely on TT-Line's corporate governance and decision-making processes. The resulting report contained 42 recommendations. In planning this follow-up audit, we reduced the number to 23, combining recommendations where possible. Of these 23, we found that 20 had been fully implemented. The overall rating for implementation was 98%.

Public housing: Meeting the need?

The Department of Health and Human Services has significantly changed its management of public housing, which continues to be an issue of high public interest, since our original audit in 2005. We found that eight of the original 14 recommendations had been completely implemented while five other recommendations had been partially implemented. These recommendations largely relate to long-standing policy issues. In addition, we updated our data analysis of housing waiting times which revealed that there has been a small reduction since the 2005 audit for some categories of applicants. The overall implementation rate was 70% which meets our benchmark.

Asset management: Bridges

At the time of the original audit, there was a significant backlog of bridge inspections, especially those in remote areas. In reviewing the current situation we found that this backlog had been substantially reduced. Both the original audit's two recommendations — which related to bridge inspections and the bridge maintenance register — had been fully implemented.

Managing FBT liabilities

This audit assessed the management of FBT liabilities by a selection of departments and public sector entities to determine if they were effectively minimising their liabilities. In reviewing performance for

this Report, we found that all five auditees had fully implemented the report's two recommendations.

Management responses

Management responses to this Report have been included at the end of each chapter.

Introduction

Introduction

Background

We conduct performance audits with the goal of assessing the effectiveness, efficiency and economy of public sector activities. Identifying areas for potential improvement is an essential part of such audits and recommendations are made in support of that objective.

As a matter of course, we try to reach agreement with clients when framing our recommendations. Due to this collaboration we have an expectation that our recommendations will be actively implemented.

Follow-up audits are undertaken to provide Parliament with information about the extent to which public sector entities have acted on recommendations made in previous Special Reports.

Objective

The purpose of the audit was to:

- ascertain the extent to which recommendations in the previous audit reports were implemented
- determine the reasons for non-implementation.

Scope

Our previous follow-up audit, *Special Report No. 66*, was tabled in June 2007. That report looked at audits tabled between September 2001 and August 2004. Between that date and October 2005 we tabled a further ten Special Reports. A number of those reports did not require follow up but the remaining six are the subject of this Report:

- No. 54: Infrastructure funds (one of three tabled)
- No. 55: Gun control in Tasmania
- No. 56: TT Line: Governance review
- No. 57: Public Housing: Meeting the need?
- No. 58: Asset management: Bridges
- No. 58: Managing FBT liabilities.

Audit methodology

Findings in this audit are based on evidence collected from departments and other public sector entities through survey questionnaires that gauged the extent to which recommendations had been implemented. In addition, the surveys were supplemented

by discussions with agency staff and requests for additional documentation or data. In two instances, we recalculated analyses that had been undertaken in the original audits using the new data.

Timing

Planning for this follow up performance audit began in October 2007. Questionnaires were forwarded to clients in November 2007 with the fieldwork completed in April 2008. The report was finalised in May 2008.

Acknowledgement

We acknowledge the assistance given by all government departments and other public sector entities involved with this follow up.

Resources

The total cost of the audit excluding report production costs was approximately \$52 700.

1 Infrastructure funds

1 Infrastructure funds

The 2005 report

Since 2001, the State Government has allocated funds under different programs to improve the State's economic and social infrastructure. This initiative was first known as the Infrastructure Fund (IF).

The following year, the government established the Social Infrastructure Fund (SIF) that placed emphasis on technical and further education as well as community renewal projects to improve rural infrastructure.

In 2003, the Economic and Social Infrastructure Fund (ESIF) was a key budget initiative. Strategies were devised to ensure the opportunities around major projects (such as gas, wind, energy, optic fibre, Basslink, the Bass Strait ferries and water developments) were realised and maximised.

Collectively, these finances are referred to as infrastructure funds with monies normally provided to departments by the Department of Treasury and Finance (Treasury) upon receipt of funding applications supported by the relevant minister and approved by the Treasurer.

The objective of the original audit was to ensure infrastructure funds were being expended for the purpose for which they had been provided and appropriately reported in departments' financial statements.

The audit examined the management and control of infrastructure fund expenditure within eight departments that had been allocated infrastructure funds by Treasury:

- Economic Development
- Education
- Health and Human Services
- Infrastructure, Energy and Resources
- Justice
- Primary Industries, Water and Environment (now Primary Industries and Water)
- Tourism, Parks, Heritage and the Arts (now Environment, Parks, Heritage and the Arts)
- Treasury and Finance.

The timeframe covered by the audit related to expenditure in the 2003–04 financial year from funds allocated in the 2003–04 budget and funds carried over from previous years.

The following criteria were used for this audit:

- accountability — controls on expenditure and review by management
- definitions and classification — coding of accounts, purpose and restrictions on funds, appropriate authorisation of expenditure.

The original report is summarised below, together with audit findings and the recommendations made at that time. Management responses, which were included as part of the 2005 report, have not been repeated here.

1.1 *Expenditure Classification*

In considering the classification of infrastructure fund transactions in 2005, we sought to verify:

- correctness of coding of transactions
- original documentation supporting transactions
- appropriate authorisation of transactions
- appropriateness of transactions.

Our review was undertaken at the eight departments mentioned above. To aid our field work, we asked departments to provide copies of funding submissions against which transactions could be tested.

Overall, we were satisfied that all transactions tested related to infrastructure projects. However, we were unable to determine whether all projects for which funds had been expended had actually been approved for infrastructure funding.

Copies of funding submissions were received from only four departments. We were advised that on occasions some departments may not have been involved in the initial request for funding and therefore not all projects could be substantiated by funding submissions. In these instances, departments were advised by Treasury of projects which they were to manage. Treasury confirmed this situation.

At the time of the original audit, we were concerned that in the absence of formal submissions there was the potential for reduced control over approval of expenditure.

Recommendation 1

Submissions for Infrastructure Funds should be formally approved by ministers to improve accountability for infrastructure funds.

1.2 *Reporting*

As well as considering appropriate authorisation, the original audit also examined departments' annual financial statements to determine if infrastructure funding had been properly reported.

1.2.1 *Revenue*

At that time, we observed that there was a lack of consistency in reporting infrastructure funding:

- Of the eight departments reviewed, only six correctly reported infrastructure funds received as part of 'Other Revenues from Ordinary Activities'.
- The remaining two departments failed to disclose any such revenue.

1.2.2 *Expenditure*

Of the eight departments, five reported expenditure on infrastructure fund projects but there was no consistency in description:

- One disclosed expenditure by fund.
- Three departments reported by project.
- One disclosed expenditure by both fund and project.

The remaining three departments failed to disclose any such expenditure.

Recommendation 2

Departmental annual financial statements should include details of infrastructure funds received and expended in a clear and consistent manner to improve reporting and accountability.

1.3 *Status of recommendations*

In reviewing implementation of these two recommendations for this Report, we found that both had been fully implemented by the eight departments. Full implementation had been aided by Treasury which, subsequent to the original audit, released a number of documents that established correct protocols and practices for applying for and reporting on infrastructure funding.

The protocol for completing funding submissions reinforced our first recommendation by requiring ministerial approval for all submissions. Enquiries during the course of this follow-up audit confirmed that departments are following this procedure.

However, in reviewing departments' implementation of this recommendation, it became apparent that a number of infrastructure projects were initiated directly by the Treasurer. This situation was identified in the original audit. These allocations are made at the discretion of the Treasurer and relate to projects with high state and community value. Treasury has advised that there are formal submissions for these projects and that the expenditure of funds is monitored through existing reporting processes.

Accurate disclosure of infrastructure funds in financial statements was specifically addressed by Treasury's release of Treasurer's Instruction 206 *Presentation of Annual Financial Statements*. Specific disclosure guidance for funds received and spent is also provided through Treasury's *Model Departmental Financial Statements*. Together, these documents clearly state infrastructure funding disclosure requirements. Investigations for this audit confirmed that departments are complying with these requirements for both agency-initiated and Treasury-initiated projects.

1.4 *Conclusion*

We are satisfied that all departments have fully implemented both recommendations made in the original report.

Follow-up response from departments

All departments indicated that they were happy with the report's conclusions and the follow up process in general.

