

**Deloitte.**



TAS focus  
September 2015

Edition four



# Contents



4	Foundations for prosperity	9	From the boardroom	14	Deloitte Access Economics – The Tassie report
6	Risk Matters	10	Financial reporting	15	Partner movements
7	Building the Lucky Country	12	Deloitte Tasmania index	18	Contacts





Dear Director,

We have two aims for TAS focus

- To provide Directors who live or work within Tasmania with some valuable insights that will assist you in your role, provide a snapshot of the market, and give you some highlights from Deloitte Tasmania
- Recognising the competing demands on your time, to provide it in a format that takes 15 minutes or less to read.

We also send TAS focus to selected CEO's who have either requested a copy or whom we believe may find its Director targeted content useful.

We hope you enjoy this edition.





# Foundations for prosperity

## Supporting Tasmanian Business



Carl Harris  
Managing Partner

For the second year in a row I have been fortunate enough to present before the Treasurer at the Tasmanian Chamber of Commerce and Industry, Launceston Chamber of Commerce and Burnie Chamber of Commerce Budget briefing events. This year I presented to over 600 business leaders across the state and I finished my presentation with one of the key messages that I believe could significantly improve our future prosperity. My message varied slightly in each presentation but the underlying theme was:

'As politicians and business leaders of influence we can all have an impact – today. If we want expats back and if we want to attract new talent to move to Tasmania and grow the population, let's start by growing the labour demand here. We should, wherever possible, review major supply contracts and make sure they are with firms that have a local presence and employ Tasmanian's, buy Tasmanian products and support

Tasmanian businesses. It is time for us to really support each other. You can do it, I can do it and we all have a vested interest in it.

It is starting, so let's collectively build on this foundation to support Tasmanian business and help make our state more prosperous.'

My reference to 'it is starting' is reflective of numerous conversations I have had with business leaders around the state. Many of them, myself included, are disappointed at the amount of work that is sent interstate or uses fly-in and fly-out resources when the work can be done by Tasmanian businesses. I have been heartened that many business leaders are spreading the same message.

At a recent MyState Limited event, the Chairman, Miles Hampton, concluded the evening speeches by asking the 200 odd strong audience to support

Tasmanian businesses such as MyState. His comments were met with long and strong applause.

At another event a CFO new to the state talked about how his company had made several major contractual appointments recently and how each time they actively discussed supporting Tasmanian based businesses. I congratulated him on their position and reiterated the impact it has on the state.

Another great example is a recent article on Bell Bay Aluminium and the comment from General Manager, Ray Mostogl, that Northern Tasmanian contractors would be employed to complete the \$15m upgrade to the smelter's wharf and carbon baking furnace (Source: The Examiner 8 May 2015).

The Governments Buy Local policy was implemented in 2014. 'The Tasmanian Government is committed to backing

local businesses to create jobs and stimulate the economy to deliver growth. The Government's Buy Local policy has been developed to increase awareness of the requirements for, and benefits in, buying locally and improve access to Government contracts for small and medium enterprises (SMEs)' (Source: Buy Local Policy, Version 1, May 2014).

The above are a few examples where we are seeing a real and rightful, focus on Tasmanian contracts being awarded to Tasmanian businesses. We can all name some that have gone the other way forcing us to watch those dollars leave the state.



## Foundations for prosperity (cont.)

Tasmanian businesses hire locals, they encourage the population to remain here and also encourage expats to come back. Tasmanian businesses contribute a payroll into the community, they pay rent, pay utility bills, sub contract other Tasmanian businesses and so on. In short, being based here mandates a contribution to the community.

Deloitte Access Economics have noted that approximately 90% of post taxable income is spent (with 10% saved). It is reasonable to assume that if you pay a Tasmanian then the majority of that money will be spent here whether it is on housing, consumption, financing etc. If you pay an interstate business, other

than the short term visitor spending, money is lost to the other state.

I have always prioritised support of Tasmanian businesses when I make private consumption choices. I encourage my staff to do the same. Wherever possible I encourage support of Tasmanian businesses for professional purposes as well. We should all be doing what we can to support each other to grow the labour market here and attract talented people to the state or back to the state.

If we support each other we can build prosperity in Tasmania together.





