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ACT AUDITOR–GENERAL'S

FINANCIAL AUDIT REPORT

2022-23 Financial Audits
Financial Results and Audit Findings

Report No. 11 / 2023

The ACT Audit Office acknowledges the Ngunnawal people as the traditional custodians of the ACT and recognises any other people or families with connection to the lands of the ACT and region.

The ACT Audit Office acknowledges and respects their continuing culture and the contribution they make to the life of this city and this region.

Contact for this report

General enquiries about this report should be directed to:

Email: actauditorgeneral@act.gov.au

Phone: 02 6207 0833

Postal address: ACT Audit Office, GPO Box 158, Canberra ACT 2601.

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Audit Team

Aamir Akram
Adrita Inam
Ajay Sharma
Anastasia Lagutina
Anthony Yap
Asad Khan
Avnita Nand
Benjamin Fradd
Danyer Lu
David O'Toole
Edward Kasamba
Elaine Zhang
Elizabeth Royds
Hassan Ali
Imran Ashraf
Jatin Singh
Jaynesh Parbhu
Jiaoji Waqainabete
Joe Wong
Jyoti Gurung
Linh Vu
Muhammad Ajmal
Muhammad Shoaib
Philip Mini
Rehan Anjum
Rommel Toedoro
Rosa San Miguel
Saman Mahaarachchi
Samina Khatoon
Samuel Adjei
Shayal Shivani
Sineka Samarathunga
Sonam Rabgay
Sonam Wangdi
Spandana Modi
Talha Masaud
Tehmina Mazhar
Tim Larnach
Udith Waleboda
Wayne Roche
Yan Bhujel

Support team

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AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

The Speaker
ACT Legislative Assembly
Civic Square, London Circuit
CANBERRA ACT 2601

Dear Madam Speaker

I am pleased to forward to you an audit report titled '2022-23 Financial Audits - Financial Results and Audit Findings' for tabling in the ACT Legislative Assembly pursuant to Subsection 17(5) of the *Auditor-General Act 1996*.

Yours sincerely

M. L. Harris

Michael Harris
Auditor-General
19 December 2023

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SUMMARY

Understanding the financial statements of the Australian Capital Territory Government (Territory) is important as they provide essential information to the ACT Legislative Assembly and community about the:

- financial performance and financial position of the Territory;
- capacity of the Territory to meet its financial obligations as they fall due; and
- financial impact and sustainability of the Territory's policies and strategies over time.

This report includes a discussion of the financial results of the Territory and reporting agencies that significantly affect these results for the year ended 30 June 2023, new audit findings identified during the audits and an update on progress made by reporting agencies in resolving previously reported audit findings. This includes audit findings relating to controls over computer information systems and major financial applications used by reporting agencies to prepare their financial statements.

This is the second of the two audit reports on 2022-23 financial audits. The first audit report '2022-23 Financial Audits – Overview' (Report No. 09/2023) was tabled in the ACT Legislative Assembly on 29 November 2023.

Explanations of the key terms used in this report are included in Appendix A.

Conclusions

THE TERRITORY'S FINANCIAL STATEMENTS

An unmodified auditor's report was issued on the Territory's 2022-23 financial statements indicating that the financial statements present a true and fair view of the Territory's financial position and results of its operations.

The Territory incurred a net operating balance deficit of $892 million in 2022-23 which means that the Territory's expenses exceeded its revenue by $892 million. This was $29 million higher than the deficit anticipated in the budget. The Territory estimates that net operating deficits will continue to be incurred for the next four years as expenses are forecasted to continue to exceed revenue. However, they are anticipated to steadily decline from $794 million in 2023-24 to $214 million by 2026-27.

After adjusting for other economic impacts, mainly in relation to gains on investments, the Territory's operating deficit of $453 million was lower than the budgeted operating deficit of $579 million. The Territory estimates that operating deficits will continue to be incurred for the next three years before returning to a small surplus in 2026-27.

The Territory's borrowings increased by $361 million (4 percent) to $9 869 million at 30 June 2023 with projected total borrowings to increase by almost 70 percent to $16 455 million by 30 June 2027.

The Territory had a strong capacity to pay its liabilities that are due within 12 months at 30 June 2023 and this is expected to remain strong over the next four years.

AUDIT FINDINGS

The total number of audit findings reported in 2022-23 was 52 and this included 29 new audit findings identified this year. Agencies resolved 25 previously reported findings during the year while 23 previously reported findings were not resolved or only partially resolved. The total number of audit findings (52) increased by 8 percent from the 48 findings reported during the two previous financial years.

Almost half of the reported findings are related to internal controls, increasing to 25 this year compared to 18 last year. The number of findings relating to reporting issues decreased to 18 from 21 last year, while the number of governance findings were unchanged from the previous year at 9 reported findings.

The increase in new audit findings and remaining unresolved findings mean that agencies need to focus on maintaining appropriate governance arrangements, implementing well designed and effective internal controls, improving reporting practices and promptly addressing the recommendations made by the Audit Office to resolve reported audit findings in a timely manner.

COMPUTER INFORMATION SYSTEMS

The Audit Office assessed controls over computer information systems used by agencies to prepare their financial statements as satisfactory. This means that these controls provide reasonable assurance that the information reported by agencies in their financial statements from these systems is reliable, accurate and complete.

There are however control weaknesses in the computer information systems used by agencies that need to be addressed to further reduce the risk of errors and fraud in their financial information, unauthorised access to sensitive information, and cyber security attacks.

1 THE TERRITORY’S FINANCIAL STATEMENTS

1.1 The Australian Capital Territory Government’s consolidated annual financial statements (Territory’s financial statements) includes the financial results of:

- ACT Government directorates;
- Territory authorities;
- companies controlled by the Territory; and
- the Territory’s share of joint ventures such as the ActewAGL Joint Venture and land joint ventures.

1.2 The above entities are collectively referred to as reporting agencies and are combined to form the Territory’s financial statements. There are 35 reporting agencies for the 2022-23 reporting period and they are listed in Appendix B.

1.3 The key financial results from the Territory’s audited 2022-23 financial statements are summarised in this chapter. This includes a discussion on:

- key operating results represented by the net operating balance and operating result ((deficit)/surplus). These provide an indication of the financial sustainability of the ACT Government’s strategies and policies, particularly when assessed over time;
- long-term financial position represented by the net assets and unfunded liabilities. This provides an indication of the Territory’s capacity to meet its financial obligations over the period longer than 12 months;
- short-term financial position represented by the net short-term assets. This provides an indication of the Territory’s capacity to meet its financial obligations over the next 12 months; and
- estimated financial results for the period from 2023-24 to 2026-27 included in the 2023-24 Budget Papers.

Conclusion

An unmodified auditor's report was issued on the Territory's 2022-23 financial statements indicating that the financial statements present a true and fair view of the Territory's financial position and results of its operations.

The Territory incurred a net operating balance deficit of $892 million in 2022-23 which means that the Territory's expenses exceeded its revenue by $892 million. This was $29 million higher than the deficit anticipated in the budget. The Territory estimates that net operating deficits will continue to be incurred for the next four years as expenses are forecasted to continue to exceed revenue. However, they are anticipated to steadily decline from $794 million in 2023 24 to $214 million by 2026-27.

After adjusting for other economic impacts, mainly in relation to gains on investments, the Territory's operating deficit of $453 million was lower than the budgeted operating deficit of $579 million. The Territory estimates that operating deficits will continue to be incurred for the next three years before returning to a small surplus in 2026-27.

The Territory's borrowings increased by $361 million (4 percent) to $9 869 million at 30 June 2023 with projected total borrowings to increase by almost 70 percent to $16 455 million by 30 June 2027.

The Territory had a strong capacity to pay its liabilities that are due within 12 months at 30 June 2023 and this is expected to remain strong over the next four years.

Summary

Net operating balance

A net operating balance deficit of $892 million was incurred by the Territory in 2022-23 as the cost of services delivered by the ACT Government ($8 496 million) exceeded its revenue ($7 604 million).

The net operating balance deficit ($892 million) was greater than the budgeted deficit ($863 million) by $29 million (3 percent) mainly due to higher than expected employee expenses and lower than expected revenue from land sales.

The Territory estimates that net operating balance deficits will continue to be incurred over the next four years, however, they are anticipated to steadily decline from $794 million in 2023- 24 to $214 million by 2026-27. This means that the costs of delivering public services are expected to continue to exceed projected revenue over this period.

Operating results

The Territory incurred an operating deficit of $453 million in 2022-23 compared to the budgeted operating deficit of $579 million mainly due to higher than budgeted gains on financial assets resulting from stronger than anticipated returns from investment markets.

The Territory estimates that operating deficits will continue to be incurred for the next three years before returning to a small surplus in 2026-27 as income from other economic flows such as land revenue and gains on financial assets are projected to be insufficient to offset the deficit in the net operating balance.

Financial position

The net assets of the Territory at 30 June 2023 ($20 241 million) were $779 million (4 percent) higher than budgeted ($19 462 million) mainly due to an increase in the value of water, stormwater, and sewerage network assets, and schools from revaluations of these assets.

The Territory's borrowings slightly increased by $361 million (4 percent) to $9 869 million at 30 June 2023 mainly to provide additional funds to invest in major infrastructure projects. Borrowings have significantly increased over the last four years, more than doubling from $4 476 million at 30 June 2019 to $9 869 million at 30 June 2023. Total borrowings are projected to increase by a further 70 percent to $16 455 million by 30 June 2027.

The Territory has a strong net short-term asset position at 30 June 2023 with approximately $1.60 in short-term assets to meet each $1.00 of its short-term liabilities ($1.70 at 30 June 2022). The Territory expects the short-term asset position to remain strong over the next four years.

Operating results

Table 1-1 Operating results

	Actual 2018-19 $m	Actual 2019-20 $m	Actual 2020-21 $m	Actual 2021-22 $m	Actual 2022-23 $m	Budget 2022-23 $m
Revenue	6 034	5 850	6 676	7 377	7 604	7 418
Expenses	(6 271)	(6 811)	(7 334)	(8 299)	(8 496)	(8 280)
Net operating balance deficit	**(237)**	**(961)**	**(658)**	**(923)**	**(892)**	**(863)**
Other economic inflows/ (outflows)	35	(6)	781	(298)	439	284
Operating (deficit)/surplus	**(202)**	**(967)**	**123**	**(1 220)**	**(453)**	**(579)**

1.4 Table 1-1 outlines the Territory's net operating balance and operating results for the period from 2018-19 to 2022-23 and budgeted operating result for 2022-23.

1.5 The Territory's main sources of revenue are:

- Commonwealth Government grants, relating to a share of the national GST revenue pool and funding received to provide healthcare, education, skills and workforce development, and affordable housing;
- taxation, mainly relating to rates, conveyancing duties and payroll tax;
- sales of goods and services, mainly relating to water supply and sewerage services, hospital and other health related services including services provided under cross-border (interstate) arrangements and regulatory services; and
- land revenue (value-add component). This is the increase in the value of land resulting from development work undertaken by the Territory to prepare land for sale, mainly for newly established suburbs in the Territory.

1.6 The Territory's expenses are mainly comprised of employee and superannuation expenses, grants and purchased services, supplies and services, and depreciation and amortisation.

1.7 The net operating balance is a key measure of the Territory's financial performance and is the difference between revenue and expenses.

1.8 The operating surplus/(deficit) is the sum of the net operating balance and other economic flows.

1.9 Other economic flows mainly include:

- net gain/(loss) on financial assets and liabilities at fair value reflecting changes in market conditions that affect the value of investments;
- land revenue (market gains on land sales). This is an estimate of the profit from land sales due to market price increases;
- net land revenue (undeveloped land value). This is an estimate of the value of the land to the Territory at the time a decision is made to progress a development; and
- net gain/(loss) on the sale/(disposal) of non-financial assets.

2022-23 operating result compared to budget estimates

Net operating balance

1.10 The net operating balance deficit ($892 million) in 2022-23 was higher than the budgeted deficit ($863 million) by $29 million (3 percent).

1.11 Total revenue ($7 604 million) was higher than budgeted ($7 418 million) by $186 million (3 percent). This was mainly due to higher:

- Commonwealth Government grants of $176 million mostly relating to GST revenue resulting from higher than expected GST pool funding for 2022-23;
- taxation revenue of $104 million mainly due to higher general rates resulting from a higher than expected number of properties subject to the general rates charge and higher unimproved values of land used to calculate general rates; and higher payroll tax due to wage growth exceeding expectations;

These were partially offset by lower land revenue of $152 million due to fewer than anticipated land sales for the West Belconnen Joint Venture as a result of a delay in the design and construction of required remediation works to enable residential construction next to the former West Belconnen landfill, and reduced demand for land arising from higher interest rates and higher home building costs.

1.12 Total expenses ($8 496 million) were higher than budgeted ($8 280 million) by $216 million (3 percent). This was mainly due to higher than expected:

- employee expenses of $136 million mostly due to higher than expected number of staff associated with hiring additional staff for the implementation and operation of the new Digital Health Record system and to meet increased demand for Access Canberra services. In addition, some contractors were transitioned to permanent employment; and

- other expenses of $117 million mainly related to:
  - an increase in insurance claims payments and an increase in provisions for insurance claims yet to be paid largely due to deteriorating claims experience for both the medical malpractice and property portfolios; and
  - the expensing of costs budgeted to be capitalised in relation to the new Human Resources and Information Management System (HRIMS) program due to the decision for the project to be discontinued.

Operating surplus/(deficit)

1.13 The Territory incurred an operating deficit in 2022-23 of $453 million compared to the budgeted operating deficit of $579 million. This was mainly due to a gain on financial assets of $419 million (81 percent) compared to a budgeted gain of $232 million largely resulting from higher gains on financial assets at fair value due to stronger than anticipated returns from investment markets.

2022-23 operating result compared to prior year result

Net operating balance

1.14 The net operating balance deficit in 2022-23 ($892 million) has decreased from the deficit incurred in 2021-22 ($923 million) by $31 million (3 percent).

1.15 The increase in revenue of $227 million (3 percent) resulted mainly from higher:

- Commonwealth Government grants of $215 million mainly due to higher GST revenue resulting from an increase in GST pool funding for 2022-23;
- taxation revenue of $157 million mainly to due to higher general rates and land tax due to an increase in the unimproved land values used as a basis for calculating these taxes and an increase in the number of properties subject to these taxes over the last 12 months;
- interest revenue of $129 million due to increased interest rates;
- other revenue of $140 million mainly relating to:
  - gains recorded in the value of large-scale generation certificates surrendered to the Government by large-scale generators of electricity;
  - recording the value of contributed assets relating housing properties received by the Territory from Community Housing Canberra Limited in exchange for the forgiveness of their loan with the Territory; and
  - higher revenue from the ActewAGL Joint Venture due to an increase in profits this year.
- These were partially offset by a decrease in land revenue of $414 million mainly due to fewer land sales for the West Belconnen Joint Venture as a result of a delay in the

design and construction of required remediation works to enable residential construction next to the former West Belconnen landfill, and reduced demand for land arising from higher interest rates and home building costs.

1.16 The increase in expenses of $198 million (2 percent) resulted mainly from higher:

- employee expenses of $149 million (4 percent) mainly due to the pay increases associated with staff enterprise agreements and increased number of staff employees associated with the implementation and operation of the new Digital Health Record system, to meet increased demand for Access Canberra services, and for new initiatives such as the Sustainable Housing Scheme, staffing of the Ambulance Service, and ACT Corrective Services;
- supplies and services expenses of $108 million (7 percent) mainly resulting from increased:
  - information technology systems upgrade and maintenance costs mainly for the Territory's public hospitals including implementation of the Digital Health Record and the Notifiable Diseases Management systems;
  - contract management costs relating to providing services at the University of Canberra Hospital and engaging visiting medical officers due to difficulties in recruiting medical professionals as permanent staff; and
  - transport and processing costs for recycling and household kerbside and green waste collections.

These were partially offset by a decrease in grant expenses mainly due to the cessation of COVID-19 support programs.

Operating surplus/(deficit)

1.17 The Territory incurred an operating deficit of $453 million in 2022-23 compared with the prior year operating deficit of $1 220 million which was mainly due to recording other economic inflows of $439 million in 2022-23 compared to outflows of $298 million in the prior year. This was largely the result of gains on financial assets at fair value of $419 million in 2022-23 due to improvements in investment markets compared to a loss of $403 million in the prior year largely from negative investment returns.

Projected operating results

Table 1-2 Projected operating results

	Actual 2022-23 $m	Budget 2023-24 $m	Estimate 2024-25 $m	Estimate 2025-26 $m	Estimate 2026-27 $m
Revenue	7 604	8 113	8 552	8 992	9 452
Expenses	(8 497)	(8 908)	(9 092)	(9 281)	(9 666)
Net operating balance deficit	**(892)**	**(794)**	**(539)**	**(359)**	**(214)**
Other economic inflows	439	212	329	308	275
Operating (deficit)/surplus	**(453)**	**(582)**	**(210)**	**(51)**	**61**

Source: Territory's 2022-23 financial statements and 2023-24 Budget Papers.

1.18 Table 1-2 shows that the Territory estimates that net operating balance deficits will continue to be incurred over the next four years, however, they are anticipated to steadily decline from $794 million in 2023-24 to $214 million by 2026-27. This means that the costs of delivering public services are expected to continue to exceed projected revenue over this period.