2 Gun control in Tasmania

2 Gun control in Tasmania

The 2005 report

The mass murder at Port Arthur in 1996 provided the impetus for a national re-think on integrated firearms legislation. In May 1996, the Australasian Police Minister's Council reached a Nationwide Agreement on Firearms that embodied a four-pronged approach aimed at:

- reducing the overall supply of firearms
- restricting access to people deemed 'fit and proper'
- prohibiting particular kinds of firearms
- controlling gun use.

All aspects of gun ownership in Tasmania were tightened up in the *Firearms Act 1996* (the Act) that replaced the earlier and less stringent *Guns Act 1991* and *Guns Amendment Acts 1993* and *1996*.

Under the new Act the role of Tasmania Police is central in restricting and controlling ownership and access to firearms.

The objective of the 2005 audit was to determine whether the Tasmania *Together* goal of 'Safer communities' was being furthered by gun control and to identify any areas for improvement. Specifically, it examined:

- the extent to which the implementation and enforcement of the *Firearms Act 1996* in Tasmania had reduced the number of firearms as well as its impact on gun crime and gun trauma
- whether there were problems regarding enforcement of the Act.

The scope of the audit was on Tasmania Police's performance of its obligations under the *Firearms Act 1996*.

To achieve the audit objective, we developed the following audit criteria:

- Did the *Firearms Act 1996* result in reductions of:
 - gun-related crimes
 - gun-related suicides, accidents and injuries
 - thefts of firearms
 - the population of firearms through other strategies?
 - What was the level of prosecutions for firearms offences?

- Were there estimates of the number of unregistered firearms?
- What was the cost of police resources involved in gun control?
- Were there specific problems in enforcing the *Firearms Act 1996*?

The next sections of this Chapter briefly outline our original report together with audit findings and the recommendations made at that time. In this Report we have revisited some of the original findings and sought new information from Tasmania Police. Management responses, which were included as part of the 2005 report, have not been repeated here.

2.1 *Is the Tasmanian community safer since the Firearms Act 1996 came into force?*

In the first part of the original report we sought to determine whether the *Firearms Act 1996* had led to reductions of:

- gun-related crimes
- gun-related suicides, accidents and injuries
- thefts of firearms
- the population of firearms through other related strategies.

In the 2005 report we made no recommendations to the above and concluded that the impact of the Act had been positive. Tighter legislation, backed by determined law enforcement, had reduced the population of firearms in Tasmania and limited access to those firearms. Statistics that we examined indicated that substantial reductions had occurred in the use of firearms to commit violent crime and suicide. There had been a similar lessening of hospital admissions for gun trauma, particularly as a result of accidental shootings.

Thefts of firearms had also been lowered with an upswing in the proportion of stolen firearms recovered.

Between 2001 and 2004 almost 6000 firearms had been surrendered to police and subsequently destroyed.

2.2 *Assessing firearm licence applicants*

The Act requires that firearm licences are only granted to applicants who are 'fit and proper'. In making such determinations, the Commissioner is obliged to consider whether applicants have a criminal record, are the subject of a restraint order and a number of

other important matters that are not hard for police to confirm. However, section 29(2)(b) raises some difficulties in that the Commissioner must take into account ‘the mental and physical condition of the person’.

To obtain a licence, applicants complete a form, which is forwarded to Tasmania Police for processing. As part of that practice the applicant’s details are checked against criminal intelligence databases (both state and national) for past offences and current activity. If an applicant satisfies these checks they must next complete a one-day firearm training session at TAFE, facilitated by TAFE staff.

As the procedures stood at the time of the 2005 report, there was very limited scope for Tasmania Police to assess applicants for a firearm licence first hand. It was our opinion that personal contact with an experienced police officer would have at least allowed the possibility of identifying applicants who may have required a more detailed evaluation.

Recommendation 1

Tasmania Police should review current firearm licensing procedures to ensure that they are taking the mental and physical condition of applicants into account as required by section 29(2)(b) of the *Firearms Act 1996*.

2.3 *Safe-keeping of firearms*

A key issue in control of firearms is their safe storage. It confers safety benefits not just to licence holders and their families, but also has a positive effect on the number of firearms stolen yearly and reduces the possibility of stolen firearms contributing to the pool of illegally held firearms in Australia.

The Act¹ requires firearms and ammunition to be separately stored in locked receptacles. The need for enforcement of safe storage conditions is obvious if the benefits of secure storage are to be realised. At the time of the original audit, inspections were only made by police of new handgun licence applicants or during the course of other investigations (thefts or other complaints). At the time we contacted police in South Australia, Western Australia and the Australian Capital Territory and found that they all had more comprehensive firearm inspection programs in place.

In 2005 we requested data from Tasmania Police on the number of premises inspected and found that records back to 1996 were not

¹ Refer to *Firearms Act 1996* sections 85-86

readily available. Previously, any check was noted on the individual licence holder's file rather than being centrally recorded and it was not possible to ascertain total numbers without a manual check of every file. Data had been kept informally for the last few years before the original audit and showed the number of inspections as being:

- 2003 – 42
- 2004 – 111.

A database containing all storage checks was commenced mid-2004 – during the course of the 2005 audit.

Recommendation 2

Police should broaden the scope of ongoing random inspections of storage conditions at licence holders' premises. Results of these inspections should be publicised to encourage compliance

2.4 *Dealers' records*

Firearm dealers are the only legal source of firearms and ammunition. Purchases of firearms, parts and ammunition (and firearm repairs) all require the production of a valid firearms licence. Dealers must maintain records of these dealings and regularly provide information to police. Police use these quarterly returns to cross-check the accuracy of the firearms database.

At the time of the audit, Firearms Services kept a register of dealers and used it to ensure the receipt of returns (nil returns included). We found that 34.9% of dealer returns had not been received for more than six months and there was no evidence of follow-up action by Tasmania Police.

Recommendation 3

Police should follow up the receipt of returns from firearm dealers promptly.

Police should address shortcomings in firearm dealers' returns expeditiously.

In general, Firearms Services did not have guidelines documenting procedures to be applied in administering the Act. Instead, there was reliance on staff expertise, especially since several of the staff had worked there since the unit was established in 1996. However, staff turnover would undermine the corporate memory and it was essential that documentation be produced before that knowledge was lost. We believed that a manual would confer a number of benefits.

Recommendation 4

Police should further develop guidelines for Firearms Services to assist the efficiency and effectiveness of the unit. This would also address the potential problem of replacing senior and experienced staff.

2.5 *Managing the firearms database*

Tasmania Police now have information about firearms and licence holders that was not possible to obtain before the introduction of the 1996 legislation. Firearms Services had a database that recorded all relevant particulars of licence holders and firearms registered to them and as such it had the potential to be a powerful management tool. We relied on the database during the original audit and conducted some testing to assess the degree to which it was maintained by Firearms Services.

Deceased licence holders

When licence holders die their licence should be cancelled and any firearms formerly in their possession delivered to Tasmania Police. We were concerned to establish whether Firearms Services was proactive in identifying deceased licence holders and initiating action to secure firearms.

The system in place at the time of the original audit relied on staff at Firearms Services noting obituaries published in Tasmanian newspapers and checking each one to the firearms database. This appeared to be a laborious and inefficient process. To test the control we conducted sample testing based on data of male deaths recorded by Births Deaths and Marriages for 2003. We found four outstanding licence holders remained in the database with an 'Active' status.

Our opinion was that a data matching process that compared information from Births Deaths and Marriages against records in the firearms database would be a much more efficient system with a higher degree of accuracy.

Recommendation 5

To maintain close control over the state's firearm population, Police should arrange to obtain data from Births Deaths and Marriages regularly to enable automated detection of deceased, firearm licence holders.

Change in licence particulars

Although the Act requires licence holders to report any change to the particulars of a licence (refer to section 57), this did not always

happen. At the time of the 2005 report Firearms Services had 119 files that had been cancelled because the licence holder could not be found. Usually, these cases had come to light when licence renewal notices had been returned as undeliverable and subsequent efforts to find the person had been fruitless.

During the 2005 audit we examined 20 files, with a total of 54 firearms, which were unable to be traced. With four of these expired licence files a period in excess of one year had elapsed before Firearms Services had commenced follow-up action.

Recommendation 6

To improve the chances of tracing the licence holders concerned and recovering firearms that may otherwise be lost, follow-up action on expired licences where the licence holder's address is unknown should be initiated quickly.