# Risk matters



## Tasmania Fraud Survey



**Elizabeth Lovett**  
Risk Partner



**Blair Browning**  
Risk Manager

The estimated cost of fraud to Australia is \$5.88 billion a year, which represents almost a third of the total cost of crime in Australia (source: Australian Institute of Criminology). In Tasmania we are not immune to fraud; recent statistics released by Tasmania Police show that reported incidences of fraud in Tasmania increased by over 18% from 2011/12 to

2013/14. The type of fraud experienced is also changing, with computer related fraud accounting for 15% of incidents reported in Tasmania last year, up from 10% in 2012/13.

In light of this, Deloitte has undertaken a confidential survey of 160 individuals representing organisations across

Tasmania to gain an understanding of the types of fraud and corruption risks that organisations within Tasmania are exposed to, and the measures organisations are taking to reduce these risks. The survey will be undertaken biennially to enable ongoing reporting and monitoring of fraud and corruption risks across Tasmania.

*Our findings were revealing to say the least. A snapshot of these is included below and our full report was released on 3 September 2015.*



**27%** of Tasmanian organisations surveyed have experienced one or more known incidents of fraud or corruption in the past two years.



**54%** of respondents perform a regular fraud risk assessment to consider, identify and prioritise risks of fraud faced by their organisation. This means **46%** do not conduct regular fraud risk assessments.



**21.4%** of instances of fraud were not reported to the police.

Deloitte's survey highlights that fraud and corruption is a risk for all organisations operating in Tasmania. More than a quarter of respondents experienced an incident of fraud over the past two years. Although the financial loss involved in

most instances is low (57% of instances resulted in a loss of less than \$5,000), there can be other significant costs for the organisation, including remediation costs, reputational damage, reduced staff morale, and regulatory and legal

breaches. These costs often far exceed the dollar cost of the fraudulent act. The likelihood of fraud occurring can be reduced by implementing effective anti-fraud programs and controls that can identify fraud in a timely manner

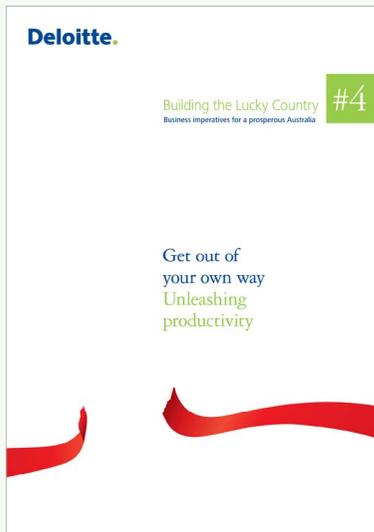
and minimise the resulting damage. Fraud prevention and detection makes good business sense by protecting an organisation's reputation and minimising leakage, while potentially providing cost savings to organisations.

It is the responsibility of those charged with corporate governance to ensure appropriate systems and processes are implemented to reduce the risk of financial crimes being committed by or against their organisation.