1.19 The Territory estimates that operating deficits will continue to be incurred for the next three years before returning to a small surplus in 2026-27 as income from other economic flows such as land revenue and gains on financial assets are projected to be insufficient to offset the deficit in the net operating balance. This means the Territory may need to fund these deficits from existing cash reserves or borrowings.

Financial position

Table 1-3 Assets and liabilities

At 30 June	Actual 2019 $m	Actual 2020 $m	Actual 2021 $m	Actual 2022 $m	Actual 2023 $m	Budget 2023 $m
Assets						
Financial assets - Note 1	3 192	3 863	4 573	5 100	4 270	4 021
Property, plant and equipment	24 450	25 485	27 445	31 053	31 782	30 001
Other non-financial assets - Note 2	2 592	2 658	2 573	2 749	3 370	3 413
Total assets	**30 234**	**32 006**	**34 591**	**38 902**	**39 422**	**37 435**
Liabilities						
Borrowings	4 476	7 340	8 329	9 508	9 869	10 409
Unfunded superannuation - Note 3	7 583	7 798	8 313	6 117	5 228	3 721
Advances received, payables and finance leases	1 856	1 138	1 542	1 604	1 582	1 501
Employee benefits and other provisions	1 676	2 001	2 076	2 114	2 385	2 230
Contract and other liabilities	31	150	92	97	117	111
Total liabilities	**15 622**	**18 427**	**20 352**	**19 440**	**19 181**	**17 972**
Net assets	**14 612**	**13 579**	**14 239**	**19 462**	**20 241**	**19 463**
Ratio of assets to liabilities	**1.9:1**	**1.7:1**	**1.7:1**	**2.0:1**	**2.1:1**	**2.1:1**

Note 1: Financial assets exclude the Territory's investments in joint ventures and superannuation investments.

Note 2: Other non-financial assets include the Territory's investments in joint ventures which are classified as financial assets in the Territory's financial statements.

Note 3: Unfunded superannuation is the amount by which the estimated superannuation liability exceeds superannuation investments.

1.20 Assets of the Territory are largely comprised of:

- property, plant and equipment;
- financial assets consisting mainly of investments excluding superannuation investments as well as cash and deposits and receivables; and
- other non-financial assets consisting mainly of the Territory's investments in joint ventures, capital works in progress, inventories, and intangibles.

1.21 Liabilities of the Territory largely include unfunded superannuation liabilities, borrowings, lease liabilities, employee benefits and other provisions.

1.22 The capacity of the Territory to meet its obligations over the long-term (a period greater than 12 months) can be assessed by evaluating the Territory's net asset position and ratio of assets to liabilities, that is, how much the Territory has in assets to meet its liabilities. The Territory should have at least the same amount of assets to meet its liabilities. This can be expressed as a ratio of 1:1. Table 1-3 shows that the Territory has around $2.10 in assets to meet each dollar of liabilities at 30 June 2023.

1.23 Net assets of the Territory at 30 June 2023 ($20 241 million) were higher than budgeted ($19 463 million) by $778 million (4 percent) mainly due to higher than expected revaluation of the Territory's property, plant and equipment assets, partially offset by higher than anticipated superannuation liabilities from changes in actuarial assumptions used to value the liability at year end.

1.24 Net assets of the Territory at 30 June 2023 ($20 241 million) were higher than at 30 June 2022 ($19 462 million) by $779 million (4 percent). This was mainly due to:

- an increase in property, plant and equipment of $729 million mainly due to increases in the fair value of water, stormwater, and sewerage network assets; and school land and buildings following revaluations;
- an increase in capital works in progress of $377 million mainly in relation to new light rail vehicles and depot expansion, as well expanding capabilities at the Critical Services Building and Inpatient Unit as part of the Canberra Hospital expansion; and
- a decrease in superannuation liabilities of $307 million mainly as a result of changes in actuarial assumptions used to value the liabilities, including a higher discount rate used to estimate the present value of the liabilities (4.4 percent compared to 3.9 percent at 30 June 2022). Further information on the Territory's superannuation liability, including the discount rate, can be found in the section on the Superannuation Provision Account in Chapter 4 of this report.

These were partially offset by:

- an increase in interest bearing liabilities of $361 million mainly due to borrowings obtained during the year for cash flow requirements of the Territory; and
- an increase in other provisions of $209 million mainly due to higher remediation and completion provisions for land being developed by the Suburban Land Agency and an increase in actuarially assessed insurance claims provisions as a result of deteriorating claims experiences for both the medical malpractice and property insurance classes.

Unfunded liabilities

Table 1-4 Unfunded liabilities

At 30 June	Actual 2019 $m	Actual 2020 $m	Actual 2021 $m	Actual 2022 $m	Actual 2023 $m	Budget 2023 $m
Liabilities						
Unfunded superannuation - Note 1	7 583	7 798	8 313	6 117	5 228	3 721
Borrowings	4 476	7 340	8 329	9 508	9 869	10 409
Advances received, payables and finances leases	1 856	1 138	1 542	1 604	1 582	1 501
Other including employee benefits	1 707	2 151	2 168	2 211	2 502	2 341
Total liabilities	**15 622**	**18 427**	**20 352**	**19 440**	**19 181**	**17 972**
Financial assets - Note 2	**3 192**	**3 863**	**4 573**	**5 100**	**4 270**	**4 021**
Unfunded liabilities	**12 430**	**14 564**	**15 779**	**14 340**	**14 911**	**13 951**

Note 1: The unfunded superannuation liability is the amount by which estimated superannuation liabilities exceeds superannuation investments.

Note 2: Financial assets exclude the Territory's investments in joint ventures and superannuation investments.

1.25 The long-term financial position of the Territory can also be assessed by comparing total liabilities to financial assets as the Territory's short and long-term obligations are primarily funded by its financial assets. This assessment is more conservative than an assessment of the:

- net asset position because it assumes that the Territory's non-financial assets such as schools, hospitals and infrastructure assets are not generally available for sale to meet its liabilities; and
- net debt as this measure does not consider the significant superannuation liability, which makes up almost a third of the Territory's total liabilities.

1.26 Table 1-4 shows that the Territory is in an 'unfunded liability' position, as the Territory's total liabilities exceed its financial assets.

1.27 Unfunded liabilities of the Territory at 30 June 2023 ($14 911 million) were higher than budgeted ($13 951 million) by $960 million (7 percent) mainly due to the higher than budgeted unfunded superannuation liabilities as a result of the actuarial liability valuation.

1.28 Unfunded liabilities of the Territory at 30 June 2023 ($14 911 million) increased only slightly from 30 June 2022 ($14 340 million) by $571 million (4 percent).

1.29 Table 1-4 also shows that the Territory's borrowings continue to increase and have significantly increased in the last five years, more than doubling from $4 476 million at 30 June 2019 to $9 869 million at 30 June 2023. The additional borrowings have been mainly used to fund capital expenditure and to provide additional liquidity to fund the Government's COVID-19 pandemic response.

Projected unfunded liabilities

Table 1-5 Projected unfunded liabilities

At 30 June	Actual 2023 $m	Budget 2024 $m	Estimate 2025 $m	Estimate 2026 $m	Estimate 2027 $m
Liabilities					
Unfunded superannuation - Note 1	5 228	4 008	3 814	3 567	3 263
Borrowings	9 869	12 108	13 103	13 932	16 455
Advances received, payables and finance leases	1 582	1 617	1 580	1 544	1 511
Other liabilities including employee benefits	2 502	2 434	2 498	2 583	2 681
Total liabilities	**19 181**	**20 167**	**20 995**	**21 626**	**23 910**
Financial assets - Note 2	**4 270**	**5 072**	**4 704**	**4 393**	**5 876**
Unfunded liabilities	**14 911**	**15 095**	**16 291**	**17 233**	**18 034**

Source: Budget and forward estimates were obtained from the 2023-24 Budget Papers.

Note 1: The unfunded superannuation liability is the amount by which the estimated superannuation liability exceeds superannuation investments.

Note 2: Financial assets exclude the Territory's investments in joint ventures and superannuation investments.

1.30 Table 1-5 shows the Territory's estimated unfunded liabilities over the forward years to 2027. Unfunded liabilities at 30 June 2023 of $14 911 million are estimated to rise to $18 034 million by 2027 largely due to an anticipated increase in borrowings of almost 70 percent from $9 869 million in 2023 to $16 455 million by 2027.

1.31 The unfunded superannuation liability at 30 June 2023 of $5 228 million is estimated to decrease by $1 220 million (23 percent) to $4 008 million in 2024 and only steadily decline over the forward years. The large decrease anticipated in 2024 is mainly due to the use of a higher long-term discount rate used to calculate this liability for the purposes of the Budget and forward estimates.

Short-term financial position

Table 1-6 Net short-term assets

At 30 June	Actual 2019 $m	Actual 2020 $m	Actual 2021 $m	Actual 2022 $m	Actual 2023 $m	Budget 2023 $m
Short-term assets - Note 1	3 192	3 863	4 573	5 100	4 270	4 021
Short-term liabilities - Note 2	2 442	1 878	2 512	2 957	2 649	2 422
Net short-term assets	**750**	**1 985**	**2 061**	**2 143**	**1 621**	**1 599**
Ratio of short-term assets to short-term liabilities	**1.3:1**	**2.1:1**	**1.8:1**	**1.7:1**	**1.6:1**	**1.7:1**

Note 1: Short-term assets are financial assets and exclude investments in joint ventures and superannuation investments because these assets are not generally available to meet the Territory's short-term liabilities.

Under the *Territory Superannuation Provision Protection Act 2000*, superannuation investments can only be used to make payments related to employee superannuation. For the purposes of this analysis, these investments have been excluded from short-term assets because these investments are not available to meet short-term liabilities.

Note 2: Short-term liabilities are calculated by subtracting current superannuation liabilities from the current liabilities reported in the Territory's financial statements.

1.32 The Territory's short-term financial position can be assessed by its capacity to meet its financial obligations over the short-term by comparing the Territory's short-term assets available to meet its short-term liabilities. It is considered that the Territory should have at least the same amount of short-term assets to meet its short-term liabilities.

1.33 Table 1-6 shows that the Territory has a strong net short-term asset position of 1.6:1 at 30 June 2023. This means that it has approximately $1.60 in short-term assets to meet each $1 of its short-term liabilities.

1.34 Net short-term assets of the Territory at 30 June 2023 ($1 621 million) were largely consistent with the Territory's budgeted net assets ($1 599 million).

Projected short-term financial position

Table 1-7 Projected net short-term assets

At 30 June	Actual 2023 $m	Budget 2024 $m	Estimate 2025 $m	Estimate 2026 $m	Estimate 2027 $m
Short-term assets - Note 1	4 270	5 072	4 704	4 393	5 876
Short-term liabilities - Note 2	2 649	3 034	2 617	2 142	3 462
Net short-term assets	**1 621**	**2 038**	**2 087**	**2 251**	**2 414**
Ratio of short-term assets to short-term liabilities	**1.6:1**	**1.7:1**	**1.8:1**	**2.1:1**	**1.7:1**

Source: The budget and forward estimates were obtained from the 2023-24 ACT Budget Papers.

Note 1: Short-term assets are financial assets and exclude investments in joint ventures and superannuation investments because these assets are not generally available to meet the Territory's short-term liabilities.

Under the *Territory Superannuation Provision Protection Act 2000*, superannuation investments can only be used to make payments related to employee superannuation. For the purposes of this analysis, these investments have been excluded from short-term assets because these investments are not available to meet short-term liabilities.

Note 2: Short-term liabilities are calculated by subtracting superannuation liabilities from the current liabilities reported in the Territory's financial statements.

1.35 Table 1-7 shows that the Territory estimates that its net short-term assets position will remain in a strong position over the next four years.

2 AUDIT FINDINGS

2.1 This Chapter provides an overview of the audit findings identified by the Audit Office during the audit of agencies' financial statements and the limited assurance engagements on their statements of performance.

2.2 Audit findings are communicated by the Audit Office to agencies in audit management reports as required by the Australian Auditing Standards. These findings are significant matters identified during an audit and brought to the attention of those charged with governance of reporting agencies. Those charged with governance include Directors-General, Chief Executive Officers, Governing Boards and independent officers of the ACT Legislative Assembly.

2.3 The Audit Office also provides a copy of audit management reports to respective Internal Audit Committees (where the agency has one), the Minister or Ministers responsible for that agency, or to the Speaker of the ACT Legislative Assembly where relevant.

2.4 Reporting agencies are responsible for maintaining adequate internal controls, reporting practices and governance arrangements including compliance with applicable legislation as these matters significantly affect the reliability of the information included in agencies' financial statements and statements of performance.

2.5 Audit management reports issued by the Audit Office contain a description of each audit finding identified, the risks or implications arising from each finding and suggested recommendations on how to address the findings.

2.6 Audit findings reported in audit management reports are categorised as one of the following:

- weaknesses in governance arrangements and matters that pose operational or financial risks;
- deficiencies in internal controls including ineffective controls that can undermine the control environment and matters that can result in fraudulent activities (including theft); and
- improvements required in reporting practices for the preparation and presentation of the financial statements or statement of performance, including compliance with applicable legislative reporting requirements. These audit findings can result in a modified auditor's report or modified limited assurance report if they are not addressed by agencies.

2.7 Audit findings from the review of controls over computer information systems and major financial applications used and controlled directly by ACT Government agencies are included in Chapter 3: 'Computer Information Systems' of this report. Audit findings from the review of controls over computer information systems and major financial applications used by other entities audited by the Audit Office such as the ActewAGL Joint Venture and University of Canberra are discussed here in this Chapter.

Conclusion

The total number of audit findings reported in 2022-23 was 52, and this comprised of 29 new audit findings identified this year. Agencies resolved 25 previously reported findings during the year while 23 previously reported findings not resolved or only partially resolved. The total number of audit findings (52) increased by 8 percent from the 48 findings reported during the two previous financial years.

Almost half of the reported findings are related to internal controls, increasing to 25 this year compared to 18 last year. The number of findings relating to reporting issues decreased to 18 from 21 last year, while the number of governance findings was unchanged from the previous year at 9 reported findings.

The increase in new audit findings and remaining unresolved audit findings mean that agencies need to focus on maintaining appropriate governance arrangements, implementing well designed and effective internal controls, improving reporting practices and promptly addressing the recommendations made by the Audit Office to resolve reported audit findings in a timely manner.

Impact of audit findings

2.8 Audit findings and accompanying recommendations present an opportunity for improvement for agencies. Audit findings do not necessarily result in a modified auditor's report being issued on the financial statements or the limited assurance report on the statement of performance of respective agencies.

2.9 In 2022-23, one modified auditor's report with an adverse opinion was issued on an agency's financial statements due to a material non-compliance with the legislation and accounting standards, and this matter was reported as an audit finding to the respective agency. This modification and the resulting audit finding are discussed in more detail in Chapter 4 under the section on 'Cemeteries and Crematoria Authority'.

2.10 The limited assurance reports issued for 4 reporting agencies had either a qualified conclusion (3) or disclaimer of conclusion (1) this year for not measuring the results for some or all of their accountability indicators as required under the *Financial Management Act 1996*. These agencies did not have underlying data from relevant computer information systems for all or part of the reporting period to measure a result for respective accountability indicators.

2.11 However, no audit finding was issued to these 4 agencies as the Audit Office was advised that the information system limitations faced by them are not expected to recur in future reporting periods or processes were subsequently undertaken, after the end of the reporting period, to address underlying data issues. A brief description about the qualified and disclaimer of conclusions are included in Chapter 4 under the section on 'ACT Health Directorate', 'Canberra Health Services', 'Legal Aid Commission' and 'ACT Local Hospital Network Directorate' respectively.

Status of audit findings

2.12 The status of audit findings reported by the Audit Office to agencies in audit management reports over the past three years is shown in Table 2-1.

Table 2-1 Status of audit findings

Year	Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
2022-23	48	(25)	18	5	29	52
2021-22	48	(24)	18	6	24	48
2020-21	50	(30)	9	11	28	48

2.13 The total number of audit findings reported in 2022-23 increased to 52 from the 48 findings reported during the two previous financial years. This increase means that agencies need to focus on maintaining appropriate governance arrangements, implementing well designed and effective internal controls, and improving reporting practices relating to the reliability of the information included in their financial statements and statements of performance.

2.14 This is the first time in 3 years where more new findings (29) have been identified than previously reported findings were resolved (25). This was mainly due to more new audit findings relating to controls over computer information systems used for financial reporting by two reporting entities.

2.15 Although the number of findings not resolved was low, the number of partially resolved findings remains high and unchanged at 18. This means steps taken by agencies to address unresolved reported findings are either not sufficient or fully effective to implement the recommendations made by the Audit Office for respective audit findings.