We reported in the 2005 report that there was no specific status category in the database for expired licences with untraceable licence holders. Instead, these were flagged as 'Expired' and included with all other types of expiry. Creating a separate untraceable licence category would enable these cases to be more easily managed.

Recommendation 7

In the firearms database a separate category should be established for untraceable licence holders who still own firearms.

Availability of management reports

The suite of reports available from the firearms database at the time of the 2005 audit focused on day-to-day issues, understandably, but was quite restricted so far as management reporting was concerned.

We reported that better quality management reports — and increased flexibility in tailoring one-off queries — would not only aid staff of Firearms Services but also be useful for generating performance data.

Recommendation 8

There should be closer liaison between Firearms Services and Corporate Information Technology (CIT) to expand management reporting from the firearms database.

Firearms Services should have a staff member trained to run custom queries on the firearms database.

2.6 Status of recommendations

The eight recommendations from the original report are summarised in Table 1, which also rates as a percentage the extent to which they have been implemented.

Table 1: Gun Control in Tasmania—Degree of implementation of recommendations

	Recommendations (abbreviated)	Degree of implementation
1	Tasmania Police should review current firearm licensing procedures to ensure that they are taking the mental and physical condition of applicants into account as required by section 29(2)(b) of the <i>Firearms Act 1996</i> .	100%
2	Police should broaden the scope of ongoing random inspections of storage conditions at licence holders' premises. Results of these inspections should be publicised to encourage compliance.	75%
3	Police should follow up the receipt of returns from firearm dealers promptly. Police should address shortcomings in firearm dealers' returns expeditiously.	100%
4	Police should further develop guidelines for Firearms Services to assist the efficiency and effectiveness of the unit. This would also address the potential problem of replacing senior and experienced staff.	75%
5	To maintain close control over the state's firearm population, Police should arrange to obtain data from Births Deaths and Marriages regularly to enable automated detection of deceased firearm licence holders.	100%
6	To improve the chances of tracing the licence holders concerned and recovering firearms that may otherwise be lost, follow-up action on expired licences where the licence holder's address is unknown should be initiated quickly.	100%
7	In the firearms database a separate category should be established for untraceable licence holders who still own firearms.	100%
8	There should be closer liaison between Firearms Services and CIT to expand management reporting from the firearms database. Firearms Services should have a staff member trained to run custom queries on the firearms database.	100%
	All recommendations	94%

Since the original audit, Tasmania Police has substantially addressed the eight recommendations, resulting in a 94% implementation rate.

Improvements that have occurred following the 2005 audit include:

- requirements for officers processing licence applications to report any concerns regarding the mental and physical ability of a licence applicant
- the introduction of a rigorous program of storage inspections
- systematic follow up of overdue transaction returns from firearms dealers
- the development of operating procedures for Firearms Services
- checks of the firearms database against monthly deceased person reports from the Registrar of Births, Deaths and Marriages
- a new field in the firearms database for licence holders and firearms that cannot be located
- an increased number of customised reports for the firearms database.

The extent of the storage inspections that now take place is particularly significant. Police estimate that approximately 3300 inspections take place every year. Prior to the original audit, police estimated that only 153 inspections had taken place in 2003 and 2004.

Regular inspections began in December 2005 and since then the following inspections have taken place:

Table 2: Firearms inspections since 2005

Types of inspections	Number
Permit inspections (1 Dec 2005 – 30 June 2006)	1649
Permit inspections (1 July 2006 – 6 March 2008)	3806
Random inspections	2568
Follow-up inspections	1171
Other inspections	703
Dealer inspections	54
Total	9951

In all, six of the eight recommendations have been fully implemented.

The two partially implemented recommendations relate to storage inspections and Firearms Services' operating procedures. While the number of storage inspections has substantially increased, police are yet to establish a process to publicise the results of these inspections as detailed in Recommendation 2. It is our opinion that publicising these results would be a powerful mechanism to improve compliance. The Firearms Services' operating procedures are currently in a draft format with June 2008 the target for completion.

2.7 *Conclusion*

Tasmania Police has demonstrated a strong commitment to addressing the recommendations from the original audit resulting in the more efficient operation of Firearms Services.

Follow-up response from Department of Police and Emergency Management

Tasmania Police continues to address the issues identified in the two recommendations that have not been completely implemented.

3 TT-Line: Governance review

3 TT-Line: Governance review

The 2005 report

In the first half of the 2004–05 financial year TT-Line Company Pty Ltd (TT-Line) reported significant financial losses due to less passengers than anticipated. Its board had requested additional financial support from the responsible minister. This support was announced in the Parliament in March 2005.

Shortly later, the Auditor-General received a request from the responsible ministers to conduct a review of the corporate governance and decision-making processes in TT-Line.

The objective of the original review was to examine the corporate operations of TT-Line to determine if the company met best practice governance principles and standards. The scope was limited to governance matters and we did not assess or comment on decisions made. The review incorporated all decision-making processes, both operational and those of a capital nature.

The review covered the period 1 January 2001 to March 2005.

The minimum audit criteria, as specified by the responsible minister, were:

- decision making by the board and senior management
- the quality of information on which the board bases key decisions
- the effectiveness of delegations within the company
- the effectiveness of committees with special reference to the audit committee
- risk management within the company
- policies and procedures for ensuring compliance with relevant legislation including the *TT-Line Arrangements Act 1993* (the Act).

The original review was highly detailed with an exhaustive list of 42 recommendations. For this Report, we asked the company to report implementation on only 23 key recommendations. For the sake of continuity with the original review, these 23 recommendations have retained their original numbering.

The recommendations have also been reorganised into sections based on the content of the recommendation which do not reflect the structure of the original review. These sections are:

- The Ministers

- The Board
- The Board and Executives
- Chief Executive Officer
- Executive Management
- Risk Management
- Company Policies
- Accounting

The following sections of this Chapter provide a summary of the background context to the 23 recommendations, including audit findings and the recommendation itself. Management responses, which were included as part of the 2005 report, have not been repeated here.

3.1 *The Ministers*

The operations of TT-Line are directed by the *TT-Line Arrangements Act 1993*. The Act does not specifically outline the authority or role of the responsible minister in relation to the operations of the company, although it does require effective communication between the company and the responsible minister.

The original review found that there was no formal documentation to specify the nature of this communication or the respective responsibilities of the chairman and the CEO.

Our preferred model was that the responsible minister communicates primarily with the chairman, on both a formal and informal basis, and that communication with the CEO should only occur in conjunction with the chairman.

Recommendation 16

A formal communication policy should be developed which formalises the chairman as the key point of contact for the minister in relation to the operations of TT-Line.

At the time of the original review, the responsible minister for TT-Line was the Tourism Minister. We found that there was an inherent conflict between the management of TT-Line on a sound commercial basis and the tourism objectives of the State. It was our view that the tourism portfolio was inappropriate as an oversight mechanism.

Recommendation 42

Consideration should be given to the responsible minister for TT-Line not being the Tourism Minister.

3.2 *The Board*

The original review had a number of concerns relating to the operations and composition of the TT-Line Board. These included the level of experience and expertise of the directors and the need for a formal induction process, documentation of all board decisions and a board charter.

For effective governance to occur, board members needed to demonstrate relevant experience and appropriate specialist knowledge in line with the complexity and scale of TT-Line operation. An experienced and capable board reinforces appropriate due process in decision-making and appropriate communication lines with shareholders.

Recommendation 6

Board members need to demonstrate relevant experience and an appropriate specialist skill set in line with the complexity and scale of TT-Line operation.

We found that there was no evidence of a formal process of director induction. However, directors had attended the relevant Australian Institute of Company Directors' course.

Recommendation 32

Based on the formally communicated guidance provided by the Department of Treasury and Finance, this review recommends a formal director induction process be developed and approved by the board of TT-Line

While the board did have formal meeting minutes recorded for each monthly meeting, there was anecdotal evidence that discussions or decisions were made with board members, relating to executive remuneration and commencement of key projects that were not formally minuted.

Recommendation 15, 30 and 31 combined

Board minutes should record all decisions and approvals made, including decisions concerning executive bonuses and remuneration

We found that TT-Line had no board charter, a document essential for clarifying the roles and responsibilities of the board and ensuring that the board was effective and accountable.

Recommendation 41

A TT-Line board charter should be developed clarifying the role and authority of the board.