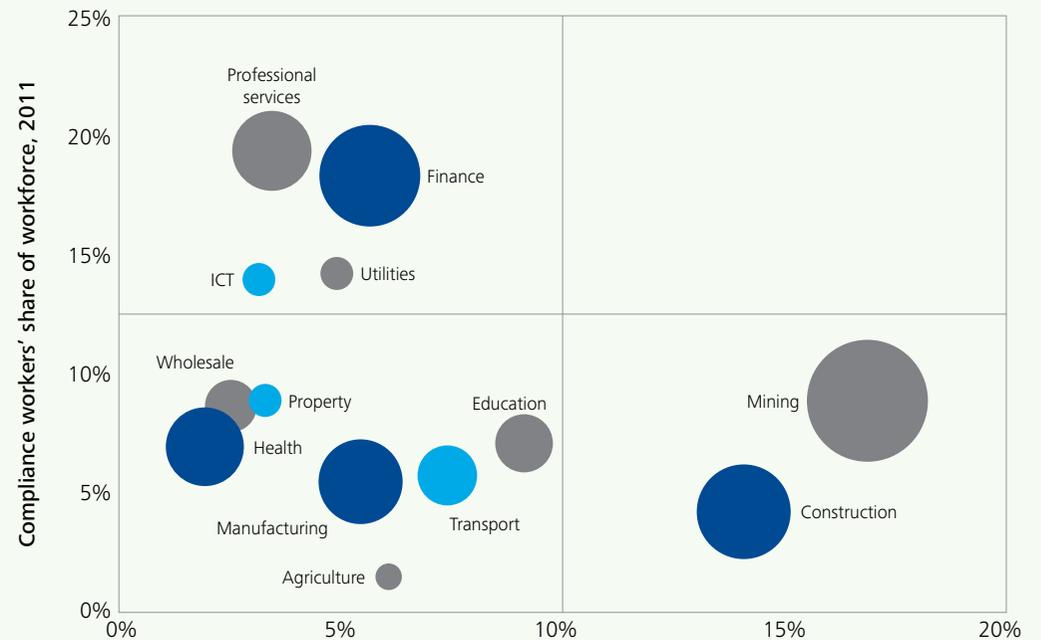


# Building the Lucky Country



The cost of following unnecessary rules and regulations across the public and private sector in Tasmania is over \$5 billion. In this, the third extract from Building the Lucky Country #4 (BTLC#4), we wanted to become more granular and examine some of the industry sectors that are more prone to rules and red tape. The table below has four quadrants and plots the compliance workforce as a percentage of the industry workforce, against growth in compliance workers share of the workforce.

The top left quadrant contains professional services, finance, utilities and ICT. These sectors have a high level of compliance workers.



Growth in compliance workers' share of workforce, 2006-11

The higher a sector is on the chart, the larger the share of compliance occupations in its total workforce. The further to the right on the chart, the faster the growth in the share of compliance occupations. Bubble size reflects the size of the sector in terms of output.





# Building the Lucky Country (cont.)

**Finance** – The rapidly rising compliance burden in the financial sector continues to increase. It is the pace of increase in this burden that particularly stands out. One third of all employment growth in the finance sector from 2006 to 2011 was made up of compliance workers. This creates an enormous cost for banks and other financial institutions. In fact in our report we noted that NAB estimated it will spend \$265 million complying with regulation in 2014. The key concern in this sector is that it looks set to continue – and that is just the public sector rules. Self-imposed rules are also impacting and across the sector the bigger the organisation the more self-imposed rules they tend to have.

**Utilities** – The regulation and issues in this sector are generally well known and reported in the press. There is positive news across these sectors as regulatory burden has grown more slowly in recent years.

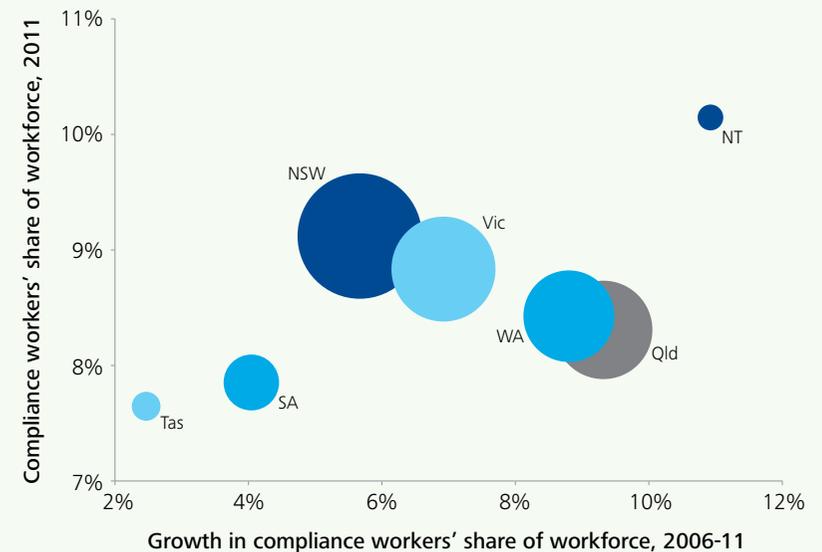
**Professional services** – This sector is quite diverse and is impacted by many members whom provide compliance services. In other words this sector has been able to efficiently handle the compliance needs of companies and reduce their costs that would otherwise weigh more heavily on the living standards of Australians. It is no wonder that almost one in every four new workers in this sector from 2006 to 2011 was a compliance worker.

