

31 August 2012

Mr J Dawson  
Assistant Director (Forest Policy)  
Department of Infrastructure, Energy and Resources  
10 Murray Street  
**HOBART TAS 7000**

**Tasmanian Community Forest Agreement Intensive Forest Management Program – Funding Received and Expended by Forestry Tasmania over the Period 2004-05 to 2010-11**

The audit of the financial information reported by Forestry Tasmania in relation to funding received and expended under the Tasmanian Community Forest Agreement (TCFA) Intensive Forest Management Program over the period from 2004-05 to 2010-11 has been completed. I have issued my audit report, a copy of which is enclosed.

**Background**

Under the TCFA, Forestry Tasmania had received \$140.137m between 2004-05 and 2010-11. This funding was provided jointly by the Australian and Tasmanian Governments. The majority of the funding, \$115.000m, was allocated for the Intensive Forest Management (IFM) Program comprising of existing plantation productivity improvement and development, new plantation establishment and enhanced native forest thinning programs. Forestry Tasmania had received all TCFA funds allocated to it by 30 June 2011, but activities which fall under the IFM Program remain ongoing.

**Scope of Audit**

Each year, Forestry Tasmania acquits the TCFA funding received and expended on IFM activities undertaken in the given year and in total since the commencement of the IFM program. I was engaged by the Department of Infrastructure, Energy and Resources (the Department) to undertake an audit of:

1. the processes used by Forestry Tasmania to account for the TCFA IFM expenditure over the life of the IFM Program to ensure that the processes and financial amounts materially comply with the annual acquittal reports provided for the period 2004-05 to 2010-11; and
2. provide a professional opinion on the methodology used by Forestry Tasmania to ensure unacquitted funds provided by the TCFA IFM Program are shown in Forestry Tasmania annual accounts and reported to the Tasmanian and Australian Governments.

...1 of 4

The audit was carried out in accordance with Australian Auditing Standards and in particular ASA 805 *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

## Financial Information

The annual acquittal reports are based on information extracted from the Forestry Operations Database (FOD), which contains records of coupes, area sizes and program activities. Forestry Tasmania uses the following rates to acquit expenses incurred for activities performed under the IFM Program:

- Establishment of new hardwood plantations: \$6,000/ha (establishment cost of \$3,500/ha, high pruning (three lifts) of \$1,800/ha and fertilising \$700/ha). There is no separate acquittal for the cost of pruning and secondary fertilising of new plantations, as these costs are included in the initial establishment cost and acquitted at that time.
- Upgrade of existing hardwood plantation: high pruning \$600/ha and fertilising \$351/ha.
- Eucalypt regrowth thinning: \$16/tonne, which is based on a cost of \$1,600/ha and average 100 tonne of regrowth removed per ha (cost of \$4.000m based on 500 ha for 5 years).

I have audited the financial information reported by Forestry Tasmania to the Department under the IFM Program, comprising the amounts of funding received and expended between 2004-05 and 2010-11. I have also audited the processes used by Forestry Tasmania to account for expenditure incurred under the IFM Program. The amounts expended are based on the area in hectares and the type of activity undertaken as extracted from the FOD. I have accepted this information as correct based on my understanding that it was subjected to a separate performance audit. Testing of the FOD data was outside the scope of my audit. I note that the performance audit identified some inconsistencies between annual acquittals and information in the FOD.

Based on my audit and using the revised areas, it appears that Forestry Tasmania understated the cost of establishment of new plantations, pruning and fertilising. In relation to regrowth thinning, it appears that Forestry Tasmania overstated the cost of thinning. Overall, Forestry Tasmania understated the cost of the IFM Program by approximately \$3.104m or 2.7% of the funding allocated to the IFM Program over the whole period. I consider this difference to be immaterial and therefore have concluded that the financial information reported by Forestry to the Department presents fairly, in all material respects, the financial transactions of the IFM Program for the period over 2004-05 to 2010-11.