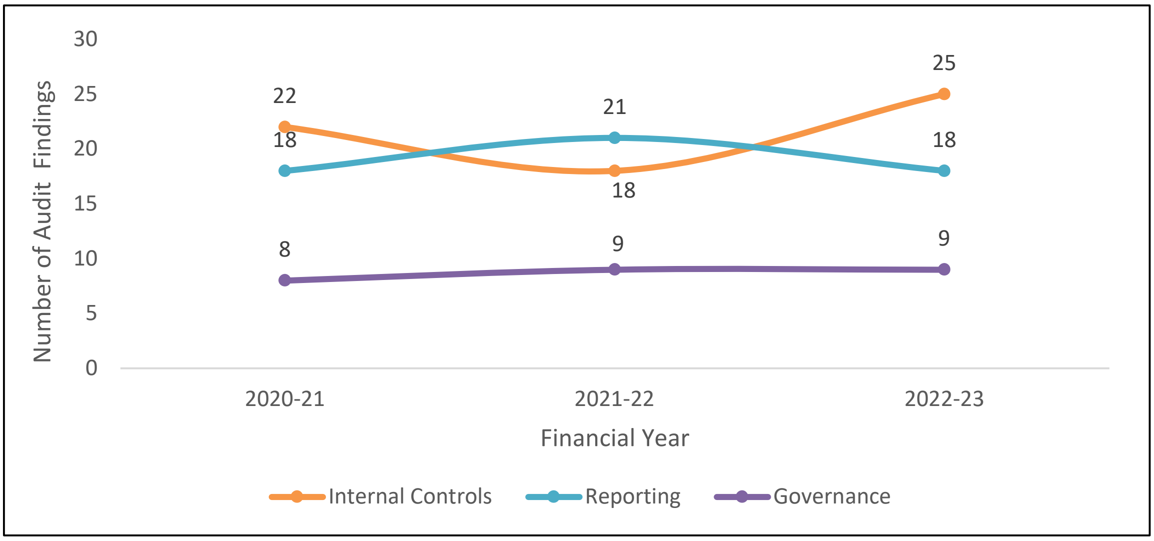
Categories of audit findings

2.16 Audit findings reported in the audit management reports of agencies are categorised under the headings of internal controls, reporting and governance as described below.

Category	Description
Internal controls	• Key controls which are ineffective or non-existent. • Control weaknesses which are systemic or undermine the control environment.
Reporting	• Matters that resulted in, or could result in, a modified auditor's report or modified limited assurance report if not addressed by the agency. • Matters where reporting practices should be improved.
Governance	• Matters that pose an operational or financial risk to the agency. • Matters which have been previously reported to management but have not been satisfactorily addressed.

2.17 Figure 2-1 shows the number of findings reported to agencies in each category in audit management reports over the last 3 years from 2020-21 to 2022-23.

Figure 2-1 Categories of audit findings



2.18 Of the total number of audit findings (52) reported in 2022-23 just under half of these related to internal controls, increasing to 25 from 18 last year. This increase was mainly due to new findings relating to:

- controls over computer information systems on user access management, including changes to user accounts, timely reviews and termination of user access, logging and monitoring of user access, and change managements applied to a critical system database;
- controls over agency bank accounts, including checking that signatories are current employees of the agency; and

- bank reconciliation processes and procedures. Performing these reconciliations ensures any errors or unreconciled items identified in the balances are addressed in a timely manner.

2.19 Audit findings related to reporting arrangements decreased to 18 in 2022-23 from 21 in 2021- 22. This reduction was mainly due to three agencies making improvements to their statement of performance reporting arrangements. The remaining audit findings include improvements required to the:

- processes for determining the recognition and correct recording of revenue from contracts with customers;
- completeness and adequacy of supporting workpapers for related party transactions and disclosures;
- methods for measuring the results for accountability indicators on a consistent basis with the methodology described in the budget papers; and
- usefulness of accountability indicators included in the statements of performance to provide readers with useful information about the performance of reporting agencies.

2.20 The number of audit findings for governance arrangements was unchanged from the prior year with 9 findings reported in both 2022-23 and 2021-22. Areas that require attention by agencies include:

- improvements required to internal audit arrangements, including ensuring the internal audit function is independent of any operational responsibilities and ensuring all relevant operational activities are considered as part of the internal audit program; and
- the need for developing, updating or approving key governance documents including risk management plans, fraud and corruption prevention plans, chief executive financial instructions and business continuity processes.

New audit findings

2.21 In 2022-23, the Audit Office reported 29 new audit findings with 14 (48 percent) relating to internal control deficiencies, 9 (31 percent) were for improvements to reporting arrangements and the remaining 6 (21 percent) relate to weaknesses in governance arrangements.

2.22 As previously discussed, new audit findings included deficiencies in controls over computer information systems and bank accounts, deficiencies in governance for internal audit arrangements and errors in methods for measuring the reported results for accountability indicators. In addition, new audit findings reported in 2022-23 also included deficiencies in reconciliations for various account balances such as inventory and fixed assets.

Resolved audit findings

2.23 There were 25 previously reported audit findings resolved during the year, up one from the prior year total of 24. These resolved audit findings were from across all 3 categories with the largest being from reporting practices (12), followed by internal controls (8) and governance (5). The majority of the audit findings resolved by agencies during the year related to:

- developing, updating and approving various governance documents including policies, procedures and plans including information and communication technology strategic plans, business continuity plans, standard operating procedures and asset accounting policies;
- agencies correctly measuring and reporting the results of all their accountability indicators in their statement of performance;
- improving controls around the electronic review and approval of account reconciliations; and
- improving controls by reviewing salary reports, pay variation reports and journals to ensure any issues found have been promptly resolved.

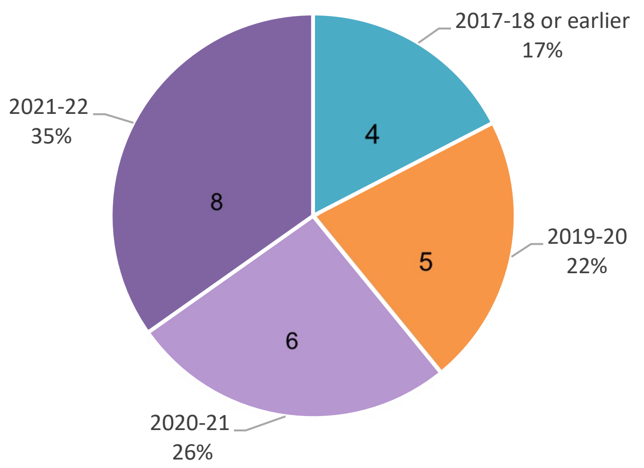
Partially resolved and not resolved audit findings

2.24 There were 23 findings previously reported to agencies in prior years that remain either not resolved (5) or partially resolved (18). Audit findings are treated as not resolved when agencies disagree with the audit finding reported by the Audit Office or have not implemented the audit recommendations. When agencies have addressed some aspects of the reported finding or are yet to fully implement all of the audit recommendations, the audit findings are treated as partially resolved.

2.25 The audit management report includes a suggested timeframe for agencies to implement audit recommendations (e.g., within 3, 6 or 12 months) and an update is provided on the progress made by the agency over the last 12 months in addressing all the previously reported audit findings.

2.26 Figure 2-2 shows a breakdown of when the 23 audit findings that are not resolved or partially resolved were first reported to agencies.

Figure 2-2 Aging of 2021-22 audit findings not resolved or partially resolved



2.27 Four (17 percent) of the unresolved audit findings were first reported to agencies 5 or more years ago (2017-18 or earlier), of these audit findings:

- one was first reported in 2006 and relates to users having local administrator access rights allowing them to make changes to their computers. This increases the risk these users could compromise and introduce security threats to the computer network;
- two were first reported in 2013-14, relate to the review of salary reports by staff where there are still a significant number of instances of these reviews not being performed in a timely manner; and
- one was reported in 2017-18 about the usefulness and clarity of accountability indicators reported in the agency's statement of performance and how these indicators could be improved to provide more useful information on the agency's performance.

The relevant agencies have agreed to the recommendations made for these unresolved audit findings.

2.28 The remaining 19 unresolved audit findings have all been identified and reported in the last 3 years. These unresolved audit findings included:

- deficiencies in information technology related controls for one reporting agency including developing and implementing system security documents for information systems, updating components of its information technology general controls environment, managing privileged user access to some system databases;
- inadequate processes in place to determine the recognition and correct recording of revenue from contracts with customers where the assessments of revenue recognition were not always consistently applied or documented and reviewed;
- incomplete and inadequate supporting workpapers for related party transactions and disclosures; and

- deficiencies in governance arrangements for developing, updating and approving policies and plans including finance policies, business continuity plans and risk management plans.

2.29 It can take time for complex audit findings to be fully resolved from the time they are first reported. This is usually due to the work and time required to design, develop and implement the changes needed to resolve these findings. For instance, information technology related findings can sometimes only be resolved with the replacement of the current information system while other complex findings may require amendments to legislation or established practices to resolve the finding.

3 COMPUTER INFORMATION SYSTEMS

3.1 As part of the annual financial audit of ACT Government agencies, the Audit Office reviews controls over computer information systems that provide assurance over the accuracy, completeness and reliability of information reported in their financial statements.

3.2 This chapter includes a summary of the audit findings identified in relation to the information technology general controls used by agencies as well as the controls over specific financial applications.

Conclusion

The Audit Office assessed controls over computer information systems used by agencies to prepare their financial statements as satisfactory. This means that these controls provide reasonable assurance that the information reported by agencies in their financial statements from these systems is reliable, accurate and complete.

There are however control weaknesses in the computer information systems used by agencies that need to be addressed to further reduce the risk of errors and fraud in their financial information, unauthorised access to sensitive information, and cyber security attacks.

General controls over computer information systems

3.3 General controls over computer information systems include, for example, the overarching policies, procedures and activities used to manage operating systems, networks, user access, data centres and system changes. These controls are particularly important as they can impact on the proper operation of all applications (financial and non-financial) used by ACT Government agencies.

3.4 The general controls implemented by agencies over their computer information systems continue to provide reasonable protection against the risk of:

- errors and fraud in financial information;
- unauthorised access to sensitive information; and
- loss of data and the inability to promptly recover systems in the event of a major disruption or disaster.

3.5 However, there are a few weaknesses that need to be addressed to provide further protection against these risks.

Audit findings

3.6 Table 3-1 shows the status of general control audit findings reported to agencies in audit management reports.

Table 3-1 Status of general controls audit findings

Previously reported	Resolved	Partially resolved	Not resolved	New	Balance
3	(1)	2	-	2	4

3.7 One of the three previously reported audit findings on general controls was resolved and two are partially resolved. Two new audit findings were identified by the Audit Office during its review in 2022-23.

3.8 Three of the four audit findings were in relation to information security, and one was in relation to governance arrangements. A previously reported weakness in relation to change management has been resolved in 2022-23.

3.9 The findings and the recommendations made to address them are discussed below.

Information security

3.10 To protect the confidentiality, integrity, and availability of information held in computer systems, the security controls over these systems is an important part of an agency's protective security arrangement.

3.11 All agencies have a responsibility to consider how their information technology security arrangements may impact other agencies' information security arrangements due to the interconnectivity of information systems across the ACT Government. For example, a weakness in one agency's information technology arrangements that affects the security of the ACT Government network, such as the use of generic user accounts, could affect the security of another agency's information systems and data that are accessed on that network.

3.12 A new weakness identified in controls over information security and two previously reported weaknesses which while progressed, are only partially resolved, are discussed in detail below.

Corrective action plan to resolve reported deficiencies from security and maturity assessments (new finding)

3.13 In 2022-23, Digital, Data and Technology Solutions conducted a security assessment of the ACT Government Active Directory (the process used to authenticate and authorise a user's access to systems) and a capability maturity assessment of its Cyber Security Operations Centre (CSOC) services.

3.14 Whilst Digital, Data and Technology Solutions has developed an informal plan for reviewing and addressing the issues raised in the security and maturity assessment reports, it has not identified target dates for implementation of remedial actions.

3.15 The Audit Office therefore recommended that Digital, Data and Technology Solutions formally document and commit to resolving the reported weaknesses from its security and maturity assessments by developing a corrective action plan which includes setting due dates for when such weaknesses should be addressed.

3.16 Digital, Data and Technology Solutions has agreed with the Audit Office's recommendation to address the weakness.

Whitelisting of applications (finding partially resolved)

3.17 Application whitelisting allows only specified programs to operate on computer systems and prevents the operation of unauthorised or malicious programs (viruses) that may have been downloaded onto a computer from email attachments, portable storage devices or the internet. It reduces the risk of unauthorised access to systems and data from the exploitation of vulnerabilities by malicious programs (e.g., computer viruses).

3.18 The Audit Office first reported in 2014-15 to Digital, Data and Technology Solutions that application whitelisting had not been implemented for desktop or server computer systems operating on the ACT Government network. Digital, Data and Technology Solutions has since partially implemented the Audit Office's recommendation to address this weakness by implementing application whitelisting for Windows Server 2019 and Windows 10 Systems on the ACT Government network.

3.19 In 2021-22, Digital, Data and Technology Solutions conducted a risk assessment on the continuing use of Linux and Solaris servers without application whitelisting and identified and implemented risk control measures. However, the analysis and scoping of viable options to upgrade or re-platform Windows legacy systems were yet to be completed. This weakness continues to exist in 2022-23. Digital, Data and Technology Solutions agreed with the Audit Office's recommendation to address this remaining weakness.

Inactive user accounts on the ACT Government network (finding partially resolved)

3.20 Inactive network user accounts pose a risk to the ACT Government and agencies as these accounts may belong to terminated employees (i.e. employees who have ceased employment) who no longer require and in fact are not permitted access to systems and data. Furthermore, these user accounts are more susceptible to being hacked as the activities undertaken using these accounts are more likely to go unnoticed.

3.21 The ACT Government Cyber Security Policy states ICT systems should ensure that a user's access is suspended after 90 days of inactivity. To ensure that accounts are not mistakenly disabled, Digital, Data and Technology Solutions has adopted a benchmark of 104 days of inactivity prior to disabling user accounts.

3.22 Since 2021-22, the Audit Office has reported to Digital, Data and Technology Solutions that there were a large number of accounts (2021-22: 379 accounts; and 2022-23: 189), which had not been logged into for more than 104 days but remained active on the ACT Government Network without being promptly disabled. While the number of inactive user accounts has declined, the weakness continued to exist in 2022-23.

3.23 The Audit Office therefore recommended that Digital, Data and Technology Solutions ensure that the access rights of inactive user accounts as defined under the ICT Security Policy are promptly disabled from the ACT Government network.

3.24 Digital, Data and Technology Solutions has agreed with the Audit Office's recommendation.

Change management

3.25 Controls over changes to computer information systems are essential to provide assurance that:

- changes operate as intended;
- the integrity of systems and data is preserved;
- system performance is maintained; and
- erroneous or fraudulent changes are prevented or detected.

3.26 In 2022-23, Digital, Data and Technology Solutions resolved one previously reported weakness in relation to the reconciliation of system changes. This is discussed below.

Reconciliation of system changes (finding resolved)

3.27 Reconciling system changes recorded in audit logs to records of authorised changes in the change management system provides assurance that system performance problems or security vulnerabilities caused by unauthorised changes will be identified and rectified in a timely manner.

3.28 In 2022-23, Digital, Data and Technology Solutions completed and endorsed a risk assessment on the inability to implement a complete reconciliation of system changes for Government Critical Systems by following ACT Government policy. The risk assessment concluded a 'Medium' residual risk remained which was considered an acceptable risk tolerance by Digital, Data and Technology Solutions based on its cost benefit analysis.

Governance arrangements

3.29 Governance arrangements are the processes used to manage information technology resources in an efficient and effective manner to meet agency objectives. They include:

- information technology strategic and resource planning;
- governance committees established to plan, identify, prioritise and monitor information technology needs of the ACT Government; and
- arrangements for the management of risks associated with the use of information technology.

3.30 A new weakness identified in governance arrangements is discussed below.

Cessation of Stage Gate reviews (new finding)

3.31 Digital, Data and Technology Solutions is responsible for the project governance and assurance of its own IT projects as well as the IT components of projects managed by Directorates. To enable effective project governance, Digital, Data and Technology Solutions has adopted the P3M Framework (project, programme and portfolio management framework) for all projects.

3.32 A key element of the P3M Framework is the conduct of Stage Gate reviews by the Portfolio Governance team. Stage Gate reviews are used to assess whether a project is in compliance with the key project stages as defined in the P3M Framework. These reviews allow for the early identification of potential problems and areas requiring corrective action to enable informed decision making about a project's future.

3.33 In 2022-23, the Audit Office found that Stage Gate reviews had not been undertaken since September 2022. The Audit Office therefore recommended that Digital, Data and Technology Solutions undertake Stage Gate reviews as set out in the P3M Framework.

3.34 Digital, Data and Technology Solutions has agreed with the Audit Office's recommendation.

Controls over specific major financial applications

3.35 This section contains a summary of the findings identified during the Audit Office's review of controls over specific major financial applications used by agencies to record transactions included in their financial statements.

3.36 These controls include the policies, procedures and activities used to manage applications and their data and include, for example, controls over data entry and processing, user access, application changes, monitoring of user activities, and data backup and restoration.

3.37 Controls over these applications are an important means of providing agencies with assurance that the:

- information used to prepare their financial statements is authentic, accurate and reliable;
- applications operate as intended and in a consistent manner; and
- information maintained by agencies is secure.