While we found there was no formal documentation of board responsibilities, there was, however, formal correspondence from the responsible minister in relation to his expectations of state-owned companies which would form the basis for such a document.

Recommendation 28

Correspondence from responsible ministers should be the foundation of a formal outline of board responsibilities, the purpose of TT-Line's operations, and the basis for communicating with shareholders.

We found that the board appeared to have limited understanding of some critical issues including market research and financial projections in respect of major acquisitions and projects, which limited its capacity to challenge management assertions.

Recommendation 8

The board should be provided with clear direction as to the process it should go through in relation to major acquisitions.

3.3 *The Board and Executives*

The original review found that the information flow from management to the board was sometimes not sufficiently detailed or consistent. As a consequence, it was our view that directors did not always have access to information needed to make informed decisions.

Recommendation 7

Protocols for communication between the board and management should be formalised.

Performance management of the board and key executives forms an important part of good corporate governance within an organisation. At the time of the original audit, we found that the formal review of board and management performance was against budget, rather than against specific performance criteria. Informal assessments of

performance were undertaken, but the performance criteria used were broad and generic in nature.

Recommendation 27

The formal system of performance management for the board and senior executives should use specific performance criteria.

3.4 *Chief Executive Officer*

At the time of the original audit, the CEO of TT-Line was not a board member, despite having significant experience in the shipping industry and attending most of every board meeting. In our opinion, his appointment to the board was important for increased accountability and efficiency.

Recommendation 5

In view of his experience in TT-Line's operations, the CEO should be appointed as a board member. As a board member, the CEO will be required to attend all board meetings except for discussions where the CEO has a natural conflict of interest.

The original review found that all key executives, including the CEO, attended all audit committee meetings. This was considered inappropriate since audit committee deliberations should be independent of executive management influence.

Recommendation 22

The CEO should not routinely attend audit committee meetings.

We found that the CEO and CFO were not formally signing off financial reports before presenting them to the board.

Recommendation 23

TT-Line should implement a formal sign-off of financial statements by the CEO and CFO prior to approval by the board.

3.5 *Executive management*

The original review found that executive management did not meet formally as an executive team although they did meet informally for other purposes.

Recommendation 17

Meetings of the executive management team should be formalised with an agreed agenda and meeting schedule.

The review also identified problems with the internal auditing processes which should have involved formal reporting of all operational activities with management committed to addressing weaknesses. In particular, it was found that only the finance division responded to audit management reports and that internal audit was focused primarily on financial processes and not broader operational activities.

Recommendation 37

The executive should consider all audit findings and ensure implementation of recommendations, as appropriate.

The contract arrangements and remuneration of senior executives were found to be inadequate, especially in relation to the detailing of key performance indicators and responsibilities. The board-approved incentive scheme was also considered unsatisfactory since it did not reflect the performance of individual executives.

Recommendation 24

Executive management should be placed on contracts that include performance management clauses and formal periods of review. Where appropriate, remuneration or bonus arrangements for senior executives need to be based on performance criteria for the individual and the organisation.

3.6 Risk management

The management of risk was an area of concern for the original review. It was found at the time that a comprehensive operational risk assessment had been performed and that the business plan provided evidence of some consideration of strategic risks. However, as noted in section 3.5, internal audit work was confined to financial risks related to the finance division.

We considered that a more formal strategic risk assessment process was important to adequately prepare the company for possible, large-scale market and financial risks. The lack of formal documentation of strategic risks meant there was no evidence of the board or management's response to risks.

At the time of the 2005 report, we noted that the audit committee had acknowledged this deficiency and had commenced planning for a risk assessment process.

Recommendations 4, 18, 21, 34, 35 and 36 (combined)

That a comprehensive external and formal risk assessment exercise be completed focusing on financial, strategic and operational risks.

That the recommendations resulting from any such risk management exercise be implemented.

3.7 *Company policies*

In any company, the board is responsible for approval of strategies, policies and codes of conduct. At the time of the original review, we found that many board-approved policies existed, but that there were also policies or procedures that had been developed by divisions in isolation.

We also noted that there were a number of key policies that were not in place, including a risk management policy. Nor was there a set procedure for developing, approving and documenting policies.

Recommendation 10

Procedures for the development, documentation and approval of organisational policies should be developed.

We found that no code of ethical conduct existed within the company.

Recommendation 11

A code of ethical conduct should be developed and be approved at a board level.

The remuneration of key executives and the board is a key factor in good corporate governance within an organisation. A remuneration policy is necessary to outline the approval process and the basis for decisions made in relation to all aspects of remuneration. A remuneration committee can be a more efficient mechanism than the full board for focusing the company on appropriate remuneration policies.

We found that there was no remuneration policy or committee.

Recommendation 29

A remuneration policy should be developed incorporating the creation of a remuneration committee to oversee the implementation and compliance with the policy.

We found that the annual report of TT-Line, while compliant with current legislative requirements and accounting standards, did not represent best practice in relation to board reporting and accountability disclosures, particularly in the areas of corporate governance, risk management and corporate performance.

Recommendation 39

TT-Line should include those additional disclosures that would be necessary if it were a disclosing entity under the Commonwealth's Corporations Act 2001.

Successful corporate operations are facilitated by a clearly documented and frequently revised system of delegations. The original review found that:

- The company's delegations policy had not been revised since its development in 1996.
- There was no formal documentation of delegations from the board to the CEO, and the CEO to management.
- An informal system of delegations was in place, which was recognised by executive management.

Recommendation 26

Delegations need to be updated and approved at a board level.

3.8 Accounting

We found that the internal control environment within the finance division of TT-Line was sound and that financial board papers were an accurate reflection of the base financial data of TT-Line.

The current depreciation policy whereby the ships and fit-outs are depreciated straight line over the same useful life does not adequately represent the diminution of the assets over time, or provide for the generation of cash reserves for future maintenance or capital replacement.

Recommendation 20

Although compliant with current accounting standards, the current asset components of the ships should be separately identified. The component parts should reflect, at a minimum, initial fit-out, modifications to fit-out during the life cycle, and the ship infrastructure.

3.9 Status of recommendations

The 23 recommendations that we reviewed in this Report are listed below in Table 3 using the recommendation numbers from the original report.

Table 3: TT-Line Governance Review – Degree of implementation of recommendations

Recommendations (abbreviated)		Degree of implementation
16	A formal communication policy should be developed which formalises the Chairman as the key point of contact for the Minister in relation to the operations of TT-Line.	100%
42	Consideration should be given to the second responsible minister for TT-Line not being the Tourism Minister.	100%
6	Board members need to demonstrate relevant experience and an appropriate specialist skill set in line with the complexity and scale of TT-Line operation.	100%
32	This review recommends a formal director induction process be developed and approved by the board of TT-Line.	100%
15, 30, 31	Board minutes should record all decisions and approvals made, including decisions concerning executive bonuses and remuneration.	100%
41	A TT-Line board charter should be developed clarifying the role and authority of the board.	100%
28	Correspondence from responsible ministers should be the foundation of a formal outline of board responsibilities, the purpose of TT-Line's operations, and the basis for communicating with shareholders.	100%
8	The board should be provided with clear direction as to the process they should go through in relation to major acquisitions.	100%
7	Protocols for communication between the board and management should be formalised.	100%
27	The formal system of performance management for the board and senior executives should use specific performance criteria.	75%
5	In view of his experience in TT-Line's operations, the CEO should be appointed as a board member. As a board member, the CEO will be required to attend all board meetings except for discussions where the CEO has a natural conflict of interest.	100%
22	The CEO should not routinely attend audit committee meetings.	100%

23	TT-Line should implement a formal sign-off of financial statements by the CEO and CFO prior to approval by the board.	100%
17	Meetings of the executive management team should be formalised with an agreed agenda and meeting schedule.	100%
37	The executive should consider all audit findings and ensure implementation of recommendations, as appropriate.	100%
24	Executive management should be placed on contracts that include performance management clauses and formal periods of review.	100%
4,18 21,34, 35,36	That a comprehensive external and formal risk assessment exercise be completed focusing on financial, strategic and operational risks. That the recommendations resulting from any such risk management exercise be implemented.	100%
10	Procedures for the development, documentation and approval of organisational policies should be developed.	100%
11	A code of Ethical Conduct should be developed, and be approved at a board level.	100%
29	A remuneration policy should be developed incorporating the creation of a Remuneration Committee to oversee the implementation and compliance with the policy.	100%
39	TT-Line should include those additional disclosures that would be necessary if it were a disclosing entity under the Commonwealth's <i>Corporations Act 2001</i> .	75%
26	Delegations need to be updated and approved at a board level.	100%
20	Although compliant with current accounting standards, the current asset components of the ships should be separately identified. The component parts should reflect, at a minimum, initial fit-out, modifications to fit-out during the life cycle, and the ship infrastructure.	0%*
	All recommendations	98%

*This rating has not been included in the calculation of the overall rating. See management response on next page.