The table below details the differences between the reviewed FOD areas and areas reported in the annual acquittals as well as differences between the total cost acquitted and the revised cost based on the reviewed FOD areas:

...2 of 4

**Table 1: Comparison of areas acquitted by Forestry Tasmania and audited FOD data**

	Acquittal Year							Total (ha)	Total (\$'000)
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11		
<i>New Plantation Area (ha)</i>									
FOD data	2,335	587	1,835	3,661	3,065	1,404	567	13,455	80,730
Annual Acquittal	0	2,300	3,913	3,347	2,388	515	688	13,151	78,906
<b>Under/(Over) Acquitted</b>	<b>2,335</b>	<b>-1,713</b>	<b>-2,078</b>	<b>314</b>	<b>677</b>	<b>889</b>	<b>-121</b>	<b>304</b>	<b>1,824</b>
<i>Pruned Area (ha)</i>									
FOD data	6,799	8,666	5,578	3,697	1,681	1,181	1,166	28,767	17,260
Annual Acquittal	1,838	9,030	5,465	3,802	1,982	1,175	1,273	24,565	14,739
<b>Under/(Over) Acquitted</b>	<b>4,961</b>	<b>-364</b>	<b>113</b>	<b>-105</b>	<b>-301</b>	<b>6</b>	<b>-107</b>	<b>4,202</b>	<b>2,521</b>
<i>Fertilised area (ha)</i>									
FOD data	4,379	2,662	1,978	4,434	2,329	2,847	1,381	20,010	7,024
Annual Acquittal	1,496	2,677	2,042	4,386	2,487	3,092	1,423	17,603	6,179
<b>Under/(Over) Acquitted</b>	<b>2,883</b>	<b>-15</b>	<b>-64</b>	<b>48</b>	<b>-158</b>	<b>-245</b>	<b>-42</b>	<b>2,407</b>	<b>845</b>
<i>Thinned area (ha)</i>									
FOD data		300	351	202	677	647	249	2,426	3,882
Annual Acquittal	220	339	1,100	715	70	943	343	3,730	5,514
<b>Under/(Over) Acquitted</b>	<b>-220</b>	<b>-39</b>	<b>-749</b>	<b>-513</b>	<b>607</b>	<b>-296</b>	<b>-94</b>	<b>-1,304</b>	<b>-2,086</b>
Total cost acquitted by Forestry Tasmania									105,338
Total eligible cost based on revised FOD data									108,895
<b>Total Under/(Over) Acquitted</b>									<b>3,104</b>

### Disclosure of Unacquitted Funds

Forestry Tasmania recognises the TCFA funding as income over the periods necessary to match related costs. As it relates to capital costs, the TCFA funding is recognised in the Statement of Financial Position as revenue received in advance and then recognised as revenue when the related assets are realised. On the other hand, TCFA funding applied to operating costs are recognised as income immediately. This treatment is in accordance with Australian Accounting Standard AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. Ongoing capital commitments, representing funds received not yet spent or unacquitted, under the Program are disclosed in the notes to the financial statements in accordance with AASB 101 *Presentation of Financial Statements*.

The amount of the TCFA funding recognised as income is presented in the Statement of Comprehensive Income under two separate headings: 'Tasmanian Community Forest Agreement Income – operating activities' and 'Tasmanian Community Forest Agreement Income – intensive forest management'. This treatment is acceptable under AASB 120.

In addition, Forestry Tasmania also reports the amount of unacquitted funds in its financial statements. In 2010-11, the relevant note was Note 15, which read as follows:

*“As noted in note 2(e) [...the revenue from the Tasmanian Community Forest Agreement (TCFA) is recognised as income when the expenses have been incurred in relation to the specific projects for which funds have been received. Any remaining funds are held in revenue received in advance until expenditures have been incurred ... Ongoing capital commitments under the TCFA funding are disclosed in note ...] funds have been received in advance under the TCFA which is an agreement signed by the State and Commonwealth to supplement the provisions of the Regional Forest Agreement (RFA). All TCFA funds have been received by Forestry Tasmania and will be used for the establishment of additional, and improvement of existing, hardwood plantations to compensate for the loss of sustainable forest due to the creation of additional conservation reserves. As at 30 June 2011, there remains \$10million (2010: \$15 million) of works to be acquitted against the TCFA intensive forest management program.”*

The methodology used by Forestry Tasmania to disclose unacquitted funds in its annual financial statements and reported to the Tasmanian and Australian Governments appears reasonable.

If you have any queries regarding the audit or any other matters, please contact myself or Mr Jara Dean on 6226 0100.



H M Blake  
**AUDITOR-GENERAL**

Encl.

...4 of 4