3.38 Applications reviewed as part of the financial audits of ACT Government agencies include the following:

- Accounts Payable Invoice Automation Solution (APIAS) – this system is used by most ACT Government agencies to automate the recording and approval of supplies and services (administrative) expenditure. The Chief Minister, Treasury and Economic Development Directorate (Shared Services) is responsible for managing this system.
- CHRIS21 – is a human resource management information system used by most ACT Government agencies to process and record the salary payments and leave entitlements of ACT public servants. The Chief Minister, Treasury and Economic Development Directorate (Shared Services) is responsible for managing this system.
- Cashlink – several agencies use this system to record amounts received from members of the public for taxes, fees and fines. The Chief Minister, Treasury and Economic Development Directorate (Access Canberra) manages Cashlink.
- Community 2011 – is a system used by the Chief Minister, Treasury and Economic Development Directorate (ACT Revenue Office) to record revenue such as general rates and land tax.
- Digital Health Record (DHR) – this system was recently implemented by Canberra Health Services and integrates medical records for the public health system with other key systems such as the PowerBilling & Revenue Collection (PBRC) used for bill processing and revenue collection.
- Homenet – is a system used to process and record rental revenue from public housing tenants and to manage information on social and public housing services. Housing ACT is responsible for the management of Homenet.
- SAS – is the school administration system used by ACT public schools to process and record the revenue and expenses of schools. SAS is managed by the Education Directorate.
- MyWay – is the ticketing system used to process and record bus and light rail fare revenue. MyWay is managed by Transport Canberra Operations.
- ORACLE – is the financial management information system used by most ACT Government agencies. The Chief Minister, Treasury and Economic Development Directorate (Shared Services) is responsible for managing this system.

- Rego.act – is the system used to record motor vehicle registrations, drivers' licences, traffic and parking infringement revenue. The Chief Minister, Treasury and Economic Development Directorate (Access Canberra) manages rego.act.
- TRev – is the system used by the Chief Minister, Treasury and Economic Development Directorate (ACT Revenue Office) to record taxes and fee revenue such as payroll tax and stamp duty.

Status of audit findings

3.39 Table 3-2 shows the status of audit findings reported to agencies in audit management reports by application.

Table 3-2 Status of audit findings by application

Application	Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
CHRIS21	2	-	2	-	-	2
Community 2011	1	-	-	1	-	1
DHR	-	-	-	-	2	2
MyWay	1	(1)	-	-	-	-
ORACLE	1	-	1	-	-	1
SAS	1	-	1	-	-	1
Total	**6**	**(1)**	**4**	**1**	**2**	**7**

3.40 One of the six previously reported audit findings on application controls was resolved, four are partially resolved, and one was not resolved. Two new audit findings that relate to the DHR application were identified by the Audit Office during its review in 2022-23.

3.41 Six of the seven audit findings were in relation to information security, and one was in relation to data processing.

3.42 The findings and the recommendations made to address these findings are discussed below.

Information security

3.43 Threats to the integrity, confidentiality and availability of information can occur due to electronic transactions (e-commerce) and security exposures such as viruses, intrusions and unauthorised releases of confidential information.

3.44 Information security controls are safeguards to avoid, detect, counteract or minimise security risks to computer information systems. Effective security controls need to be implemented over applications to ensure:

- information recorded in computer applications is authentic (not fraudulent), accurate and available when required;
- the confidentiality and privacy of information stored on applications is maintained and information is only accessed by authorised users; and
- legislative and regulatory requirements and standards are complied with.

3.45 Weaknesses were identified in information security controls relating to monitoring of audit logs, segregation of duties, generic user accounts, and password controls for several applications. These are discussed below.

Monitoring of audit logs

3.46 Audit logs are system-generated records of activities performed by users. These include, for example, details of users accessing a system, times, dates and locations of access and the various actions performed by users.

3.47 Monitoring of audit logs should be performed on a regular basis to reduce the risk of undetected erroneous or fraudulent changes being made to computer information systems and data. As privileged users can perform actions such as changing system security settings or roles and responsibilities of users, their actions should be regularly reviewed by someone independent of these users to promptly detect fraudulent changes to applications and data.

DHR (new finding)

3.48 In 2022-23, the Audit Office reported that Canberra Health Services does not have a documented logging strategy for DHR to formalise responsibilities for monitoring audit logs of activities performed by privileged users. Canberra Health Services currently performs the review of audit logs on an 'as needed basis' and does not mandate a regular review of audit logs or keeping records of the reviews.

3.49 There is an increased risk that erroneous or fraudulent changes made by privileged users to the DHR system and its data will not be promptly detected and addressed.

3.50 The Audit Office recommended that Canberra Health Services should:

- document a logging strategy for DHR and formalise responsibilities for monitoring audit logs of activities performed by privileged users; and
- periodically perform reviews of audit logs using an independent officer, document and report this to appropriately authorised officers with responsibility over the DHR system and its data.

3.51 Canberra Health Services has agreed to address this audit finding.

Community 2011 (finding not resolved)

3.52 Since 2018-19, the ACT Revenue Office agreed with the Audit Office's recommendation to:

- formally assess the risk associated with Community 2011 not being capable of logging changes made by database administrators and document the assessment in its Security Risk Management Plan;
- include the requirement to log changes made by the database administrators in any future upgrade or replacement of Community 2011; and
- assess whether other compensating controls or reviews can be implemented that may assist mitigate this risk until Community 2011 is upgraded or replaced.

3.53 These recommendations have not been implemented in 2022-23. This weakness increases the risk that erroneous or fraudulent changes made by database administrators to the Community 2011 database will not be promptly detected and addressed.

3.54 The ACT Revenue Office has advised:

> The ACT Revenue Office considers that it has successfully actioned all three recommendations in the Audit Management Report and acknowledges that the original audit finding persists – although at reduced risk. Executing the three recommendations has resulted in the residual risk now being as low as is feasible. The finding can only be resolved once the Community 2011 upgrade is completed or a replacement system found – this work is ongoing and we continue to negotiate in good faith with the system vendor to have this closed out as soon as practicable.

SAS (finding partially resolved)

3.55 In 2021-22, the Audit Office found that despite the SAS System Security Plan (September 2021) identifying the implementation of an event logging strategy and the formalisation of responsibilities for monitoring logs as 'high priority' risk treatments, these were yet to be actioned by the Education Directorate.

3.56 In 2022-23, the Education Directorate conducted a risk assessment of SAS financial processes to determine the level of monitoring and frequency of review of the results of monitoring. Based on the risk assessment, the Directorate developed a new procedure 'SAS - Termly Internal Log File Review' to perform regular (i.e. quarterly) reviews of audit logs for purchase orders and invoice approvals as well as changes to delegate approvals. However, the new procedure is yet to be implemented. The Education Directorate has advised that the review of these audit logs is expected to commence in the first quarter of 2023-24.

3.57 There is a higher risk of undetected inappropriate and fraudulent changes to SAS and its data not being detected and promptly addressed when audit logs of privileged users are not monitored and reviewed.

3.58 The Education Directorate has agreed to address this audit finding and advised that:

> The Directorate has worked with the vendor to create audit log files of privileged users, Digital, Data and Technology Solutions is working with the vendor to ensure the logs are suitable to achieve its intended auditing purpose. Planned auditing of the logs is currently set for the beginning of 2024.

Segregation of duties

3.59 A key preventative control in mitigating the risks of unauthorised and potentially fraudulent activities in computer information systems is to segregate incompatible duties between users. For example, duties assigned to users should be appropriately segregated so a single user cannot initiate and complete a transaction.

ORACLE (finding partially resolved)

3.60 The Audit Office first reported to Shared Services in 2017-18 that staff in the Financial Applications Support Team (FAST), who are the ORACLE system administrators, have the ability to create new user profiles in ORACLE without the need for secondary approval.

3.61 While ORACLE controls require two user accounts to authorise updates to vendor records and to pay an invoice, the system administrators could create multiple user accounts without secondary approval to by-pass these controls. Therefore, system administrators could for example, make fraudulent payments by creating two fictitious user accounts with the required functionality to update and approve changes to vendor records, and approve payments to a chosen bank account. On this basis, the Audit Office has recommended that Shared Services remove the ability of the system administrators to create user profiles without secondary approval.

3.62 In 2018-19, Shared Services advised that the current version of ORACLE does not have the functionality to restrict system administrators from creating user accounts without secondary approval. Therefore, the Audit Office recommended that in the absence of system based preventative controls Shared Services should:

- document its risk assessment in the ORACLE System Security Plan; and
- include the requirement for system based controls which would prevent a system administrator from being able to create and use multiple user accounts in any future upgrade or replacement of the ORACLE application.

3.63 In 2021-22, Shared Services updated and endorsed the ORACLE System Security Plan to include a risk assessment on the continuing use of the ORACLE application without system based preventative controls over segregation of duties. However, Shared Services advised that no changes to system-based controls over segregation of duties would be made until after the future upgrade had been completed.

3.64 Shared Services has advised that to address this weakness it has since investigated the ability to add a secondary approver to create user profiles and has assessed that this may be achieved through the customisation of Oracle e-Business Suite, which has been implemented in October 2023.

Generic (shared) user accounts

3.65 A generic (shared) user account refers to a single unique login account that is used by more than one person. These accounts compromise ICT security because they reduce the ability to trace the actions of a user to a specific person. There is a higher risk of unauthorised or fraudulent access to data and applications when generic user accounts are used.

CHRIS21 (finding partially resolved)

3.66 Since 2013-14, the Audit Office has reported to Shared Services that a few (eight) staff can make changes to electronic funds transfer (EFT) payment files (i.e., salary payments) from the human resource information management system (CHRIS21) via a generic (shared) user account before they are sent to the bank for processing. Ideally, no user should have access to the directory that allows them to change the EFT payment files because this enables erroneous or fraudulent payments to be made. Shared Services advised this access is required for operational reasons.

3.67 Shared Services has partially resolved this finding in recent years by implementing mitigating controls, such as restricting access to only a few staff and performing reviews of audit logs of user activity in the directory containing EFT payment files. However, as the CHRIS21 EFT payment files can still be changed via a shared user account, it reduces management's ability to trace users' actions, including fraudulent changes, to a specific individual. This weakness continues to exist in 2022-23.

3.68 Due to limitations in CHRIS21, Shared Services has advised that they will address this weakness as part of the project to upgrade the current version of CHRIS21 which is expected in 2023-24.

Password controls

3.69 Strong password controls are fundamental to system security as they reduce the likelihood of unauthorised access to a network or application. For example, passwords with greater complexity are less likely to be guessed or cracked.

3.70 The ACT Government's Password Standard requires passwords to contain a combination of lowercase and uppercase letters, numbers and special characters. When users change their passwords, a message is displayed on the screen which states the necessary complexity for the password.

3.71 While weaknesses in password controls relating to the MyWay system was addressed in 2022-23, one similar new weakness was identified in relation to the DHR system. This is discussed below.

MyWay (finding resolved)

3.72 In 2022-23, Transport Canberra Operations resolved a previously reported weaknesses relating to the password settings for the MyWay system by strengthening the password parameters for MyWay to comply with the ACT Government's Password Standard and MyWay ICT Security Plan.

3.73 This reduces the risk of unauthorised and possibly fraudulent access to the system.

DHR (new finding)

3.74 DHR integrates medical records for the public health system with other key systems such as the PowerBilling & Revenue Collection (PBRC) used by Canberra Health Services for billing processing and revenue collection.

3.75 In 2022-23, the Audit Office reported to Canberra Health Services that a number of password parameters for PBRC have not been defined in the ICT Security Plan noting that parameters such as minimum length, re-use restrictions and complexity settings have not been defined.

3.76 Where password parameters are not enforced in accordance with the ACT Government's Password Standard and the system does not 'enforce' users to use complex passwords, the users can use weak passwords. A weak password is more easily guessed or otherwise compromised, increasing the risk of unauthorised including fraudulent access to the system.

3.77 Canberra Health Services has agreed to address this audit finding.

Data processing

3.78 Data processing is important as the data contained in any IT system is only as good as the quality and accuracy of the data entered into it. Controls over data processing are therefore required to provide assurance over the completeness, accuracy, and validity of data within systems.

3.79 The manual entry of data from one system to another can be slow, resource intensive and prone to human error. Therefore, where possible, automated processes should be used to reduce the risk of error, save time and consequently reduce costs.

3.80 A weakness remains in data processing controls relating to the CHRIS21 application. This is discussed below.

CHRIS21 (finding partially resolved)

3.81 The Audit Office first reported in 2015-16 that the time and leave recording module of CHRIS21 does not support the recording of timesheet and leave data (e.g., personal leave, annual leave, long service leave etc.) for casual and shift working staff. As a result, some ACT Government agencies have implemented their own systems to record timesheet and leave data for casual and shift working staff. These include the PROACT (Canberra Health Services) and KRONOS (Several agencies) systems.

3.82 While timesheet data is uploaded into CHRIS21 from each of these systems largely via an automated process, leave data for the PROACT and KRONOS systems requires a level of manual entry by the Shared Services payroll team in to CHRIS21.

3.83 Shared Services has partially resolved this finding in recent years by automating the process of importing leave data from the PROACT system into CHRIS21 for the majority of the shift working staff. Further, there are two instances of KRONOS, one managed by Shared Services across multiple Directorates and the other managed by the Justice and Community Safety Directorate. Of the two KRONOS systems, only the one overseen by Shared Services provides an output file that is automatically imported to CHRIS21. Therefore, whilst the volume of leave data that is manually entered into CHRIS21 continues to decline, the weakness, although reducing, continued to exist in 2022-23.

3.84 Shared Services has agreed with the Audit Office's recommendations to address this weakness as part of the project to upgrade the current version of CHRIS21 which is expected in 2023-24.

4 FINANCIAL RESULTS AND AUDIT FINDINGS OF SELECTED REPORTING AGENCIES

4.1 This chapter contains a discussion of the financial results of selected reporting agencies and, where applicable, compares these results to budget estimates. It also provides details of audit findings reported in audit management reports provided to these reporting agencies.

4.2 Reporting agencies were selected on the basis of their financial significance or where their audit findings were considered to warrant public reporting.

ACT Health Directorate

4.3 The ACT Health Directorate (Directorate) is responsible for the planning and development of Territory-wide health strategy and policy, implementing health prevention, promotion, and protection services, as well as health population planning and research.

4.4 The Directorate also undertakes the design, procurement, delivery, management and support for all critical health information systems and software used by the ACT public health system.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2022- 23 financial statements.
- The Audit Office issued a modified opinion on the limited assurance report on the Directorate's 2022- 23 statement of performance. This is due to the results for four of its accountability indicators not being measured as required by the *Financial Management Act 1996*, as data was not available from the newly implemented Digital Health Record (DHR) system.
- The net cost of the Directorate's services ($332 million) was $9 million (3 percent) higher than budgeted ($323 million) due to higher expenses relating to computer and communication expenses relating to system upgrades, maintenance and projects including the Digital Health Record partially offset by higher own source revenue relating to cross border health receipts.
- Government contributions ($312 million) were $25 million (9 percent) higher than the budgeted amount ($287 million) mainly due to additional contributions received in 2022- 23 to support the Territory's response to COVID-19.
- Capital injections ($65 million) were $24 million (27 percent) lower than budgeted ($89 million) mainly due to capital injections for multiple projects being transferred from 2022-23 to 2023-24 such as Digital Health Record.
- No new audit findings were identified for reporting in 2022-23.

Financial results

Table 4-1 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Expenses	(564)	(470)	(539)
Income	232	147	207
Net cost of services	**(332)**	**(323)**	**(332)**
Government contributions	312	287	291
Operating deficit	**(20)**	**(36)**	**(41)**
Capital injections	**65**	**89**	**42**

4.5 The Directorate's expenses mainly consist of employee expenses, supplies and services costs, and transfers to the ACT Local Hospital Network Directorate mainly for cross-border health receipts.

4.6 Cross-border health costs for the treatment of interstate residents in ACT public hospitals and for ACT residents treated in interstate public hospitals are settled by joint arrangements in place between the Territory and the other states and the Northern Territory.

4.7 Expenses ($564 million) were higher than the budgeted amount ($470 million) by $94 million (20 percent) mainly due to higher:

- employee expenses and supplies and services costs largely due to additional staffing numbers relating to the Digital Health Record and public health emergency response to COVID-19; and
- grants and purchased services due to increase in transfers to the ACT Local Hospital Network Directorate from higher number of interstate residents being treated in ACT public hospitals and the finalisation of several prior year cross-border health reconciliations in 2022-23.

4.8 The Directorate receives income mostly from cross-border health receipts and public health services funding from the ACT Local Hospital Network Directorate.

4.9 Income ($232 million) exceeded the budgeted amount ($147 million) by $85 million (58 percent) due to:

- an increase in cross-border health receipts resulting from a higher than anticipated number of interstate residents treated in the ACT public hospitals and multiple prior year reconciliations being completed with the final back payments being settled in 2022-23. This income is then transferred to the ACT Local Hospital Network Directorate, as previously discussed; and
- additional funding received because of an extension to the national partnership agreement for the COVID-19 response with the Commonwealth, covering the period from September to December 2022.

4.10 The net cost of the Directorate's services ($332 million) was $9 million (3 percent) higher than budgeted ($323 million) due to higher expenses relating to the public health emergency response to COVID-19 and an increase in supplies and service expenses for the ICT services provided to Canberra Health Services and Calvary Public Hospital (now North Canberra Hospital) relating to system upgrades and maintenance partially offset by the higher funding from the ACT Local Hospital Network Directorate for the Territory's response to the COVID-19 and increase in cross-border health receipts.

4.11 Government contributions ($312 million) were $25 million (9 percent) higher than the budgeted amount ($287 million) due to additional contributions received in 2022 - 23 to support the Territory's response to COVID-19, other vaccination programs and the North Canberra Hospital transition.