Since the release of our original report, TT-Line has experienced a turn around in its financial performance with an increase in passenger numbers, vehicle numbers and freight handling in 2006–07. The increased fare revenue combined with cost savings following the sale of *Spirit of Tasmania III* in September 2006, resulted in an operating profit of \$4.2 million in the last financial year.

Substantial effort has also been undertaken to address the governance issues raised in the 2005 review. Twenty of the 23 recommendations

have been fully implemented through the development of a number of important documents and processes. These include:

- a communication protocol between the company and the responsible minister
- a director's manual that includes a process for the induction of new directors
- a board charter outlining the board's and individual directors' roles and responsibilities
- a company code of conduct and ethics
- the establishment of a formal risk assessment process.

Two recommendations (relating to the performance management system and the level of disclosure in the annual report) have been 75% implemented. The one recommendation which has not been implemented at all, is the last recommendation which relates to the methodology used to value *Spirit of Tasmania I* and *II*. The company defends its decision to adopt a fair value system of valuation stating that this approach is considered best practice internationally.

3.10 Conclusion

TT-Line implementation of recommendations from the 2005 review is very satisfactory with an overall implementation level of 98%.

Follow-up response from TT-Line

In relation to recommendation 20, the valuation method for *Spirit of Tasmania I* and *II*, TT-Line again would like to state its position in relation to this outstanding matter which has resulted in a nil implementation.

The TT-Line is compliant with Australian Accounting Standards and meets International Best Practice in relation to the valuation of the vessels. The Company does not believe it should be penalised in its ranking for an issue that relates to a difference of opinion in relation to valuation methods and not an item where the Company is acting contrary to establishing standards or practice.

4 Public housing: Meeting the need?

4 Public housing: Meeting the need?

The 2005 report

The availability and quality of public housing for Tasmanians facing housing stress has been an issue of high public interest for many years. Public debate about the length of waiting times and the number of available houses had prompted the original 2005 audit. That report focused on the management practices of Housing Tasmania, the Department of Health and Human Services (DHHS) division charged with responsibility for the provision and management of public housing stock.

Housing Tasmania aims to provide access to adequate, affordable, appropriate and secure housing to low-income earning Tasmanians, mainly through the Commonwealth–State Housing Agreement (CSHA).

At the time of the original audit, the public’s focus was on the Affordable Housing Strategy (AHS), which had been launched in December 2003. The AHS represented a major new housing response, and provided additional funding to:

- build and renovate homes
- fund private rental assistance
- build new homes in partnership with the private sector
- develop other forms of housing assistance.

While the 2005 audit was underway, the government announced a major review of Stage 1 of the AHS in May of that year. The government’s review was separate from our performance audit. Developments which have subsequently taken place, including the replacement of the AHS with an alternative strategy, are discussed in more detail in section 4.5 of this Chapter.

The objectives of our 2005 audit were to:

- examine the effectiveness and efficiency of the management and operations of Housing Tasmania
- assess whether management has set appropriate objectives, standards, strategies, and performance indicators.

The audit examined the following areas within Housing Tasmania:

- supply of suitable accommodation to its target population
- assessment of, and responsiveness to, demand for housing

- current disposal/marketing procedures and guidelines for surplus housing stock.

The audit criteria applied were as follows:

- Are there clear objectives, strategies, and performance indicators?
- Are waiting times/lists accurate and reasonable?
- Is supply of dwellings optimised?
- Are proceeds from dwelling sales maximised?

The following sections of this Chapter examine the recommendations made in the 2005 report, together with the degree to which they have been implemented.

Management responses, which were included as part of the 2005 report, are not reported here.

4.1 *Strategic Plan, Goals and Objectives*

This part of the original audit assessed whether Housing Tasmania had clear objectives, strategies and performance indicators.

At the time, Housing Tasmania indicated that the Strategic Plan (1999–03) was its primary planning document. During the audit however, it was unclear how much the document was used to underpin planning and set overall objectives and goals. There was also confusion relating to the status of other documents including the annual business plans and the CSHA bilateral agreement which also provided a broad strategic policy framework. An additional concern was that the final version of the strategic plan was not readily available.

In the 2005 report, we noted that Housing Tasmania was in the process of developing a new Strategic Plan for 2005–08. Our opinion at the time was that if the new plan were to be effective it needed to be regularly used to review performance.

Recommendation 1

That future strategic plans should be accessible and division performance should be regularly reported against objectives outlined in the plan.

In undertaking the original audit we were keen to find evidence of clearly defined and measurable targets in planning documents. Such targets are an important tool for effectively measuring performance.

The documents we reviewed at the time included the high-level strategic and annual business plans and also branch plans where we

expected to find a more detailed level of targets and measures. In particular, we focused on the Strategic Asset Management Plan 2004–08 because of its relevance to the scope of the audit.

In 2005, we found that none of the above documents set quantifiable or well defined targets related to service delivery.

Recommendation 2

The strategic plan should specify achievable and measurable targets related to service delivery in respect of all substantial programs.

With our interest in accurately measuring performance, we also examined the DHHS Annual Report (2003–04). We found the information provided was very limited and included only housing affordability data and information about the proportion of public rental housing allocated to people with special needs. Given that the annual report is the primary source of information about the department, we considered this to be unsatisfactory.

Recommendation 3

Housing Tasmania should develop a comprehensive set of relevant and appropriate key performance indicators, for inclusion in the department's annual report, to inform readers of the performance of programs in meeting specific objectives.

The Australian Government provides nationally standardised performance measures on public housing through the Productivity Commission's *Report on Government Services* and CSHA Data Reports.

At the time of the audit, these performance indicators covered most of the important public housing objectives. However we believed it was important for Housing Tasmania to investigate whether the national measures provided information that was relevant to the Tasmanian situation.

Recommendation 4

Housing Tasmania should review current performance measures to determine if they are providing sufficient information, and are the best available measures.

At the time of the original audit in 2005, the AHS was in the process of being implemented but performance indicators had not yet been developed. We would have preferred that performance indicators had been developed prior to implementation to address affordability objectives, relating to effectiveness, economy and efficiency.

Recommendation 5

For future initiatives, Housing Tasmania should ensure that a set of appropriate performance indicators is established prior to implementation.

Housing Tasmania should institute relevant performance indicators for the Affordable Housing Strategy as soon as possible.

4.2 *Are waiting times/lists reasonable?*

This section of the original audit considered whether the number of people waiting for public housing (the waiting list) and the time it takes for people to be housed (waiting times) were acceptable.

Current Waiting Lists/Times

Housing Tasmania's policy is that public rental housing cannot satisfy all housing need but it does have an important role in helping those with specific and complex needs.

Applicants with complex or special needs are assessed as exceptional, Category 1, or possibly Category 2. Category 3 and 4 are accordingly not the primary target for public housing, and waiting times need to be seen in that context. As a result, waiting periods are longer for Category 3 and 4 applicants.

In the 2005 report, we examined waiting list data from which we calculated average waiting times for all categories. We calculated waiting times by dividing the waiting list by the number of applicants housed in the previous three months. For this current audit, we requested the waiting list data for the intervening period since 2005 from Housing Tasmania. The updated data is discussed in more detail in section 4.5 below.

In the 2005 audit, we questioned whether, since there was little realistic chance of Category 3 and Category 4 applicants being housed, it was misleading for those applicants to be included on the waiting lists. We also questioned whether the administrative burden of maintaining the list and performing a regular review process was justified.

Recommendation 6

Housing Tasmania should consider only including Category 1 and 2 applicants on the waiting list.

During the course of the 2005 audit, it became apparent that Housing Tasmania's reporting of housing data was thorough and, unlike some states, fully complied with all national reporting

requirements. The non-compliance by some states meant that accurate comparisons of performance were not possible at a national level.