**Mining and construction** – This quadrant shows sectors where compliance burdens are not currently high, but are increasing quickly. It is worth noting the increase in compliance costs has had many benefits – most notably significantly better safety outcomes for their workforce.

**The safe zone** – The bottom left quadrant is where compliance costs are lower than average and so too is their relative growth in those costs. Industries in this quadrant include

manufacturing, agriculture, education, transport, health, property and wholesale. Rather than include an ‘other services’ category we examined 18 sectors in detail. Only one in four of those 18 saw the share of compliance roles shirk in the five years to 2011. They were: accommodation and food, administrative services, arts & recreation and retail. Notably, in all four cases, the declines were marginal. Even in the safe zone there is a rising share of the sectors staff in compliance workers.

**State and territory trends** – Not surprisingly states that align to higher compliance industries tend to have a greater number of compliance workers. Tasmania comes out relatively well on the state versus state compliance worker matrix with the lowest level of compliance workers in the country. But before we all sit back and relax, let’s finish where we started – The cost of following unnecessary rules and regulations across the public and private sector in Tasmania is over \$5 billion.





# From the boardroom



Our latest Board effectiveness survey is out and we are sharing the views of 150 Audit Committee Chairs with you. In this issue we discuss the rise and rise of Risk.

The significance of risk for audit committees continues to grow. Traditionally the remit of audit committees was financial risk, but as companies face a range of new or increased sources of risk, combined with a more dynamic business environment, the remit of risk for most committees has grown to encompass greater sources of risk. Some of these are created by external factors, including rapid technological change, which is increasing the risk of digital disruption and cybercrime, and the still-uncertain global economic environment.

## The main risks of concern to audit committees are:

- Financial 57%
- Strategic 44%
- Operational 43%
- Regulatory 34%
- Changing business models 27%
- Technology 22%.

Audit committees are struggling to find the best way to reconcile their audit and risk responsibilities. Most audit committees have a combined audit and risk committee and are finding that risk is taking up more of the audit committees time – as much as half in some cases – and causing agendas to be redesigned. In fact 36% of respondents felt that combining audit and risk responsibilities does not leave enough time to consider risk.

A fundamental issue for many audit committees is that their companies are struggling to define their risk appetites. Also with changing and more specialised risk, audit committee chairs are questioning whether their committee members have the skills to effectively manage risks such as occupational health & safety, privacy, IT, cyber security and the environment. Even traditional risk management frameworks are being reviewed given their focus on monitoring short term, operational risks.

These factors and an increased desire to consider unknown 'over the horizon' risks have resulted in the identification and management of risk being the number one issue for audit committee chairs for the next 12 to 24 months.





# Financial reporting



## Listed company reporting

The half year results for Ruralco Limited were lodged on the 19th of May 2015. Net profit after tax was up 105.9% to \$10.5m (after a 36.4% increase in revenue from ordinary activities). Also on the same date it announced the appointment of Adrian Gratwicke as Chief Financial Officer (effective 6th July 2015).

The entities with a 30 June year end lodged their Appendix 4E's during the month of August. The results were mixed and are summarised in the following table:

31 December year end entities lodged their half year results and the details were:

Entity	
BCD Resources NL	Receivers and Managers (R&M) remain in place. An exemption from reporting was issued by ASIC on 21 July 2015, allowing reporting to be deferred until 21 July 2017, or the date R&M cease, whichever is the earlier.
Bellamy's Australia Limited	Profit after tax increased by 617% to \$9.1m (up from \$1.3m).
Huon Aquaculture Group Limited	Profit after tax decreased by 50.87% to \$16.6m (down from \$33.8m).
MyState Limited	Profit after tax increased by 9.95% to \$32.5m (up from \$29.6m).
Tassal Group Limited	Profit after tax increased by 21.75% to \$50.0m (up from \$41.1m).
Webster Ltd	Profit after tax down by 31% to \$5.8m, which included acquisition costs of \$3.9m.
Grange Resources Limited	A half year loss after tax of \$79.8m, an improvement of 51% on the prior half year loss of \$162.2m. An impairment of \$161.6m was booked compared to the comparative half year period impairment of \$296.1m.
Tasmania Mines Ltd	A profit of \$2.8m, down by 13.9% from the \$3.2m recorded for the half year ended 30 June 2014.