4.12 Capital injections ($65 million) were $24 million (27 percent) lower than budgeted ($89 million) mainly due to capital injections for multiple projects being transferred from 2022-23 to 2023-24 such as the Digital Health Record.

ACT Insurance Authority

4.13 Under the Insurance Authority Act 2005, the ACT Insurance Authority (Authority) is the insurer of major risks faced by the Territory and ACT Government agencies. It also purchases insurance from external insurance providers to cover catastrophic risks such as natural disasters and medical malpractice.

4.14 The Authority settles insurance claims on behalf of the Territory and ACT Government agencies, promotes better practices in risk management to ACT Government agencies, and provides advice to the Minister about insurance and management of the Territory's risks.

4.15 The Authority also manages Builders Warranty Insurance on behalf of the Territory since 2020 and has recently initiated the design and implementation of a short-term Physical and Sexual Abuse Indemnity Scheme for out of home care providers who provide services in the Territory through a contractual relationship.

Summary

- The Audit Office issued an unmodified auditor's report on the Authority's 2022 - 23 financial statements and an unmodified limited assurance report on its 2022 - 23 statement of performance.
- The Authority incurred an operating deficit of $36 million compared to the budgeted operating surplus of $23 million mainly due to a loss from investments and higher than expected net insurance claims expenses.
- The Authority had sufficient assets to meet estimated insurance claims liabilities at 30 June 2023.

Financial results

Table 4-2 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Gross premiums	68	71	62
Other revenue	5	5	4
Net returns from investments	32	19	(21)
Income	**105**	**95**	**45**
Net incurred claims	(118)	(49)	(65)
Reinsurance and other expenses	(23)	(23)	(21)
Expenses	**(141)**	**(72)**	**(86)**
Operating (deficit)/surplus	**(36)**	**23**	**(41)**

4.16 Income mostly comprises insurance premiums collected from ACT Government agencies and net returns from investments.

4.17 Income ($105 million) was higher than the budgeted amount ($95 million) by $10 million (10 percent) due to unrealised gains on financial investments portfolio, mainly as a result of underlying gains on share investments.

4.18 Net incurred claims are made up of insurance claims expenses consisting of insurance claims settlement payments, changes in the actuarial estimate of insurance claims liabilities less claim related recoveries from reinsurance and third parties.

4.19 The estimate of insurance claims liabilities is affected by the Authority's claims experience, specifically the number of claims and size of insurance claims incurred, amounts paid to settle claims, and discount and inflation rates used to estimate the present value of future insurance claims payments.

4.20 Net incurred claims ($118 million) were higher than the budget amount ($49 million) by $69 million (141 percent). This was mainly due to higher than expected claims incurred from medical malpractice and property insurance classes, partially offset by higher than budgeted claim recoveries from reinsurance and third parties. The higher than expected claims incurred mainly related to medical negligence claims and large individual property damage claims from significant fire events at the Hume Material Recovery Facility and the North Canberra Hospital (previously Calvary Public Hospital).

4.21 The Authority incurred an operating deficit of $36 million compared to the budgeted operating surplus of $23 million. This was mainly due to higher than expected claims incurred in the medical malpractice and property insurance classes, as discussed above.

Financial position

Table 4-3 Net assets

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Total assets	424	439	399
Total liabilities	(391)	(315)	(330)
Net assets	**33**	**124**	**69**
Ratio of total assets to total liabilities	**1.1 to 1**	**1.4 to 1**	**1.2 to 1**

4.22 The Authority aims to hold sufficient assets to meet estimated insurance claims liabilities.

4.23 The Authority continued to have sufficient assets to cover its liabilities at 30 June 2023. However, its net asset position at 30 June 2023 ($33 million) was lower than the budgeted net asset position ($124 million) by $91 million (73 percent). This was mainly due to higher than expected outstanding claims liabilities as a result of higher claims incurred in the medical malpractice and property insurance classes, as discussed above.

ACT Local Hospital Network Directorate

4.24 The ACT Local Hospital Network Directorate (Directorate) is administered by the Director-General of the ACT Health Directorate. Information on the ACT Health Directorate is provided earlier in this chapter.

4.25 Under the National Health Reform Agreement the Directorate receives funding from the Commonwealth, the ACT and other state and territory governments, through the National Health Funding Pool. This funding allows the Directorate to purchase public hospital services from the Canberra Health Services and Tresillian Family Care Centres. Public hospital services were also purchased from Calvary Health Care ACT Limited under the Calvary Network Agreement which ceased in July 2023.

4.26 Under the National Partnership on COVID-19 Response Agreement (March 2020 – December 2022), the Commonwealth and the respective state or territory government paid an equal share of the cost of treating patients diagnosed with COVID-19 in their respective state or territory including funding for activities that help reduce the spread of COVID-19.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2022 - 23 financial statements.
- The Audit Office issued a disclaimer of opinion in the limited assurance report on the Directorate's 2022-23 statement of performance as the results of all of its accountability indicators could not be measured due to data not being available from the newly implemented Digital Health Record (DHR) system.
- Expenses ($1 693 million) were higher than the budgeted amount ($1 658 million) by $35 million (2 percent) largely due to higher than anticipated payments to the ACT Health Directorate and health service providers for initiatives relating to continuing the public health response to COVID-19.
- The Directorate's net cost of services ($1 566 million) was $27 million (2 percent) higher than the budgeted net cost of services ($1 539 million) largely due to higher than expected expenditure associated with COVID-19 treatment and the purchase of public hospital services from private hospitals to supplement the increase in demand for health services due to the COVID-19 pandemic.
- Commonwealth contributions were $10 million (2 percent) lower than the budgeted amount primarily due to the cessation of the National Partnership Agreement on COVID-19 Response in December 2022.
- ACT Government contributions were $44 million (4 percent) higher than the budgeted amounts due to additional funding required to support initiatives relating to continuing the Public Health response to COVID-19.

Financial results

Table 4-4 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Expenses	(1 693)	(1 658)	(1 692)
Cross-border (interstate) health revenue	127	119	129
Net cost of services	**(1 566)**	**(1 539)**	**(1 563)**
Commonwealth contributions	522	532	542
ACT Government contributions	1 051	1 007	1 010
Operating surplus/(deficit)	**7**	**-**	**(11)**

4.27 The Directorate's expenses primarily consist of public hospital and health services payments to Canberra Health Services and Calvary Public Hospital.

4.28 Expenses ($1 693 million) were higher than the budgeted amount ($1 658 million) by $35 million (2 percent) largely due to higher than anticipated payments to the ACT Health Directorate and health service providers including Canberra Health Services and the Calvary Public Hospital for initiatives relating to continuing the public health response to COVID-19.

4.29 Cross-border (interstate) health revenue is received by the Directorate from other Australian states and the Northern Territory for treating their residents in the ACT public hospital system under cross-border (interstate) health arrangements.

4.30 Cross-border (interstate) health revenue ($127 million) was higher than the budgeted amount ($119 million) by $8 million (7 percent) largely due to higher than anticipated number of interstate residents being treated in ACT public hospitals and amounts paid to the Directorate from other states from the finalisation of prior year cross-border health reconciliations in 2022-23.

4.31 The Directorate's net cost of services ($1 566 million) was $27 million (2 percent) higher than the budgeted net cost of services ($1 539 million) largely due to higher than expected expenditure associated with COVID-19 hospitalisation and treatment and the purchase of public hospital services from private hospitals to supplement the increase in demand for health services due to the COVID-19 pandemic as previously discussed.

4.32 The Directorate receives contributions from the Commonwealth and the ACT Government to fund public hospital services.

4.33 Contributions from the Commonwealth were $10 million (2 percent) lower than the budgeted amounts primarily due to lower Commonwealth contributions following the cessation of the National Partnership Agreement on COVID-19 Response in December 2022.

4.34 Contributions from the ACT Government were $44 million (4 percent) higher due to additional payments made by the Territory to the ACT Health Directorate and health service providers for initiatives relating to continuing the public health response to COVID-19.

ActewAGL Joint Venture

4.35 The ActewAGL Joint Venture (ActewAGL) sells electricity and gas (energy) to customers in the ACT and surrounding regions. ActewAGL also owns and operates the energy networks which provide energy to these customers.

4.36 ActewAGL consists of the ActewAGL Retail Partnership and ActewAGL Distribution Partnership. The Territory's 50 percent interest in the ActewAGL Retail Partnership and ActewAGL Distribution Partnership is held by Icon Water Limited (Icon Water) through its subsidiaries, Icon Retail Investments Limited and Icon Distribution Investments Limited. Icon Water is discussed later in this Report.

Summary

- The Audit Office issued unmodified auditor's reports on the 2022 - 23 financial reports of the ActewAGL Joint Venture, ActewAGL Retail Partnership and ActewAGL Distribution Partnership.
- ActewAGL's profit in 2022-23 ($313 million) was $44 million (16 percent) higher than the profit generated in 2021-22 ($269 million). This was mainly due to increased energy consumption across the region as well as higher capital contributions revenue and gifted assets.
- ActewAGL had sufficient short-term assets to meet its short-term liabilities as at 30 June 2023.
- ActewAGL resolved the one previously reported audit finding by formally commencing a project to upgrade its Financial Management Information System.
- Four new findings identified in 2022-23 related to:
  - performing a formal review of impairment assessment of gas network processes against better practice; and
  - improvements required to change and access management procedures across IT systems significant to the financial reporting process to reduce the risks of inappropriate changes or access granted to the applications.

Financial results

Table 4-5 Key results

	Actual 2022-23 $m	Actual 2021-22 $m
Income	1 057	979
Expenses	(744)	(710)
Profit	**313**	**269**
Distributions paid to partners	84	172
Distributions paid to Icon Water (50 percent)	42	86

4.37 The majority of ActewAGL's income is generated from the sale and distribution of electricity and gas (energy).

4.38 Expenses largely consist of energy purchases and network distribution costs, employment costs, depreciation and amortisation, and other operating costs.

4.39 ActewAGL's profit in 2022-23 ($313 million) was $44 million (16 percent) higher than the profit generated in 2021-22 ($269 million). This was mainly due to:

- increased consumption of electricity partially offset by lower gas consumption; and
- higher capital contributions and gifted assets revenue relating to the relocation of the Canberra-Woden transmission line.

4.40 Distributions paid to Icon Water ($42 million) decreased by $44 million (51 percent) from the prior year ($86 million). A reduced distribution rate was agreed between the joint venture partners to maintain sufficient level of cash balances of ActewAGL to meet their future operational and investment needs.

Financial position

Table 4-6 Net short-term assets

At 30 June	Actual 2023 $m	Actual 2022 $m
Short-term assets	546	407
Short-term liabilities	280	289
Net short-term assets	**266**	**118**
Ratio of short-term assets to short-term liabilities	**2.0 to 1**	**1.4 to 1**

Note: The short-term assets position shown in the table above is the position after payment of distributions to partners of ActewAGL.

4.41 ActewAGL had sufficient short-term assets to meet its short-term liabilities as at 30 June 2023.

Audit findings

Table 4-7 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
1	(1)	-	-	4	4

4.42 ActewAGL resolved the one previously reported audit finding relating to its aging Financial Management Information System (FMIS). ActewAGL formally commenced a project to upgrade its FMIS and has advised that it is expected to go live in April 2024.

4.43 Four new audit findings identified in 2022-23 related to:

- an impairment assessment of its gas network as required under Australian Accounting Standards. Whilst no material misstatements with ActewAGL's gas network impairment analysis was found, some areas for improvement including reviewing the use of a regulatory Weighted Average Cost of Capital (WACC) as the discount rate for impairment assessment purposes were identified when comparing ActewAGL's analysis to better practice modelling techniques. ActewAGL partially agreed to this audit finding and has advised:

  > Management consider that the use of a regulatory WACC/discount rate is appropriate given a conservative approach of 1.00x has been adopted for the Regulatory Asset Base (RAB) multiple for the gas network compared to 1.29x in the previous year. Management will continue to work on improving the consistency of cashflow assumptions used across each of the financial models prepared including building in the capability to conduct scenario analysis out to 2045 including with respect to price caps, customer demand and accelerated regulatory depreciation of network assets.

- improvements required for change and user access management procedures across ORACLE, Velocity Distribution and Velocity Retail systems to reduce the risks of inappropriate changes being made to the applications or underlying data, as well as individuals being granted inappropriate access to functions within these systems.

4.44 ActewAGL has agreed to address these audit findings.

Canberra Health Services

4.45 Canberra Health Services (Directorate) is responsible for the provision of public hospital and health services to residents of the ACT and surrounding regions through its public hospitals, walk-in centres and community health centres.

4.46 Public hospital and health services are mostly paid for by funding received from the ACT Local Hospital Network Directorate. Information on the ACT Local Hospital Network Directorate is discussed earlier in this chapter.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2022-23 financial statements.
- The Audit Office issued a modified opinion in the limited assurance report on the Directorate's 2022-23 statement of performance. This is due to results of seven of its accountability indicators not being measured as required by the *Financial Management Act 1996*, as data was not available from the newly implemented Digital Health Record (DHR) system.
- Expenses ($1 674 million) were $94 million (6 percent) higher than the budgeted amount ($1 580 million) largely due to higher than anticipated supplies and services associated with additional beds at University of Canberra Hospital, DHR system training and increase in employee expenses associated with higher than budgeted staffing levels and salary increases from the new enterprise agreement offer.
- Income ($1 584 million) exceeded the budget ($1 532 million) by $52 million (3 percent) largely due to additional receipts from the ACT Local Hospital Network Directorate to fund cost pressures associated with DHR training costs, additional beds at the University of Canberra Hospital, and continued COVID-19 funding to support the Directorate's public health response.
- The Directorate's operating deficit ($90 million) was higher than the budgeted deficit ($48 million) by $42 million (88 percent) mainly as a result of higher supplies and services expenses associated with additional beds and information technology costs and higher employee expenses for more staffing levels and salary increases.
- Capital injections ($53 million) were $27 million (34 percent) lower than the budgeted amount ($80 million) largely due to a combination of unexpected delays in the procurement of equipment, reprioritisation of project works to address emerging patient safety risks and reallocation of resources to DHR system implementation.
- Three audit findings identified in 2022-23 related to the independence of the internal audit function, bank reconciliations and reconciliation of inventories.

Financial results

Table 4-8 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Expenses	(1 674)	(1 580)	(1 614)
Income	1 584	1 532	1 575
Operating deficit	**(90)**	**(48)**	**(39)**
Capital injections	**53**	**80**	**46**

4.47 The Directorate's expenses mostly consist of employee expenses, and supplies and services costs such as medical, clinical and pharmaceutical supplies. These also include resources received free of charge for ICT support from the ACT Health Directorate.

4.48 The Directorate receives income mostly for the provision of public hospital and healthcare services from the ACT Local Hospital Network Directorate.

4.49 Income ($1 584 million) exceeded the budgeted amount ($1 532 million) by $52 million (3 percent) primarily due to additional receipts received from the ACT Local Hospital Network Directorate to fund cost pressures associated with DHR training costs, additional beds at University of Canberra Hospital, and continued COVID-19 funding to support the Directorate's public health response.

4.50 The Directorate's operating deficit ($90 million) was higher than the budgeted deficit ($48 million) by $42 million (88 percent) mainly as a result of higher supplies and services expenses associated with additional beds and information technology costs, and higher employee expenses for more staffing levels and salary increases.

4.51 Capital injections ($53 million) were $27 million (34 percent) lower than the budgeted amount ($80 million) largely due to a combination of unexpected delays in the procurement of equipment, reprioritisation of project works to address emerging patient safety risks and reallocation of resources to DHR system implementation.

Audit findings

Table 4-9 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
1	(1)	-	-	3	3

4.52 The audit finding identified in the previous year regarding the timely review of fortnightly salary reports was resolved by the Directorate in 2022-23.

4.53 Three audit findings were identified in 2022-23:

- Independence of internal audit – the Head of Internal Audit has extensive operational duties and responsibilities for the Directorate's financial management and reporting which creates an actual or perceived conflict of interest between the roles. The Internal Audit Function is less likely to be independent and fully effective where the Head of Internal Audit also has significant other operational duties and responsibilities.
- Bank reconciliations – a bank reconciliation was not prepared for one bank account by the Directorate because of the implementation of the DHR system. The absence of regular and timely bank reconciliations increases the risk of errors and omissions including fraud not being identified and addressed in a timely manner.
- Reconciliation of inventories – the inventory balance for domestic supplies had a negative balance and was not reconciled. In the absence of regular and timely reconciliation of inventory records, errors in inventory balances including susceptibility to fraud or misappropriation may not be identified and addressed by management in a timely manner.

4.54 The Directorate agreed to address these audit findings and advised:

- The Directorate will review the function of internal audit and an appropriate model will be developed, including an updated internal audit charter. Discussions are currently underway regarding moving the function administratively outside of the responsibility of the Chief Financial Officer role.
- The Directorate is implementing a process to mitigate the systems impacting the timeliness of completing the pathology revenue bank reconciliations. This will address any backlog of bank reconciliations for the account and establish a standardised process going forward.
- The Directorate will undertake cyclical inventory counts of high moving / high value inventory items. This process will complement the annual stocktake and the finance system will be reconciled to this data.

Canberra Institute of Technology

4.55 The Canberra Institute of Technology (Institute) is the Registered Training Organisation (RTO) that delivers vocational and tertiary education services to students. The Institute also offers training programs to public and private sector organisations.