It was our opinion that Tasmania should take advantage of its full compliance to encourage other states to fully comply with all reporting requirements

Recommendation 7

Housing Tasmania should liaise with other jurisdictions to attempt to achieve greater comparability.

In 2005, we found that housing stock supply had been fairly equally distributed across the south, north and north-west regions and that there had been an equitable approach to service delivery between regions. We also noted that planned capital works under the AHS were proportionate to regional populations.

However, it was our opinion that at the time, waiting times for high-need applicants did not appear to support this approach, with southern applicants waiting twice as long as applicants from the north and north-west.

Recommendation 8

Housing Tasmania should consider regular monitoring and analysis of need on a regional basis.

4.3 *Is supply of dwellings optimised?*

This section of the original report considered issues such as the number of public rental houses, whether the type and mix of available houses was appropriate and whether rentals were maximised.

It is still the case that tenants pay a percentage of their income as a tenant contribution up to a maximum of market rental value.

However, at the time of the 2005 audit, we noted that only two properties out of over 11 000 had market rental values in excess of \$200 per week. Housing Tasmania advised that a priority project was currently on the agenda to review the market rents. We noted in 2005 that only 16% of public rental households paid market rent and that there was a strong possibility of significantly increasing total revenue from this project.

Recommendation 9

Housing Tasmania should regularly reassess market rents.

The 2005 report was concerned that the existing housing stock was not being efficiently managed because of the security of tenure principle. At times this resulted in tenants who could afford private rentals occupying public housing that could be used for high-need applicants.

It was our belief at the time that increasing market rental could have the additional benefit of encouraging current tenants who do not have special needs to consider relocation to private housing. We noted that if those tenants capable of paying market rent were not in public rental housing, approximately two-thirds of the 2005 waiting list could be housed.

Recommendation 10

Housing Tasmania should explore possible incentive/disincentive programs to encourage tenants to move out of public housing when their circumstances improve.

One option may be that new tenants agree to pay rent based on their income regardless of market rent. Thus, tenants have a financial incentive to use private housing when their income increases to the point they would be paying more than market rent for public housing.

In 2005 Housing Tasmania had identified that a mismatch had developed between available dwellings and current housing needs. This was because demand for three-bedroom properties had reduced and demand for two-bedroom properties had increased.

The methodology used at the time compared the current break-up of housing stock to the requirements of applicants on the waiting list. We believed that this approach was faulty since it assumed that the break-up of stock should reflect waiting list requirements but ignored the requirements of existing tenants. It was our opinion that realignment decisions made on this basis could eventually lead to an incorrect stock profile.

Recommendation 11

Housing Tasmania should redo the realignment analysis to ensure decisions reflect the full customer base, including existing tenants and households on the waiting list.

Our original audit determined that one of the reasons for the intractability of housing mismatch was the policy of security of tenure, which guaranteed existing tenants a public rental house for life. It was our view that this was not an efficient use of resources nor

did it achieve Housing Tasmania's aim of providing public rental housing for those in the greatest need.

Recommendation 12

Housing Tasmania should consider replacing the security of tenure principle with terms that allow greater operational flexibility.

In 2005 we were concerned about the efficiency of the Homestart program where a private operator built houses on subsidised land to provide affordable house packages for eligible applicants. Since eligible applicants had to have a household income up to \$45 000 pa it was felt that this program was not catering for those in housing stress. We estimated that the program would only remove approximately 15 households from housing stress. It was our view that eligibility requirements needed to be tightened for this program to be an efficient use of funding.

Recommendation 13

The eligibility requirements for the Homestart program should be reviewed to ensure that it benefits households that would otherwise have been in housing stress.

4.4 *Sale of dwellings*

During the course of the 2005 audit, two cases were identified where properties were sold at less than the Valuer-General's valuation. Housing Tasmania's policy is to sell properties at or above the Valuer-General's valuation. While it became apparent that these were exceptions, we were concerned that if such sales were to occur again, there should be adequate documentation or authorisation.

Recommendation 14

Clear documentation detailing reasons and authority for decisions to sell at older valuations should be clearly noted on property files.

4.5 *Status of recommendations*

The 14 recommendations are summarised in Table 4 which also rates as a percentage the extent to which they have been implemented.

Table 4: Public Housing—Degree of implementation of recommendations

Recommendations (abbreviated)		Degree of implementation
1	That future strategic plans should be accessible and Division performance should be regularly reported against objectives outlined in the plan.	100%
2	The strategic plan should specify achievable and measurable targets related to service delivery in respect of all substantial programs.	100%
3	Housing Tasmania should develop a comprehensive set of relevant and appropriate key performance indicators, for inclusion in the department's annual report.	100%
4	Housing Tasmania should review current performance measures to determine if they are providing sufficient information, and are the best available measures.	100%
5	For future initiatives, Housing Tasmania should ensure that a set of appropriate performance indicators is established prior to implementation.	50%
6	Housing Tasmania should consider only including Category 1 and 2 applicants on the waiting list.	25%
7	Housing Tasmania should liaise with other jurisdictions to attempt to achieve greater comparability.	100%
8	Housing Tasmania should consider regular monitoring and analysis of need on a regional basis.	50%
9	Housing Tasmania should regularly reassess market rents.	100%
10	Housing Tasmania should explore possible incentive/disincentive programs to encourage tenants to move out of public housing when their circumstances improve.	25%
11	Housing Tasmania should redo the realignment analysis to ensure decisions reflect the full customer base.	100%
12	Housing Tasmania should consider replacing the security of tenure principle with terms that allow greater operational flexibility.	25%
13	The eligibility requirements for the Homestart program should be reviewed to ensure that it benefits households that would otherwise have been in housing stress.	0%
14	Clear documentation detailing reasons and authority for decisions to sell at older valuations should be clearly noted on property files.	100%
All recommendations		70%

The availability of affordable housing in Tasmania continues to be a contentious issue with a number of significant developments occurring since our 2005 audit. Briefly, these developments include:

- the decision by government to replace Stage 2 of the AHS in 2005 with a permanent, ongoing approach that expands the involvement of the not-for-profit sector
- the subsequent announcement of the independent company, the Tasmanian Affordable Housing Limited (TAHL) with a commitment that 700 homes would be built in four years
- the release of over 100 parcels of public land valued up to \$6 million to TAHL in November 2007 for the construction of new public housing
- renegotiation of the CHSA and the new Australian Government's commitment to increased funding for public housing
- the announcement of a new State Policy on Housing in October 2007 with additional funding of \$60 million
- the release of the Legislative Council's Select Committee report on Housing Affordability in Tasmania
- speculation at the time of writing concerning the establishment of a new state-owned company, independent of DHHS, to provide, manage and maintain public housing in Tasmania, and
- a possible realignment of Housing Tasmania's responsibilities to focus solely on finding accommodation for waiting list applicants.

During this current audit, we were pleased to find that, despite this changing funding environment, Housing Tasmania has been able to implement a significant number of the original recommendations.

Eight of the recommendations have been fully implemented. In some cases the changes introduced by Housing Tasmania were the direct result of our recommendations. In others, changes that occurred as a result of independent developments, have resulted in the implementation of a recommendation. These changes include:

- clearly defined objectives in planning documents with quarterly reports on progress towards those objectives
- specific and achievable targets in the strategic plan and a range of measurable Key Activity and Performance Indicators
- annual market rent reviews to ensure that rentals in public housing reflect current market values

- regular housing stock realignment analyses to achieve a better match of housing stock to tenants' needs
- the review of major policies including the security of tenure principle and housing eligibility.

Three recommendations have been 25% implemented while one had not been implemented at all. This recommendation related to the Homestart Program which was deliberately intended to create a mix of low- and high-need tenants in public housing, whereas the original audit saw it as another opportunity to provide housing for high-need applicants.

The three partially implemented recommendations related to policy areas which Housing Tasmania has reviewed but is not intending to change at this stage.

4.6 *Updating of data*

As part of this current review, we were interested to see if housing applicant waiting lists and waiting times had changed significantly since the 2005 report. We requested updated waiting list data from Housing Tasmania from the end of 2004 (the cut off point for the original audit) to December 2007. We then conducted the same analyses used in the 2005 report and revised the relevant graphs and tables accordingly.

Figure 1 reveals that there has been a decline since 2004 — the time covered by the original audit — in the number of applicants on the waiting list, but that the decline has plateaued in the past two years. Although the reduction in waiting list numbers did not continue in 2007, this plateauing is nevertheless better than the continuing increase that occurred from 2000 to 2004.