## Financial reporting (cont.)

### ASIC focus areas

As we close out the 30 June reporting cycle and look ahead to December it is worthwhile revisiting ASIC's 30 June year end reporting focus areas as they provide unique insight into ASIC's priorities / concerns.

The areas of focus were generally consistent with prior periods.

They were:

- Impairment testing and asset values
- Off-balance sheet arrangements
- Revenue recognition
- Expense deferral
- Tax accounting
- Estimates and accounting policy judgements
- Impact of new revenue and financial instrument standards.

Impairment of goodwill, other intangibles and property, plant and equipment remains the most significant concern. In particular, the use of unrealistic cash flows and assumptions and lack of congruence between the cash flows used and the assets being tested for impairment. Specific emphasis is placed on companies in extractive industries and mining support services, as well as asset values that may be affected by digital disruption.

Other areas of focus include the appropriateness of key accounting policy choices that can significantly affect reported results. These include off-balance sheet arrangements, revenue recognition, capitalisation or expensing of costs and tax accounting.

Directors are called upon to challenge the accounting estimates and treatments applied in the financial report and obtain further advice if these do not reflect their understanding of the substance of the transaction or knowledge of the business.

'Directors and auditors should continue to focus on values of assets and accounting policy choices. We continue to see instances where companies have used unrealistic assumptions in testing the value of assets or have applied inappropriate accounting choices in areas such as revenue recognition' ASIC Commissioner John Price said.

ASIC is focused on the quality of financial reporting. Financial reports should provide useful and meaningful information for investors and other users. ASIC is not focused on immaterial disclosures that add unnecessary complexity or clutter to the financial reports.





# Deloitte Tasmania index

The Deloitte Tasmania Index to 30 June 2015 continued similar momentum seen in recent quarters. Some strong financial results and transactions were driving the index upwards and increasing the gap over the All ordinaries and ASX Small Ordinaries.

**Key matters potentially impacting the index this quarter were:**

- Webster Limited completing two new transactions
- Tassal Group Limited advancing the De Costi acquisition (the completed outside the quarter in July 2015)
- Profit guidance (upwards) from Bellamy's Australia Limited
- Profit guidance (downwards) from Huon Aquaculture Group Limited
- Increase in profit for Ruralco Holdings Limited.

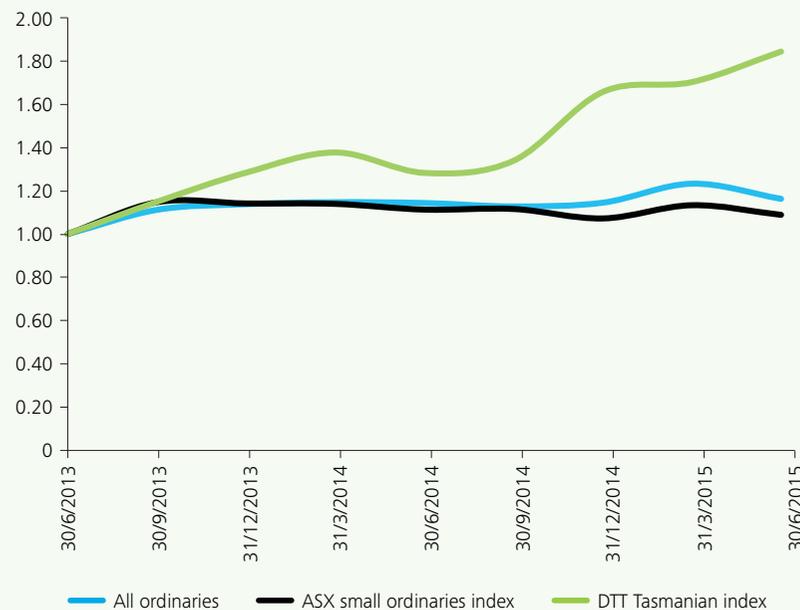
**Post 30 June items of interest are:**

- MyState Bank Limited launches a \$25m Tier 2 subordinated debt issue that is oversubscribed
- Tassal Group Limited complete the De Costi acquisition.