Summary

- The Audit Office issued an unmodified auditor's report on the Institute's 2022 financial statements and an unmodified limited assurance report on its 2022 statement of performance.
- The net cost of the Institute's services ($94 million) was consistent with the budgeted cost of services ($97 million).
- Two new audit findings were identified in 2022, these related to governance documentation and reconciliation of student revenue recorded in the subsidiary information system.

Financial results

Table 4-10 Key results (calendar years)

	Actual 2022 $m	Budget 2022 $m	Actual 2021 $m
Expenses	(125)	(133)	(123)
Income	31	36	36
Net cost of services	**(94)**	**(97)**	**(87)**
Government contributions	79	79	75
Operating deficit	**(15)**	**(18)**	**(12)**

4.56 Expenses are largely comprised of employee costs and operational costs such as information technology, contractors and repairs and maintenance of campus facilities. Expenses ($125 million) were lower than the budgeted amount ($133 million) mainly due to lower than budgeted full time staff numbers as a result of reduced student enrolments.

4.57 Income is mainly derived from providing tertiary education services to students and funding from ACT Government for students undertaking funded courses. Income ($31 million) was $5 million (14 percent) lower than the budgeted amount ($36 million). This was mainly due to fewer than expected student enrolments due to a stronger employment market where people chose to work rather than study and delays in completing training programs funded by the ACT Government.

4.58 The Institute's net cost of services ($94 million) was consistent with the budgeted net cost of service ($97 million) and Government contributions ($79 million) were consistent with the budgeted amount ($79 million).

Audit findings

Table 4-11 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
-	-	-	-	2	2

4.59 Two new audit findings were identified during the 2022 audit. The Audit Office identified that the Institute:

- had not reviewed and updated its Fraud and Corruption Prevention Plan within the required review timeframe and it is out of date. The Institute's Strategic Risk Register is also in draft form and yet to be approved. The Institute has less assurance that the processes for managing and addressing fraud and corruption will be effective where the fraud and corruption prevention plan is not kept update to date. The Institute has agreed with the finding and will establish processes to review and update the above documents; and
- implemented a process in 2022 to perform daily reconciliations between the student administration system and financial management system, however, the reconciliations were performed on an ad hoc basis during this period due to the process not being formally documented. Where the reconciliations were performed, the quality assurance processes lacked sufficient documentation of preparer and reviewer sign offs. The Institute has agreed with the finding and will formally document the reconciliation preparation and review processes.

4.60 In its response to the above audit findings, the Institute also advised that:

- The Institute is undertaking a review of the system interface between the Student Administration System (Banner) and the Financial Management System (Oracle) with the view to a more efficient and robust process supported by documentation. The Institute will engage with the Audit Office on the implementation of the new process, and it is expected the finding to be cleared as part of the 2023 financial statements audit;
- The Institute has also recently developed a new Fraud and Corruption Prevention Framework and Fraud and Corruption Plan which were agreed to by the Institute's Audit

and Risk Committee on 27 June 2023. The Framework along with the Plan introduces a continuous evidence-based assessment of the Institute's fraud and corruption risks taking into account intelligence from various sources as well as outcomes of corruption deterrence and detection strategies. Implementation of the Framework and the Plan will occur immediately with the recruitment of additional resources. The Framework and the Plan conform with Australian Standard *AS8001:2021 Fraud and Corruption Control as well as the requirements of the Public Sector Management Standards 2006*; and

- The Institute continues to develop and mature its risk assessment capabilities. With the assistance of the ACT Insurance Authority, the Institute has held executive workshops to develop a new strategic risk register which accurately captures current risks and identifies controls and future treatments to mitigate these risks to an acceptable level. New strategic risk register was endorsed by the Institute's Audit and Risk Committee and the Board in August 2023.

Cemeteries and Crematoria Authority

4.61 The Cemeteries and Crematoria Authority (Authority) was established on 23 August 2020 under the *Cemeteries and Crematoria Act 2020* (Act). The Authority previously operated as the ACT Public Cemeteries Authority under the *Cemeteries and Crematoria Act 2003*.

4.62 The Authority is responsible for managing and operating public cemeteries in Gungahlin, Woden and Hall, the Mausoleum at the Woden Cemetery and the crematorium at the Gungahlin Cemetery.

4.63 A Perpetual Care Trust (Trust) has been established under the Act for the long-term maintenance of the cemeteries facilities operated by the Authority. The Act requires a percentage of the Authority's revenue from operating the facilities to be paid into the Trust for the purpose of maintaining the facility to an acceptable once a cemetery is closed.

Summary

- The Audit Office issued a modified auditor's report with an adverse opinion on the Authority's 2022-23 financial statements as it did not record assets of $12.4 million and liabilities of $45.2 million relating to the Perpetual Care Trust as at 30 June 2023. The impact of this was assessed as both material and pervasive to the financial statements. Therefore, the auditor's report stated that the financial statements did not:
  - present fairly, in all material respects, the Authority's financial position as at 30 June 2023, and its financial performance and cash flows for the year then ended; and
  - present in accordance with the *Financial Management Act 1996* nor do they comply with Australian Accounting Standards.
- The Audit Office issued an unmodified limited assurance report on the Authority's 2022-23 statement of performance.
- The Authority resolved one previously reported audit finding by performing regular reconciliations of accounts such as bank, payroll and revenue.
- The Authority did not resolve three previously reported audit findings relating to non-compliance with Australian Accounting Standards, incomplete working papers and control weaknesses in the revenue system.

Modified auditor's report with an adverse opinion

4.64 The Authority pays contributions relating to the Perpetual Care Trust to the ACT Public Trustee and Guardian in accordance with the Act.

4.65 In 2021-22, the Authority and the Transport Canberra and City Services Directorate (TCCSD), as the regulator under the Act, obtained external accounting advice from GAAP Consulting that concluded that the Authority's financial statements should record assets and liabilities of $10.9 million and $45.2 million respectively in relation to the Perpetual Care Trust as at 30 June 2022.

4.66 The Authority disagreed with the advice provided by GAAP Consulting and decided not to amend its financial statements to record the relevant assets and liabilities. As the adjustment was both material and pervasive to the financial statements, the Audit Office issued a modified auditor's report with an adverse opinion on the financial statements as at 30 June 2022.

4.67 In 2022-23, the Authority obtained external accounting advice from KPMG to seek a second opinion on the correct accounting treatment of assets and liabilities in relation to the Perpetual Care Trust under the Australian Accounting Standards. The KPMG advice confirmed that the Authority should record the assets and liabilities in relation to the maintenance of the facility for reporting purposes in accordance with Australian Accounting Standards.

4.68 At 30 June 2023, $12.4 million in funds were held by the Public Trustee and Guardian for the Trust. At the same time the balance sheet of the Authority fails to recognise, measure and disclose an estimated provision for future maintenance of approximately $45.2 million. As these balances were previously not recognised by the Authority, the opening balances as at 1 July 2021 also require adjustment with an impact on equity.

4.69 The Audit Office issued a modified auditor's report with an adverse opinion on the financial statements as the non-recording of these assets and liabilities was both material and pervasive to the financial statements. The auditor's report stated that the financial statements did not:

- present fairly, in all material respects, the Authority's financial position as at 30 June 2023, and its financial performance and cash flows for the year then ended; and
- present in accordance with the *Financial Management Act 1996* nor did they comply with the Australian Accounting Standards.

4.70 The Authority and TCCSD are working collaboratively to pursue changes to the *Cemeteries and Crematoria Act 2020* to allow TCCSD as the regulator to be responsible for the long-term obligations and asset in the future.

Audit findings

Table 4-12 Audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
4	(1)	-	3	-	3

4.71 In 2021-22, the Audit Office reported that periodic account reconciliations performed by Authority such as bank, payroll and revenue reconciliations were not always performed and/or reviewed on a timely basis. In 2022-23, the Authority resolved this finding by ensuring that these account reconciliations are performed on a regular and timely basis and reviewed by an independent officer.

4.72 The Authority did not resolve three of the four previously reported audit findings in relation to:

- the modified auditor's report with an adverse opinion previously discussed. The Audit Office recommended that the Authority should in consultation with Transport Canberra and City Services Directorate as the regulator determine the most appropriate reporting entity for the assets and long-term maintenance of cemeteries; and where changes to the relevant legislative requirement are identified, such changes should be in compliance with the Australian Accounting Standards;
- incomplete workpapers supporting the disclosure of related party transactions. The workpapers did not include information on how the Authority obtained assurance about the accuracy and completeness of its related party disclosure when completed data collection forms were not available; and
- a weakness in the revenue system (Stone Orchard) where key updates and changes were not reviewed and documented as such by an independent officer. This increases the risk that correct amounts may not be collected for a range of services provided by the Authority, including burial, cremation and memorialisation services. The Authority is in the process of procuring a new system to replace the Stone Orchard system.

4.73 The Authority has agreed to address the above matters.

Chief Minister, Treasury and Economic Development Directorate

4.74 The Chief Minister, Treasury and Economic Development Directorate (Directorate) provides strategic advice and support to the Chief Minister, the Directorate's Ministers and the Cabinet on policy, economic and financial matters, service delivery, whole of government issues and intergovernmental relations.

4.75 The Directorate is responsible for planning, developing, coordinating and implementing key ACT Government policies and strategies. Other key areas of responsibility include ACT Government property services, information technology infrastructure and support, procurement services, tourism and events as well as sports and recreation along with financial and economic management of the Territory.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2022-23 financial statements and an unmodified limited assurance report on the Directorate's 2022-23 statement of performance.
- The net cost of the Directorate's services ($602 million) was $27 million higher than the budgeted amount ($575 million) mostly due to the write-off expenses of the Human Resources and Information Management System (HRIMS) program ($40 million).
- Government contributions ($483 million) were $19 million lower than the budgeted amount ($502 million) mainly due to the Directorate not drawing down funding for some skills and training development grant programs which have been delayed until the next financial year.
- The Directorate resolved one of the three previously reported audit findings by measuring a result for all accountability indicators in accordance with the *Financial Management Act 1996.*
- One audit finding relating to the usefulness of accountability indicators in the statement of performance was partially resolved and one audit finding relating to the review of salary reports was not resolved.
- Two new findings identified in 2022-23 related to:
  - bank accounts that had long outstanding unreconciled and unresolved items; and
  - interim results of accountability indicators that had been calculated on a different basis to the method described in the Budget Paper.

Financial results

Table 4-13 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Expenses excluding assets transferred to other ACT Government agencies and transfers to Government	(943)	(880)	(1 202)
Income	341	305	289
Net cost of services	**(602)**	**(575)**	**(913)**
Government contributions	483	502	848
Transfers to Government	(10)	(10)	(10)
Assets transferred to other ACT Government agencies	(10)	(3)	(13)
Gains on extinguishment of loans	62	63	0
Operating deficit	**(77)**	**(23)**	**(88)**

4.76 The Directorate's expenses excluding assets transferred to other ACT Government agencies and transfers to Government are mostly comprised of employee costs, information technology network infrastructure, software and office equipment expenses, property repairs and maintenance costs, depreciation and amortisation and various grants paid for skills training, sports, tourism and arts programs.

4.77 Expenses excluding assets transferred to other ACT Government agencies and transfers to Government ($943 million) were $63 million higher than the budgeted amount ($880 million). This was mainly due to:

- the decision to write-off, rather than capitalise as anticipated in the budget, the Human Resources and Information Management System (HRIMS) program as it was decided that this project would no longer proceed;
- additional staff required to work on information system projects and in customer service delivery roles as the removal of remaining COVID-19 restrictions led to more face to face interactions with customers for services provided to the public; and
- a higher than anticipated increase in materials and labour costs for building repairs and maintenance work.

4.78 Income excluding gains on extinguishment of loans is mainly derived from providing information and communication technology services as well as office accommodation services to other ACT Government agencies. Income is also received from non-ACT Government sources, mainly as rent from tenants and from sporting and tourism events.

4.79 In the past, the Directorate had provided a loan to Community Housing Canberra Limited (CHC) which was funded via a borrowing from Territory Banking Account (TBA). CHC settled its loan to the Directorate in 2022-23 by transferring properties of an equivalent value to the Directorate. TBA advised the Directorate that the borrowings from the TBA were no longer repayable by the Directorate to the TBA. Therefore, the Directorate recorded a gain of $62 million from the settlement of loan liabilities in accordance with Australian Accounting Standard AASB 137: 'Provisions, Contingent Liabilities and Contingent Assets'.

4.80 Income excluding gains on extinguishment of loans ($341 million) was higher than the budget amount ($305 million) by $36 million mainly due to an unexpected increase in:

- demand for information technology project and network infrastructure services primarily related to the implementation of the Digital Health Record system and health system migrations; and
- materials and labour costs for building repairs and property maintenance work (as mentioned above) which is passed onto other ACT Government agencies as the customers for this work.

4.81 The net cost of the Directorate's services ($602 million) was $27 million higher than the budgeted amount ($575 million) mainly due to the write-off expenses relating to the Human Resources and Information Management System (HRIMS) program ($40 million) discussed previously.

4.82 Government contributions ($483 million) were $19 million lower than the budgeted amount ($502 million). This was mostly due to delays in rolling out skills and training development program grants (such as the JobTrainer program) that are funded by government and were subsequently extended by the Commonwealth and Territory Governments into future financial years.

4.83 The Directorate's Territorial operations mainly consist of revenue from Commonwealth Government grants, and taxes, fees and fines. This revenue is discussed in Chapter 1: 'The Territory's financial statements'.

Audit findings

Table 4-14 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
3	(1)	1	1	2	4

4.84 The Directorate resolved one previously reported audit finding relating to its statement of performance by measuring a result for all its accountability indicators to comply with the reporting requirements of *Financial Management Act 1996*.

4.85 The Audit Office assessed that the audit finding relating to the usefulness of accountability indicators included in the statement of performance is only partially resolved. Although the Directorate removed two indicators that did not report useful information on the

Directorate's performance, accountability indicators that measure activities performed instead of the effectiveness and efficiency of the outcomes delivered by the Directorate, are still included in the statement of performance of the Directorate. The Directorate should review all its accountability indicators in its statement of performance and remove or amend any indicators that do not report useful information on the Directorate's performance.

4.86 The Directorate has not resolved an audit finding that was first reported in 2013-14, relating to the timely review of fortnightly salary reports. The Directorate previously implemented an electronic review system for salary reports and in 2022-23 made further improvement by developing a monitoring system to assist business units to identify outstanding reports requiring review. However, there are still instances of salary reports that were not reviewed in a timely manner. The lack of the timely review of salary reports increases the risk that incorrect including fraudulent employee payments will not be promptly detected and addressed.

4.87 Two new audit findings were identified in 2022-23 in relation to:

- two of the Directorate's bank accounts that had long outstanding unreconciled and unresolved items at 30 June 2023, with some transactions dating back to 2016. Although these amounts were not material, there is an increased risk of errors in the financial statements when long unreconciled and unresolved items are not investigated and addressed in a timely manner; and
- the interim results reported for two accountability indicators in the statement of performance that had been calculated on a different basis to the method described in the Budget Papers. Whilst the Directorate correctly calculated final results for these indicators, there is an increased risk that results of accountability indicator will not provide an accurate reflection of the Directorate's performance where they are calculated on a basis that is not consistent with the method set out in the budget.

4.88 The Directorate has agreed to address all audit findings.

Community Services Directorate

4.89 The Community Services Directorate (Directorate) provides services to assist women, children and young people, Aboriginal and Torres Strait Islander people, people with disability, carers, families, people from culturally and linguistically diverse background, veterans and seniors.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2022-23 financial statements and an unmodified limited assurance report on its 2022-23 statement of performance.
- The net cost of the Directorate's services ($263 million) was $23 million (10 percent) higher than the budgeted net cost of services ($240 million) mainly due to higher expenses relating mainly to Grants and Purchased Services.
- Territorial payments representing the ACT Government's contributions ($171 million) to the Commonwealth Government for the National Disability Insurance Scheme (NDIS) were slightly lower than the budget ($174 million).
- The Directorate resolved three of the five previously reported audit findings in 2022-23. Two of the resolved findings related to the financial statements and one related to the statement of performance.
- The Directorate partially resolved one previously reported audit finding relating to its statement of performance.
- One previously reported audit finding in relation to incomplete workpapers supporting the disclosure of related party transactions remained unresolved in 2022-23.

Financial results

Table 4-15 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Expenses	(279)	(248)	(241)
Income	16	8	18
Net cost of services	**(263)**	**(240)**	**(223)**
Government contributions	254	236	217
Operating deficit	**(9)**	**(4)**	**(6)**

4.90 The Directorate's expenses mainly consist of:

- payments to non-government organisations to deliver support services in the sectors of housing, community service and social inclusion, women, disability, children and youth, Aboriginal and Torres Strait Islander affairs, multicultural affairs, and veterans and seniors;
- employee expenses including superannuation contributions; and
- supplies and services expenses including costs relating to information technology, office accommodation, and contractor and consultants mostly relating to client support services.

4.91 Expenses ($279 million) were higher than the budgeted amount ($248 million) by $31 million mainly as a result of higher than expected grants and purchased services ($24 million) mainly from additional purchased services relating to Out of Home Care services of $20 million.

4.92 The Directorate's income mainly includes:

- resources received free of charge mainly for legal, finance and human resource services from other ACT Government entities;
- rental income from Affordable Rental Scheme properties relating to housing needs of older and low income Canberrans;
- grants from the Commonwealth Government and the ACT Government to fund various Community programs; and
- reimbursement from Housing ACT for shared costs and functions including human resources and governance services.