Figure 1: Waiting list numbers—Yearly averages (updated)

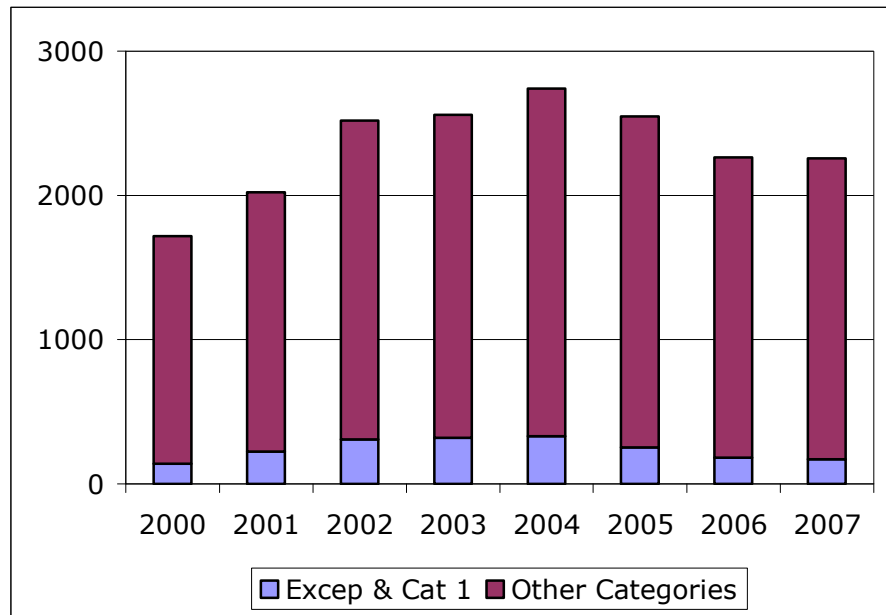


Table 5 was published in the 2005 report and gave a snapshot indication of the average waiting time as at 30 September 2004 according to category of applicant. We used our own calculation for the analysis whereby waiting list numbers were divided by the recent monthly average of applicants housed. A comparison with the figures for 2007 shows that waiting times for Category 1 applicants have reduced slightly.

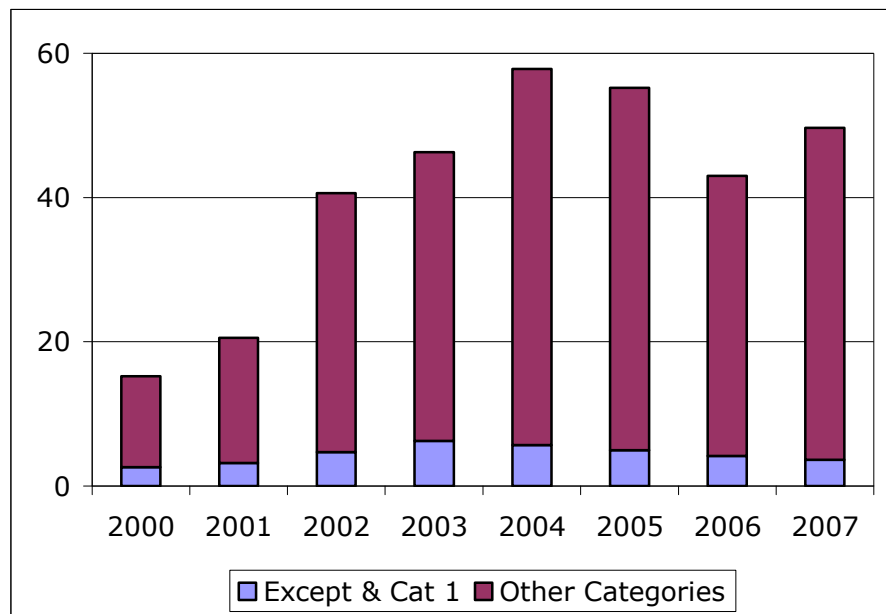
Table 5: Examples of categorisation (updated)

Category	Examples	Waiting Times – 30 Sep 2004	Waiting Times – 30 Sep 2007
1	Low income Living in a caravan No laundry facility	0.5 years	0.3 years
2	Low income Living with sibling Sleeping on couch House overcrowded	2.4 years	2.4 years
3/4	Low income Living with parents, temporarily Has own room High rent – 60% of income	11.6 years	11.1 years

It should be noted that the waiting time figure for Category 1 applicants (0.3 years or 17 weeks) is very close to Housing Tasmania's own Category 1 waiting time estimation of 16 weeks².

Figure 2 was also printed in the 2005 report and looked at annual average waiting times, again using our own method of calculation. When we updated the graph for this Report, it was apparent that although the decline is not great, there has been a reduction in the time Category 1 and exceptional applicants spend waiting for accommodation. In contrast, the waiting times for other applicants increased in 2007, in line with Housing Tasmania's focus on high-need applicants.

Figure 2: Waiting Times (months)—Yearly averages (updated)



4.7 Conclusion

The period since the publication of our original audit has been a time of change for Housing Tasmania, during which the availability of affordable housing has continued to be one of Tasmania's most challenging social issues. Despite these challenges, we were pleased to note the significant improvements made by Housing Tasmania in relation to strategic planning and performance measurement. Increased efficiency was also evident in the improved stock management practices and the change to regularly updated market rentals. Our review of waiting list and waiting time data reveals that

² *Your Health and Human Services: Progress Chart November 2007* p. 13

there have been small improvements in the waiting times for Category 1 and exceptional applicants.

Follow-up response from Department of Health and Human Services

It is pleasing to note that whilst the period since the original report has been one of change and high service demand for Housing Tasmania, the Auditor-General has noted significant improvements by Housing Tasmania over this time.

Improvements in the areas of strategic planning and performance measurement reflect strong internal management practices and a culture of continuous improvement within Housing Tasmania.

The Auditor-General has also noted increased efficiencies in the areas of stock management, as well as improvements in wait times for high-needs clients.

Given the difficult market conditions over recent years, these positive results reflect the success of both current government initiatives in the area of affordable housing provision and earlier strategies implemented under the Affordable Housing Strategy.

The majority of recommendations have now been fully implemented, with the balance relating to policy areas which Housing Tasmania has reviewed but are not intending to change at this stage.

The management of Housing Tasmania remains committed to pursuing and implementing positive system development and change that will enhance the delivery of Public Housing as the key safety net provision within the Tasmanian affordable housing system.

5 Asset management: Bridges

5 Asset management: Bridges

The 2005 report

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 a vital component of the Tasmanian road network and at the time of the original audit was valued at approximately \$1.2 billion. In the 2005 audit we examined DIER's management strategies and maintenance program to assess whether appropriate service levels and safety standards were maintained.

The original audit objectives were to:

- examine the effectiveness and efficiency of the management of the classified bridge assets
- assess whether management had set appropriate objectives, standards, strategies and performance measures.

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.

The audit criteria were as follows:

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

The next sections of this Chapter briefly outline our 2005 report together with audit findings and the recommendations made at that time. Management responses, which were included as part of the 2005 report, are not reported here.

The first section of the original audit examined DIER's strategic management of bridge maintenance. We found that DIER had sound strategic planning processes in place.

5.1 Risk-based assessment of bridges

The next section of the 2005 audit considered whether DIER used a risk-based methodology to assess the condition of bridges through regular maintenance inspections. DIER's policy relating to bridge inspections was outlined in its Bridge Asset Management Plan (BAMP) which stated that maintenance should:

- be appropriate and timely
- aim to improve functionality
- be cost-effective
- ensure levels of service are not compromised.

We reviewed historical inspection data and found that at July 2005, more than 21% of all bridges were past the targeted inspection date and that 3% of bridges had missed two inspections.

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.

5.2 *Achievement of a maintenance program*

During the original audit we also observed that the inspection database was not regularly updated with information about completed maintenance. Because of this, it was not possible to determine if particular maintenance jobs had been completed or were outstanding.

A related issue was that feedback from contractors on the completion of programmed maintenance was lacking or slow. It was our opinion that the timely supply of information regarding finalised work was 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.

5.3 *Status of recommendations*

As part of our follow up of the original audit, we requested evidence from DIER to support its assertion that both recommendations had been fully implemented. Data was provided for both bridge inspections and bridge maintenance funding allocations and expenditure since the 2005 audit.