**\*Entities within the Deloitte Tasmanian Index are:**

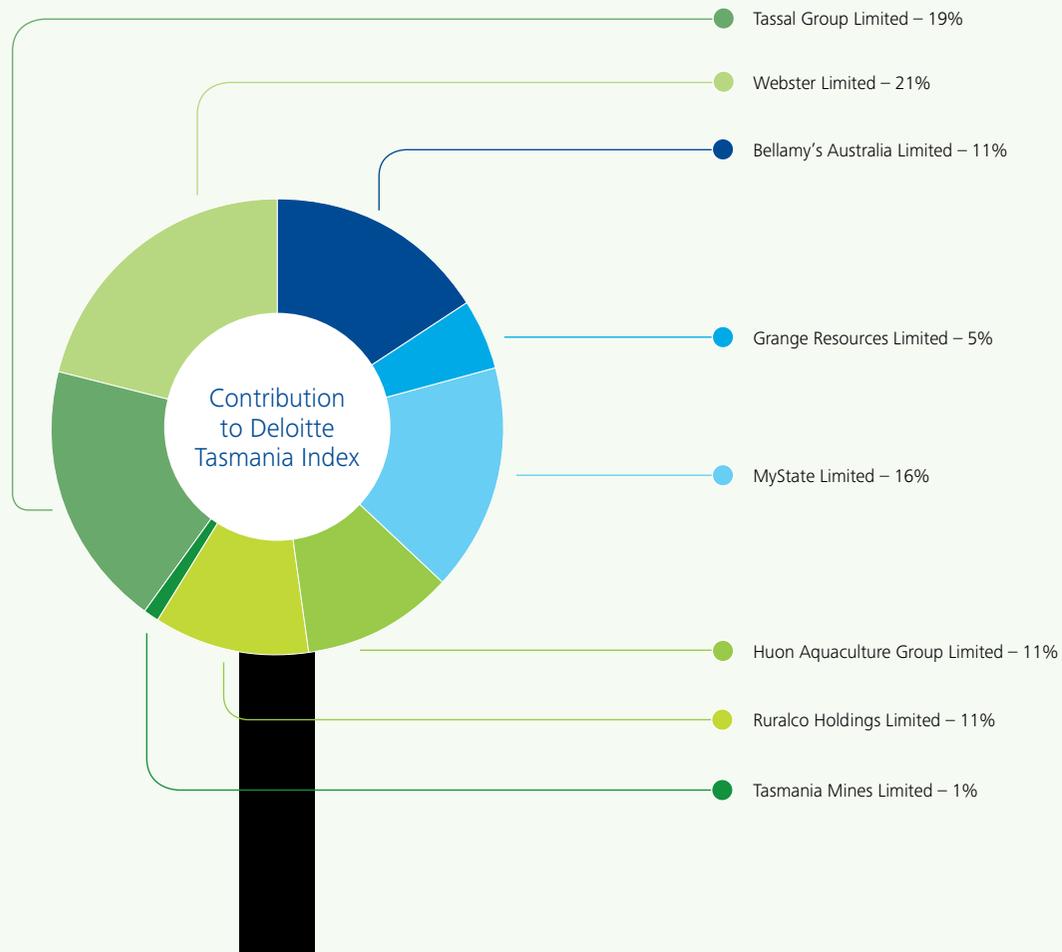
- Bellamy's Australia Limited
- Grange Resources Limited
- Huon Aquaculture Group Limited
- MyState Limited
- Ruralco Holdings Limited
- Tasmania Mines Limited
- Tassal Group Limited
- Webster Limited.

BCD Resources NL is currently suspended and on the ASX and has been temporarily removed from the Tasmania Index analysis.





## Deloitte Tasmania index (cont.)



### Major movements from the previous quarter were:

- Webster Limited up from 10%
- Bellamy's Australia Limited up from 11%



# Deloitte Access Economics – The Tassie report



**David Rumbens**  
Partner  
Deloitte Access Economics

Tasmania's economic performance continues the trend of being relatively strong over the past two years, comparing reasonably well relative to the rest of the country on several key indicators over that time. The key measure of real Tasmanian GSP growth was 1.7% over the year to March 2015, a little under the 2.3% seen nationally. Reasonable outcomes are also seen across many of Tasmania's key economic indicators:

- The trend unemployment rate has moderated down to 6.5% in June (half a percentage point above the national rate)
- Retail sales increased by 3.3% over the year to June 2015
- New car sales increased by 10.9% over the year to June 2015 (the strongest growth out of any State or Territory)
- Private housing investment increased by 10.0% over the year to March 2015, with residential building approvals indicating continued strength ahead; while

- House price growth has remained slow, up 1.9% over the year to March 2015 (avoiding the problems befalling Sydney and Melbourne).