4.93 Income ($16 million) exceeded the budgeted amount ($8 million) by $8 million. This was mainly due to the reimbursement of shared corporate services from Housing ACT not being included as revenue in the budget but as an offset against expenses.

4.94 The net cost of the Directorate's services ($263 million) exceeded the budgeted net cost of services ($240 million) by $23 million mostly due to the higher than anticipated expenses mentioned above.

4.95 Government contributions ($254 million) were $18 million higher than the budgeted amount ($236 million) mostly due additional funding of $24 million allocated to cover new funding initiatives announced in the 2022-23 Budget Review which, mainly includes provision of additional costs for Out of Home Care and Commonwealth grants for Family, Domestics, and Sexual Violence Response, some of which was drawn down during the year.

Table 4-16 Key results – Territorial expenses

Grants and purchased services	Actual 2022-23 $m	Budget 2022-23 $m
National Disability Insurance Scheme (NDIS)	171	174

4.96 Territorial expenses relate to the financial contributions of the ACT Government to the Commonwealth Government for the Territory's cost of the NDIS. In 2022-23, these expenses were slightly lower than the budget.

Audit findings

Table 4-17 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
5	(3)	1	1	-	2

4.97 The Directorate resolved three of the five previously reported audit findings, one was partially resolved, and one not resolved in 2022-23.

4.98 The Directorate resolved the three previously reported audit findings by:

- recording the amount received from Housing ACT for corporate services as revenue on a gross basis and did not offset it against expenses when preparing its annual budget and financial statements in accordance with the requirements of the Australian Accounting Standard AASB 101: 'Presentation of Financial Statements';
- the timely provision of supporting workpapers for grants and purchased services; and
- measuring the result of the accountability indicator '*1.1(c): 'Proportion of funded services that were visited by a Relationship Manager during the financial year*' using a method consistent with the definition of the indicator.

4.99 The Directorate partially resolved one previously reported audit finding on its statement of performance by improving the explanatory information to clearly explain reasons for variances between the result and the target. However, there continued to be some accountability indicators that did not provide a basis for a meaningful assessment of the Directorate's performance.

4.100 One previously reported audit finding in relation to incomplete workpapers supporting the disclosure of related party transactions remained unresolved by the Directorate. The workpapers did not include information on how the Directorate obtained assurance about the accuracy and completeness of its related party disclosure when completed data collection forms were not available.

4.101 The Directorate has agreed to address all audit findings.

Education Directorate

4.102 The Education Directorate (Directorate) provides public school education, registers and regulates home education, early childhood learning centres and non-government schools, and enrols international students.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2022-23 financial statements and an unmodified limited assurance report on its 2022-23 statement of performance.
- The net cost of the Directorate's services ($1 011 million) was largely consistent with the budgeted cost ($1 015 million).
- Government contributions ($929 million) were largely consistent with the budgeted amount ($933 million).
- Capital injections were lower than the budgeted amount mainly due to delays in some capital works projects.
- The Directorate resolved one previously reported audit finding in relation to documenting the satisfactory receipt of goods or services at schools. One previously reported audit finding in relation to the review of salary reports remained as partially resolved.

Financial results

Table 4-18 Key results - controlled

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Expenses	(1 074)	(1 079)	(998)
Income	63	64	72
Net cost of services	**(1 011)**	**(1 015)**	**(926)**
Government contributions	929	933	884
Operating deficit	**(81)**	**(81)**	**(42)**
Capital injections	**155**	**189**	**148**

4.103 Expenses mainly consist of employee expenses including superannuation contributions, supplies and services expenses including costs relating to property maintenance, materials and services, depreciation expenses and school operating expenses including utilities, cleaning, security, maintenance and the cost of external educational enrichment activities such as school excursions.

4.104 Income mainly consists of school revenue that relates to voluntary contributions, fund raising and excursion activities, human resources services received free of charge from Shared Services, international student enrolment fees, and funding from the Commonwealth Government for the Jervis Bay Territory School and the French-Australian Program provided at Telopea Park School.

4.105 The net cost of the Directorate's services ($1 011 million) was largely consistent with the budgeted cost ($1 015 million).

4.106 Government contributions ($929 million) were largely consistent with the budgeted amount ($933 million).

4.107 Capital injections ($155 million) were lower than the budgeted amount ($189 million) by $34 million (18 percent) mainly due to delays in some capital works projects, including the School Maintenance and Infrastructure Upgrades Project, Kenny High School Project and Upgrading and Increasing School Capacity Project. The delays are predominantly due to delays associated with supply issues as a flow on impact from COVID-19, unpleasant weather, and delays in procurement and planning coordination.

Table 4-19 Key results - Territorial expenses

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Grants to non-government schools	349	346	336
Total expenses	**349**	**346**	**336**

4.108 Territorial expenses mostly consist of grants paid to non-government schools. The Directorate receives funding from the ACT Government and the Commonwealth Government to provide these grants. Grants paid to non-government schools were mostly in line with the budgeted amount.

Audit findings

Table 4-20 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
2	(1)	1	-	-	1

4.109 The Directorate had two previously reported audit findings, of which one was resolved and one was partially resolved in 2022-23.

4.110 The Directorate resolved one previously reported audit finding in relation to the documentation supporting the payment of invoices at schools by maintaining appropriate documentation of employee sign offs evidencing the satisfactory receipt of goods and services. This reduces the risk of payment errors, irregularities and fraud.

4.111 The remaining partially resolved audit finding relating to the review of salary reports which was first reported in 2013-14. The Directorate improved controls over the 'Schools Staffing Expenditure Monitoring System' (SSEMS) used to distribute salary reports for review to schools by phasing out generic logins, maintaining a list of designated salary report reviewers and completing a risk assessment over the review of audit logs. While the salary reports are always reviewed the audit finding is only partially resolved as:

- some salary reports were not reviewed on a timely basis (i.e. more than 2 weeks after the end of the pay period; and
- the policy defining what constitutes a 'timely basis of review' to measure the timeliness of the salary report review has been prepared in draft but is yet to be finalised by the Directorate. The lack of timely review of salary reports increases the risk that incorrect (including fraudulent) employee payments will not be promptly detected and addressed.

4.112 The Directorate agreed to address the audit finding.

Environment, Planning and Sustainable Development Directorate

4.113 The Environment, Planning and Sustainable Development Directorate (Directorate) is responsible for developing and implementing plans and policies that address strategies of ACT Government in relation to climate change, sustainable growth, building and planning, land, parks and reserves management across the Territory.

4.114 The Directorate also has the responsibility for urban renewal including land supply.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2022-23 financial statements.
- The Audit Office issued an unmodified limited assurance report on the Directorate's 2022-23 statement of performance.
- The net cost of the Directorate's services ($168 million) was largely consistent with the budgeted amount ($165 million).
- Government contributions ($150 million) were lower than the budgeted contributions ($169 million) by $19 million (11 percent) mainly due to a delay in Vulnerable Household and ACT Healthy Waterways projects.
- Capital injections ($31 million) were in line with the budgeted amount ($32 million).
- One new audit finding was identified in 2022-23 relating to reporting matters on two accountability indicators in the Directorate's statement of performance.

Financial results

Table 4-21 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Expenses	(319)	(296)	(317)
Income	151	131	174
Net cost of services	**(168)**	**(165)**	**(143)**
Government contributions	150	169	132
Operating (deficit)/surplus	**(18)**	**4**	**(11)**
Capital injections	**31**	**32**	**19**

4.115 Expenses mainly consist of costs associated with Large-Scale Generation Certificates (LSGCs), employee costs including superannuation, supplies and services expenses and other expenses including rebates under the Next Generation Storage Program discussed below.

4.116 Expenses totalling $319 million were higher than the budgeted cost of $296 million by $23 million (8 percent) mainly due to:

- LSGCs expenses as the market price at 30 June 2023 of $54.50 per megawatt-hour (MWh) was higher than the price estimated in the budget of $45.75 per MWh. Under the *Electricity Feed-in (Large-scale Renewable Energy Generation) Act 2011*, large-scale generators of electricity are required, after generating a sufficient amount of renewable energy into the electricity network, to create renewable energy certificates and provide these certificates to the Directorate. While these certificates are received initially at no cost to the Directorate, they are subsequently valued and recognised as an intangible asset and revenue. A corresponding liability and an expense is also created to reflect the present obligation created by the ACT Government's policy decision to surrender LSGCs to ACT's licensed electricity distributor, Evoenergy to meet its renewable energy target; and
- other expenses from the last round of Next Generation Storage Program rebates paid out in the 2022-23 financial year as the program is coming to a close. This program was designed to support the ACT's battery marketplace and improve access for Canberrans to install a battery.

4.117 Income largely represents the value of large-scale generation certificates surrendered to the Directorate by the large-scale generators of electricity.

4.118 Income ($151 million) was $20 million (15 percent) higher than the budgeted income ($131 million) mainly due to the LSGCs revenue, where the market price at 30 June 2023 was higher than the price estimated in the budget, as discussed previously.

4.119 The net cost of the Directorate's services ($168 million) was largely consistent with the budgeted amount ($165 million).

4.120 Government contributions ($150 million) were lower than the budgeted contributions ($169 million) by $19 million (11 percent). This was mainly due to projects such as the Vulnerable Household project and ACT Healthy Waterways project, which were delayed due to complex procurements, limited contractor availability, reliance on other works from parties both external and internal to ACT Government, extensive community consultation processes and higher than average rainfall.

4.121 Capital injections ($31 million) were in line with the budgeted amount ($32 million).

Table 4-22 Key results – Territorial income

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Fees	25	13	27
Land revenue	-	15	0.1
Other	8	4	10
Total income	**33**	**32**	**37**

4.122 The Directorate collects fees and land revenue on behalf of the Territory. Fees mostly consist of amounts charged for development applications and lease variations. Land revenue is received from leasing Territorial land and transferring land to the Suburban Land Agency.

4.123 Fees ($25 million) was higher than the budgeted amount ($13 million) mainly due to the higher Lease Variation Charge (LVC) as customers opted to pay their LVC upfront as opposed to using the ACT Revenue Office's deferral scheme anticipated in the budget.

4.124 Land revenue was nil as compared to the budgeted amount ($15 million) due to no land transfers to the Suburban Land Agency. Land transfer revenues are set based on the timing of releases in the Government's Indicative Land Release Program. This program is indicative and release timing may change based on planning outcomes and changing Government outcomes. Some land transfers were close to being signed off during the year, but further work was needed resulting in the transfers being deferred.

Audit findings

Table 4-23 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
-	-	-	-	1	1

4.125 One new audit finding was identified in 2022-23 relating to changes in the reported results for two accountability indicators in the Directorate's statement of performance.

4.126 When results for accountability indicators included in the budget papers are incorrectly measured or misinterpreted, there is a risk that the readers of the Directorate's statement of performance being misled on the actual performance of the Directorate. The Directorate corrected its statement of performance to accurately reflect the results.

4.127 The Directorate has agreed to address this audit finding.

Housing ACT

4.128 Housing ACT provides safe, affordable and appropriate housing to address the needs of socially and financially disadvantaged people. This includes funding the specialist homelessness sector, assisting and supporting people experiencing homelessness and people at risk of experiencing homelessness.

Summary

- The Audit Office issued an unmodified auditor's report on Housing ACT's 2022-23 financial statements and an unmodified limited assurance report on its 2022-23 statement of performance.
- The net cost of Housing ACT's services ($180 million) was $11 million (7 percent) higher than budgeted net cost of services ($169 million) mainly due to higher than anticipated expenses arising from public housing properties.
- Gains from disposal and remeasurement of assets ($2 million) were $10 million (83 percent) lower than budgeted ($12 million) due to lower than anticipated prices achieved in property sales.
- The value of property portfolio at 30 June 2023 ($7 992 million) was lower than the value at 30 June 2022 ($8 282 million) by $290 million mainly due to a downward revaluation of land and buildings in 2022-23.
- Housing ACT partially resolved the previously reported audit finding relating to the legislated requirement to perform an annual rent review and to charge market rent to public housing tenants.

Financial results

Table 4-24 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Expenses	(289)	(265)	(279)
Income	109	96	104
Net cost of services	**(180)**	**(169)**	**(175)**
Government contributions	64	62	58
Gains from disposal and remeasurement of assets	2	12	29
Operating deficit	**(114)**	**(95)**	**(88)**

4.129 Expenses mainly consist of public housing property management costs, employee expenses and grants paid to organisations that provide services to people who have become or are at the risk of becoming homeless. Property management costs include repairs and maintenance costs, depreciation of public housing properties, and sewerage, water and general rates.

4.130 Expenses ($289 million) were higher than the budgeted amount ($265 million) by $24 million (9 percent) mainly due to higher than anticipated:

- repair and maintenance costs over the rental property portfolio as a result of works recognised as operational expenditure; and
- depreciation expenses resulting from the significant upward revaluation of the portfolio towards the end of last year.

4.131 Income mainly consists of rent received from public housing tenants. Income ($109 million) exceeded the budgeted amount ($96 million) by $13 million (14 percent) mainly due to:

- tenants receiving higher income from indexation of their social security payments resulting in an increase in rent recovered;
- higher than expected interest revenue resulting from significant increase in interest rates; and
- higher than expected insurance recoveries for damage to properties and goods, and funds received from the Community Services Directorate for the purchase of a property in Bonner.

4.132 The net cost of Housing ACT's services ($180 million) was $11 million (7 percent) higher than budgeted net cost of services ($169 million) due mainly to the higher than anticipated expenses arising from public housing properties mentioned above, partially offset by the higher income.

4.133 Government contributions of $64 million were consistent with the budgeted amount ($62 million).

4.134 Gains from disposal and remeasurement of assets ($2 million) were $10 million (83 percent) lower than budget ($12 million). This was mainly due to lower than anticipated prices achieved in property sales, reflecting the softening of the ACT property market. Proceeds from the sale of public housing properties are used to fund the replacement and renewal of the public housing portfolio through the ongoing *Growing and Renewing Public Housing Program.*

Property Portfolio

Table 4-25 Number and value of land and dwellings

At 30 June	Actual 2020-21	Actual 2021-22	Actual 2022-23
Number of land parcels – Note 1	6 815	6 690	6 585
Land value ($m)	**$4 782**	**$5 960**	**$5 575**
Number of dwellings – Note 1	11 595	11 521	11 612
Dwellings value ($m)	**$1 931**	**$2 322**	**$2 417**
Total value of land and dwellings ($m)	**$6 713**	**$8 282**	**$7 992**

Source: Information on land and dwellings was provided by Housing ACT.

Note 1: The number of land parcels and dwellings excludes assets held for sale or distribution.

4.135 The value of property portfolio at 30 June 2023 ($7 992 million) was lower than the value at 30 June 2022 ($8 282 million) by $290 million mainly due to a downward revaluation of land and buildings in 2022-23.

4.136 The number of dwellings has increased by 91 in 2022-23 from 2021-22. Housing ACT has advised that $257 million is being invested through the *Growing and Renewing Public Housing Program* to renew 1 000 properties and to increase the number of dwellings by at least 400 by 2026-27.

Audit findings

Table 4-26 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
1	-	1	-	-	1

4.137 The one previously reported audit finding in relation to review of rent charged was partially resolved by Housing ACT by documenting what constitutes a ‘rent review’ as being a full market rent assessment conducted by a certified independent valuer.

4.138 While a rent review was completed in 2022-23 in accordance with the requirements of the *Housing Assistance Act 2007*, the decision to pass the rent increase on to tenants has not been made. Housing ACT advised that there was no material impact on the 2022-23 financial statements from not passing on the increase in rent to the tenants.

4.139 Housing ACT has agreed to continue to address this audit finding.

Icon Water Limited

4.140 Icon Water Limited (Icon Water) provides water and sewerage related services and manages its 50 percent interest in the ActewAGL Joint Venture (ActewAGL) energy business. ActewAGL is discussed earlier in this chapter.

4.141 Icon Water's two subsidiaries, Icon Retail Investments Limited and Icon Distribution Investments Limited, hold a 50 percent interest in the ActewAGL Retail Partnership and ActewAGL Distribution Partnership respectively.

Summary

- The Audit Office issued unmodified auditor's reports on the 2022-23 financial reports of Icon Water Limited, Icon Distribution Investments Limited and Icon Retail Investments Limited.
- Icon Water's profit for the year ($60 million) was $16 million (21 percent) lower than the prior year profit ($76 million) mainly due to increases in finance costs, operational costs, depreciation, and employment and associated costs.
- Icon Water's share of profit from ActewAGL ($157 million) increased by $21 million from the prior year ($136 million) in 2022-23.
- Dividends paid to the ACT Government decreased by $37 million from $57 million in 2021-22 to $20 million in 2022-23.
- At 30 June 2023, current liabilities exceeded current assets by $36 million. Included in the current liabilities is a medium term note which will be refinanced with a long-term borrowing upon expiry. The Icon Water Group therefore has adequate resources to continue as a going concern and pay its debts as and when they fall due and payable.
- Icon Water resolved the previously reported audit finding relating to accounting policy and procedures for revaluation of water and sewerage infrastructure assets.