Table 6 was published in the original audit but has been updated to include the number of bridge maintenance inspections that have taken place since the 2005 audit. As can be seen in Table 6, the number of inspections has actually decreased in the past two years.

Table 6: Bridge inspections 2000–07 (updated)

Year	Inspections
2006–07	419
2005–06	454
2004–05	523
2003–04	118★
2002–03	464
2001–02	404
2000–01	381

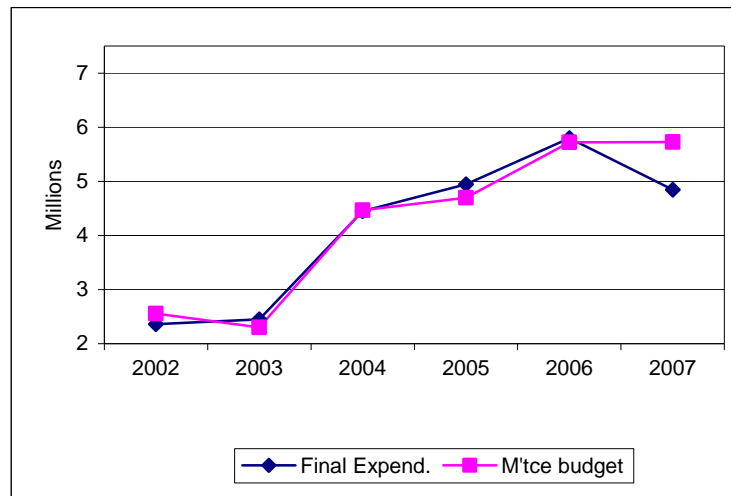
★ Lower number due to disruptions associated with returning inspection function from outsourced to in-house operation.

However, despite this decline in inspections, the data in Table 7 reveals that the backlog in outstanding bridge inspections which had concerned us in our original audit, has been substantially addressed. In 2005, maintenance inspections were behind time for 21% of all bridges, whereas in February 2008, that figure has been reduced to only 6% of all bridges. The data reveals that the inspections that have taken place have directly targeted the backlog.

Table 7: Backlog in outstanding bridge inspections

Inspection delay	2005		2008	
	No of bridges	% of total	No of bridges	% of total
< 6 months	108	9%	49	4.1%
6–12 months	32	3%	13	1.1%
1–2 years	74	6%	4	0.3%
2–3 years	24	2%	3	0.2%
> 3 years	16	1%	5	0.4%
Total	254	21%	74	6%

Our original audit had also expressed concern that the maintenance budget was not adequate and that often programmed works had priority over non-urgent maintenance. For this Report we requested information about the bridge maintenance budget and expenditure for the past two years. We inserted the new information into a graph (Figure 3) that had been published in the original audit.

Figure 3: Bridge maintenance actual against budget (updated)

In the original audit, we reported that, according to BAMP, maintenance funding needed to be increased to \$5.7 million in 2008 to ensure that service levels for bridges were maintained. The bridge maintenance budget for 2006 and 2007 did reach the necessary \$5.7 million. However, as can be seen in Figure 3, the actual expenditure for 2007 was below budget (\$878 000). DIER explained that this apparent reduction occurred when maintenance funding was transferred to major bridge refurbishment work.

5.4 Conclusion

DIER has made significant improvements to fully implement the two recommendations from our 2005 audit. The backlog of bridge inspections has been almost entirely eliminated and steps have been taken to ensure that the maintenance register is regularly updated.

In addition, it is particularly pleasing to note the substantial increase in funding that has occurred for both maintenance of and capital improvements to the state's bridges.

Follow-up response from Department of Infrastructure, Energy and Resources

The department indicated that it was happy with the report's conclusions and the follow up process in general.

6 Managing FBT liabilities

6 Managing FBT liabilities

The 2005 report

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 to the public sector is complex and requires some of the larger entities to commit considerable resources in order to comply.

There is an added complexity in that 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.

In our original audit we examined six public sector entities and assessed their compliance with legislative requirements. The objective of the audit was to determine whether entities 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 scope of the audit focused on FBT payments at 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 entities provided a cross section of public sector operations and organisational size.

The entities tested were:

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

It should be noted that only five of the original entities were reviewed for this Report since the Port of Launceston has now become part of Tasmanian Ports Corporation.

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
- entities minimised their FBT liability whilst still complying with Australian Taxation Office (ATO) requirements
- FBT returns were submitted promptly.

The next sections of this Chapter briefly outline our 2005 report together with audit findings and the recommendations made at that time. Management responses, which were included as part of the 2005 report, are not reported here.

6.1 *Responsible staff were aware of FBT requirements*

There was evidence that staff at the operational level were often not aware of FBT obligations and what source documentation should be retained. This, at times, 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

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

6.2 *Adequate policies and procedures*

Only two of the six entities 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 completed the documentation required for processing the information.

The other entities relied upon ATO documentation and general guidelines but did not have their own policies and procedures documented.

Recommendation 2 (excludes Aurora)

Entities 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.

6.3 *FBT liability was correctly calculated*

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

Recommendation 3 (excludes LCC)

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

6.4 *Reimbursement of expense payments*

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. Testing during the original audit revealed that the 'otherwise deductible' rule was not being applied by all entities with the result that FBT liability might have been overstated.

Recommendation 4

Entities 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.

6.5 *Entities minimise their FBT liabilities*

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 was made by one agency from incorrectly including car parking liability.

- PAYG salary payments incorrectly treated by another agency as FBT.
- The use of alternate methods for calculating meal entertainment expenses may have resulted in less liability being incurred.

Recommendation 5

Entities 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.

6.6 *Status of recommendations*

In reviewing implementation of the five recommendations for this Report, we asked entities to complete a questionnaire concerning the level of implementation of each recommendation. We also requested a copy of each entity's FBT procedures as outlined in Recommendation 2. All entities except LCC provided us with a copy of its FBT procedures. In LCC's case, documentation is included in processes required for credit card use and training is provided to finance staff who process all payments with FBT implications.

Each entity reports a 100% implementation of all relevant recommendations.

6.7 *Conclusion*

With 100% implementation of each recommendation we are satisfied that all entities have addressed all concerns raised in the original audit.

Follow-up response from entities

All entities indicated that they were happy with the report's conclusions and the follow up process in general.

7 Recent reports

7 Recent reports

Year	Special Report No.	Title
2004	-	Ex-gratia payment to the former Governor Mr R W Butler AC
2004	51	Special purpose and trust funds: Department of Health and Human Services
2004	52	Internal audit in the public sector
2005	53	Follow-up audits
2005	54	Compliance audits
2005	55	Gun control in Tasmania
2005	56	TT-Line: Governance review
2005	57	Public housing: Meeting the need?
2005	58	FBT Payment of accounts Asset management: Bridges
2006	59	Delegations in government agencies Local government delegations Overseas Travel
2006	60	Building security Contracts appointing Global Value Management
2006	61	Elective surgery in public hospitals
2006	62	Training and development
2006	63	Environmental management and pollution control act by local government
2006	64	Implementation of aspects of the <i>Build Act 2000</i>
2007	65	Management of an award breach Selected allowances and nurses' overtime
2007	66	Follow-up audits
2007	67	Corporate credit cards
2007	68	Risdon Prison: Business case
2007	69	Public building security
2007	70	Procurement in government departments Payment of accounts by government departments
2007	71	Property in police possession Control of assets: Portable and attractive items
2008	72	Public sector performance information
2008	73	Timeliness in the Magistrates Court

8 Current projects

8 Current projects

Performance and compliance audits that the Auditor-General is currently conducting:

Executive termination payments	Samples termination payments made to exiting senior executive staff across public sector entities.
Management of threatened species	Examines the measures in place to protect native species and biodiversity in Tasmania.
Complaint handling by local government	Examines processes used by local government in handling external complaints.
Hydro hedges	Examines processes for approving currency and interest hedges.
Science teaching in Tasmanian high schools	Examines the quality of science teaching in Tasmanian high schools against national and international standards.
Profitability, and economic benefits to Tasmania, of Forestry Tasmania	Evaluates Forestry Tasmania's financial and economic performance.
Food safety — eggs	Examines the effectiveness of the government's role in food safety with emphasis on egg production, retail of raw eggs and manufacture and sale of egg-related products.