However, business investment continues to remain low. Future prospects were dealt a blow here, with the proponents of the \$500 million windfarm at Cattle Hill placing the project on hold, citing changes to the Renewable Energy Target as the cause.

The steady weakening in the \$A continues to be a positive for the State's tourism sector. Visitor trips were 1.1 million over the year ending March 2015, up by around 4% on the prior year with around half of those trips for leisure. Tasmania, as a unique State in terms of its climate and geography, should continue to benefit as a leisure destination as domestic travel becomes more attractive due to a lower \$A.

As a result, Tasmania's economic outlook is relatively sound amid the broader national economy, which is battling the wind-down of mining investment and crashing commodity prices. Key sectors for the State such as tourism and agriculture have economic tailwinds coming from a lower \$A as well as lower energy prices and implementation of free trade agreements. However, a significantly lower rate of population growth in Tasmania will mean economic growth will still struggle to compete with the rest of Australia on growth metrics.

The source for the above economic commentary is the Deloitte Access Economics 'Business Outlook' publication.





## Partner movements



**Elizabeth Lovett**

On 28 May 2015 the Deloitte Board approved the admission of Elizabeth Lovett to the Deloitte Partnership. The appointment was effective 1 July 2015.

We are delighted to announce Elizabeth (Lizzie's) appointment. Lizzie was a Director in our Risk Services division and has worked closely with David Harradine for many years. I know Lizzie is known to many of you and indeed thank you to those who provided feedback to our partnership during our selection process.

Lizzie has over 12 years business experience providing services in internal audit, risk management, management consulting, IT consultancy and project management in both the private and public sectors.

Lizzie is our third partner promotion in Tasmania in three years with Damien Bones (Business Advisory Services) in 2013 and Angela Paynter (Audit) in 2014.





## Final word

We hope that you have enjoyed this edition of TAS focus.  
We thank you for your time and continued support.

Regards, The Tasmanian Partners

**Damien, Carl, Lizzie, Tim, Angela, Simon, James, Roger and Rod**





For copies of any reports referred to in this document, feedback or if you require any further information please contact our Tasmanian Managing Partner at [carharris@deloitte.com.au](mailto:carharris@deloitte.com.au)





# Contacts



## Hobart office



**Damien Bones**  
Business Advisory Services  
Tel: +61 3 6237 7097  
dbones@deloitte.com.au



**Carl Harris**  
Assurance & Advisory  
Tel: +61 3 6237 7630  
carharris@deloitte.com.au



**Elizabeth Lovett**  
Risk Services  
Tel: +61 3 6237 7027  
ellovett@deloitte.com.au



**Tim Maddock**  
Corporate Tax  
Tel: +61 3 6237 7065  
tmaddock@deloitte.com.au



**Angela Paynter**  
Assurance & Advisory  
Tel: +61 3 6237 7072  
apaynter@deloitte.com.au



**Simon Tarte**  
Consulting  
Tel: +61 3 6237 7030  
starte@deloitte.com.au

## Launceston office



**James Down**  
Business Advisory Services  
Tel: +61 3 6337 7065  
jdown@deloitte.com.au



**Roger McBain**  
Business Advisory Services  
Tel: +61 3 6337 7032  
rmcbain@deloitte.com.au



**Rod Whitehead**  
Assurance & Advisory/Risk Services  
Tel: +61 3 6337 7061  
rwhitehead@deloitte.com.au





This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the “Deloitte Network”) is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

#### **About Deloitte**

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte’s approximately 200,000 professionals are committed to becoming the standard of excellence.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/au/about](http://www.deloitte.com/au/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

#### **About Deloitte Australia**

In Australia, the member firm is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia’s leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 6,000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit our web site at [www.deloitte.com.au](http://www.deloitte.com.au).

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

© 2015 Deloitte Touche Tohmatsu

MCBD\_HYD\_09/15\_52202