Financial results

Table 4-27 Key results

	Actual 2022-23 $m	Actual 2021-22 $m
Revenue excluding share of net profit from investment in ActewAGL	336	333
Share of net profit from investment in ActewAGL	157	136
Revenue	**493**	**469**
Expenses	(407)	(360)
Operating profit before income tax expense	**86**	**109**
Income tax expense	(26)	(33)
Operating profit	**60**	**76**
Dividends paid to the ACT Government	**20**	**57**

Note: The financial information is for Icon Water Limited and Controlled Entities.

4.142 Revenue mostly consists of water supply and sewerage charges and Icon Water's share of net profit from ActewAGL joint venture partnerships.

4.143 Revenue excluding Icon Water's share of net profit from investment in ActewAGL ($336 million) was $3 million lower than the prior year amount ($333 million). This was mainly due to a reduction in water sales revenue from reduced water consumption by customers as a result of higher-than-average rainfall for the region.

4.144 Icon Water's share of net profit investment in ActewAGL in 2022-23 ($157 million) increased by $21 million (16 percent) from the prior year ($136 million) as the ActewAGL joint venture partnerships recorded higher profits in 2022-23. This was mainly due to the impacts of the large-scale feed in tariff scheme and the direct effects of higher wholesale electricity prices, along with higher capital contributions revenue and gifted assets.

4.145 Expenses comprise mainly of business operating costs, interest costs incurred on borrowings, employee expenses and depreciation. Expenses ($407 million) were $47 million (13 percent) higher than the prior year amount ($360 million) mainly as a result of higher:

- finance costs of $22 million attributable to the higher consumer price index which is linked to indexed bonds within the borrowings portfolio;

- employment and associated costs of $9 million arising from lower capitalisation of labour costs, increases in employee numbers and a general increase in the costs of business caused by economic inflation factors; and
- operational costs of $3 million due to expenditure incurred by Icon Water to shift more business processes in-house as a result of the expiry of the Corporate Service Agreement with ActewAGL.

4.146 Income tax expense ($26 million) was lower than the prior year expense ($33 million) by $7 million (21 percent) due to lower taxable profits.

4.147 Icon Water's operating profit ($60 million) was $16 million (21 percent) lower than the prior year profit ($76 million) due to higher increase in expenses as compared to minimal increase in total revenue, alongside increased share of net profit received from the investment in ActewAGL.

4.148 Dividends paid to the ACT Government decreased by $37 million (65 percent) from $57 million in 2021-22 to $20 million in 2022-23 primarily linked to the once-off dividend relief related to the large-scale feed in tariff.

Financial position

Table 4-28 Net short-term assets

At 30 June	Actual 2022-23 $m	Actual 2021-22 $m
Short-term assets	149	155
Short-term liabilities including dividend payable to the ACT Government	(185)	(113)
Net short-term assets	**(36)**	**42**
Ratio of short-term assets to short-term liabilities	**0.8 to 1**	**1.4 to 1**

4.149 At 30 June 2023, current liabilities exceeded current assets by $36 million. Included in current liabilities is a medium term note of $100 million maturing in May 2024 which will be refinanced with a long-term borrowing upon expiry using approved borrowing limits held with the ACT Government. The 2022-23 financial reports have therefore been prepared on a going concern basis.

4.150 The deficiency in current assets is managed by the Icon Water Group's ability to utilise the approved borrowing limits held with the ACT Government and to generate profits with related cash flows as evidenced by current and prior year operating results. In the opinion of the directors, the Icon Water Group has adequate resources to pay its debts as and when they fall due and payable.

Audit findings

Table 4-29 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
1	(1)	-	-	-	-

4.151 Icon Water has resolved the one previously reported audit finding by reviewing and updating its accounting policy and procedures for the revaluation of water and sewerage infrastructure assets to reflect the requirements of current Australian Accounting Standards, and common accounting practices and benchmarking with industry peers.

4.152 Icon Water applied its updated accounting policy for the first time during the financial year ended 30 June 2023 to measure water, sewerage, electricity and gas infrastructure assets at fair values.

4.153 Regular update of accounting policies and procedures over significant estimates will provide increased assurance to Icon Water that the financial report will meet the requirements of current Australian Accounting Standards and will provide more useful information to the readers of the report.

Justice and Community Safety Directorate

4.154 The Justice and Community Safety Directorate (Directorate) provides courts, corrections, justice, and emergency services. Policing services provided by the Australian Federal Police are paid through the Directorate's Territorial appropriation.

4.155 The Directorate is supported by independent statutory office holders including President, ACT Human Rights Commission, Children & Young People Commissioner, Victims of Crime Commissioner, Discrimination, Health, Disability & Community Services Commissioner, Inspector of Correctional Services, ACT Solicitor-General, Courts and Tribunal Principal Registrar, and Director of Public Prosecutions.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2022-23 financial statements and an unmodified limited assurance report on its 2022-23 statement of performance.
- The net cost of the Directorate's services ($433 million) was $19 million (4 percent) lower than the budgeted net cost of services ($452 million) mainly due to higher own source revenue, including an insurance payout.
- Payments to the Australian Federal Police for policing services ($205 million) was only slightly higher than the budgeted amount ($202 million).
- The Directorate's public private partnership commitments for the new ACT Courts and Tribunal facilities ($545 million) was $81 million higher than the prior year amount ($464 million) mainly due to additional costs committed for maintenance and operating services, partially offset by service payments made during the year.
- The audit finding identified in 2022-23 related to some bank signatories not being current employees of the Directorate.

Financial results

Table 4-30 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Expenses	(498)	(493)	(461)
Income	65	41	47
Net cost of services	**(433)**	**(452)**	**(414)**
Government contributions	411	417	375
Operating deficit	**(22)**	**(35)**	**(39)**
Capital injections	**22**	**36**	**23**

4.156 Expenses mainly consist of employee costs and supplies and services expenses associated with the provision of justice services, corrective services, courts and tribunal, and emergency services.

4.157 Expenses ($498 million) were materially consistent with the budgeted amount ($493 million).

4.158 Income is mainly comprised of insurance payouts for repair and rectification costs associated with hailstorm damage at the ACT Alexander Maconochie Centre (AMC), fees received for services provided by the ACT Solicitor-General's Office and the Emergency Services Agency (i.e. ambulance transport and fire protection related services).

4.159 Income ($65 million) was $24 million (59 percent) higher than budgeted amount ($41 million) mainly due to:

- an insurance payout for repair and rectification costs associated with hailstorm damage at the AMC ($13 million); and
- higher than anticipated sales of goods and services from contracts with customers due to higher demand for professional legal services ($5 million).

4.160 The net cost of the Directorate's services ($433 million) was $20 million (4 percent) lower than the budgeted net cost of services ($452 million) mostly due to the higher than anticipated income mentioned above.

4.161 Government contributions ($411 million) were $6 million lower than the budgeted amount ($417 million) as the Directorate did not draw down all its budgeted appropriation, including amounts appropriated for the pay offer under the new enterprise agreement ($7 million) as it was not due for payment prior to 30 June 2023.

4.162 Capital injections ($22 million) were significantly lower than the budgeted amount ($36 million) by $14 million (39 percent) due to funds not being drawn down as a result of changes to project timelines, supply-chain issues and delays in procurement. These mainly include Emergency Services Agency's ACT Ambulance Service modernisation and vehicle replacement program ($6 million) and stations upgrade project ($5 million), AMC's capital works projects ($2 million) and some ICT projects ($3 million).

Table 4-31 Key results – Territorial expenses

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Payments to the Australian Federal Police (AFP)	205	202	195
Other expenses	61	39	47
Total expenses	**266**	**241**	**242**

4.163 Territorial expenses mainly consist of payments to the Australian Federal Police to provide policing services in the ACT.

4.164 Payments to the Australian Federal Police ($205 million) was only slightly higher than the budgeted amount ($202 million) largely due to the Board of Inquiry into the Criminal Justice System in the ACT and for costs awarded by the Courts against ACT Police ($2 million).

4.165 Other expenses were $22 million (56 percent) higher than budgeted mainly due to funding provided to various ACT Government entities by the ACT Civil and Administrative Tribunal (ACAT) ($12 million) and disbursements under the Victims of Crime Financial Assistance Scheme as a result of a larger than anticipated number of applications processed ($10 million).

Table 4-32 ACT Courts and Tribunal Project – Public Private Partnership Commitments

	Public Private Partnership Commitments	
	2022-23 $m	**2021-22 $m**
Within one year	22	22
Later than one year but not later than five years	110	88
Later than five years	413	354
Total Public Private Partnership Commitments – Note 1	**545**	**464**

Source: Note 23: 'Commitments and Other Expenditure Commitments' of the Directorate's 2022-23 financial statements.

Note 1: Total Public Private Partnership Commitments excludes finance lease commitments. All commitments are exclusive of GST.

4.166 At 30 June 2023, the Directorate had $545 million in commitments relating to the public private partnership with a private sector consortium (Juris Partnership) in relation to the construction, operation and maintenance of new ACT Courts and Tribunal facilities.

4.167 The increase from prior year was mainly due to additional building improvements for ACAT and combined Courts facilities. These additional commitments were partially offset by monthly service payments made during the year.

Audit findings

Table 4-33 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
-	-	-	-	1	1

4.168 The new audit finding was in relation to bank signatories who can make payments using cheques or electronic funds transfer from the Directorate's bank accounts. The Audit Office found that some bank signatories were not current employees of the Directorate. Whilst payments require authorisation of two bank signatories, this increases the risk of fraudulent payments being made from the Directorate's bank accounts.

4.169 The Audit Office recommended that the Directorate review its authorised bank signatories on a regular basis and remove all bank signatories that are no longer employees of the Directorate from the system.

4.170 The Directorate has advised that a process to remove employees as bank signatories who are no longer employed with the Directorate commenced during 2022-23 year with all signatures updated in July 2023.

Legal Aid Commission (ACT)

4.171 The Legal Aid Commission (ACT) (Commission) is an independent statutory authority established by the *Legal Aid Act 1977 (ACT)* with the primary purpose of providing access to a range of legal aid services and programs for vulnerable and disadvantaged residents in the ACT that are involved in legal proceedings.

4.172 The legal services provided by the Commission are wide-ranging and include the provision of legal information and referrals, legal advice, advocacy services, duty lawyer services, grants of legal assistance, dispute resolution services, community legal education programs and submissions on law reform issues. The Commission provides these services through a combination of its own staff and private legal practitioners who are paid by the Commission.

Summary

- The Audit Office issued an unmodified auditor's report on the Commission's 2022-23 financial statements.
- The Commission's net cost of services ($18 million) was consistent with the budgeted net cost of services ($18 million).
- In 2022-23, the Audit Office issued a modified limited assurance report on the Commission's statement of performance as the Commission was unable to report a result for the full year for some of its accountability indictors as required by the *Financial Management Act 1996.*
- The Commission's systems used to record data relating to 4 of its 5 accountability indicators reported in its statement of performance were impacted by a cyber security incident and an accelerated IT transition project. As a result, the Commission was unable to report a result for 3 months and could only accurately report results for 9 months for these indicators.
- The Commission resolved one previously reported audit finding relating to governance arrangements and partially resolved the remaining finding relating to the assessment for revenue recognition.
- Four new audit findings identified in 2022-23 related to key governance documents and the timeliness of completing workpapers supporting the financial statement balances.

Financial results

Table 4-34 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Expenses	(23)	(21)	(19)
Income	5	3	5
Net cost of services	**(18)**	**(18)**	**(14)**
Government contributions	18	17	16
Operating surplus/(deficit)	**0**	**(1)**	**2**

4.173 Expenses are largely comprised of employee costs and supplies and services expenses including payments for legal services provided by private legal practitioners and information technology costs.

4.174 Expenses ($23 million) were $2 million (10 percent) higher than the budgeted amount ($21 million) mainly due to:

- higher technology support costs because of the previously discussed cyber security incident and accelerated IT transition; and
- higher employee expenses for additional staff required to provide legal aid services funded by grants that were not anticipated in the budget.

4.175 Income primarily consists of grants and contributions for legal aid programs and services as well as gains and interest income.

4.176 Income ($5 million) was $2 million (70 percent) higher than the budgeted amount ($3 million) mainly due to grants that were not anticipated in the budget. The Commission received additional grants from the ACT and Commonwealth for new legal aid projects and extensions to existing legal aid programs.

4.177 The Commission's net cost of services ($18 million) was consistent with the budgeted net cost of services ($18 million).

4.178 Government contributions ($18 million) were slightly higher than budgeted ($17 million) by $1 million (6 percent) due to funding received for the implementation and transition to a new case management approach at the Federal and Family Court of Australia.

Audit findings

Table 4-35 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
2	(1)	1	-	4	5

4.179 The Commission resolved one of the previously reported audit findings relating to governance arrangements by reviewing and updating key governance documents relating to risk management, business continuity, audit committee, internal audit, financial delegations, expenditure controls and fraud and corruption prevention. This provides increased assurance to the Commission that key governance documents are up to date and will operate more effectively.

4.180 The Commission partially resolved the previously reported audit finding relating to accounting for revenue from contracts with customers. The Audit Office reported that the Commission's assessment of its contracts and agreements to determine revenue in accordance with the relevant Australian Accounting Standards was not sufficient to support the conclusions reached. In 2022-23, the Commission obtained independent accounting advice on its material revenue contracts to determine the correct application of the accounting standards for revenue recognised from these contracts. However, the audit finding was only partially resolved as two adjustments were identified for revenue reported in the Commission's financial statements submitted for audit which were not consistent with its accounting advice. Also further improvements were identified in relation to accounting policy disclosures in the financial statements for how revenue is recognised and reported from these contracts.

4.181 Four new audit findings identified in 2022-23 related to:

- updates required to the chief executive financial instructions to reflect changes to key legislative requirements, standards and responsibilities;
- periodic update and testing of the business continuity plan and the ICT disaster recovery plan;
- improvements required to the internal audit charter to document the process for selecting internal audit activities and the coordination of the internal audit function; and
- the timeliness of completing accounting workpapers to ensure all supporting workpapers are completed prior to the submission of financial statements for audit under the whole of government reporting timetable.

4.182 The Commission has agreed to address the first three findings above, however has partially agreed to address the audit finding relating to the timeliness of completing accounting workpapers.

4.183 The Commission notes there was a delay of 3 days in submitting workpapers for audit and advised that:

> The Commission is required to produce financial statements very early after the end of year, which causes timeliness and/or quality issues with providing everything to the Audit Office on time. The Commission has previously made approaches to Treasury and Audit Office for a later timeframe but has been declined.

4.184 The whole of government reporting timetable is issued by the Chief Minister, Treasury and Economic Development Directorate (Treasury) and its compliance by respective reporting agencies ensures that the financial statements of the Territory are prepared and audited within the timeframe set out in the *Financial Management Act 1996*.

Major Projects Canberra

4.185 Major Projects Canberra delivers major infrastructure projects for the community and consolidates project planning, contract management and procurement on behalf of ACT Government agencies.

4.186 The key outputs of Major Projects Canberra include:

- procuring and delivering infrastructure projects designated by the ACT Government as major projects. These include the expansion of Canberra Hospital, light rail stage 2 including raising London Circuit, the redevelopment of the Canberra Theatre Centre and the delivery of a new CIT campus and public transport hub in Woden;
- providing whole of government infrastructure delivery services and assist them in planning new projects and delivering other key projects across the ACT; and
- enabling the office of the ACT Chief Engineer and developing the ACT Government's engineering workforce.

Summary

- The Audit Office issued an unmodified auditor's report on Major Projects Canberra's 2022-23 financial statements and an unmodified limited assurance report on its 2022-23 statement of performance.
- The net cost of Major Projects Canberra's services ($31 million) was lower than the budgeted amount ($45 million) mainly due to lower expenses in cladding remediation programs and Light Rail contractors and consultants' expenses due to these costs being capitalised.
- Government contributions ($36 million) were only slightly less than the budgeted amount ($40 million).
- Major Projects Canberra drew down an additional $42 million (12 percent) in capital injections than the budgeted ($350 million) mainly due to additional appropriation provided in the mid-year budget review for capital works on new light rail vehicles, depot expansion and expanding additional capabilities at the Critical Services Building and Inpatient Unit as part of the Canberra Hospital expansion.

Financial results

Table 4-36 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Expenses	(37)	(48)	(42)
Income	6	3	16
Net cost of services	**(31)**	**(45)**	**(26)**
Government contributions	36	40	27
Operating surplus/(deficit)	**5**	**(5)**	**1**
Capital injections	**392**	**350**	**194**

4.187 Major Projects Canberra's expenses mainly consist of employee expenses and supplies and services expenses.

4.188 Expenses ($37 million) were lower than the budgeted amount ($48 million) by $11 million mainly due to lower expenses on the ACT Government buildings cladding remediation programs; less than expected rebate claims from eligible private buildings on testing and assessment of the cladding; and lower light rail contractors and consultants' expenses due to these costs being capitalised rather than expensed as anticipated in the budget.

4.189 Major Projects Canberra's income is mostly derived from providing capital works project management services to other ACT Government agencies. Income ($6 million) was higher than the budgeted amount ($3 million) mainly due to higher than anticipated delivery of capital works program in 2022-23.

4.190 The net cost of Major Projects Canberra's services ($31 million) was lower than the budgeted amount ($45 million) mainly due to lower expenses in cladding remediation programs and light rail contractors and consultants' expenses due to these costs being capitalised, as well as higher own source revenue for capital works project management services provided to the ACT Government.

4.191 Government contributions ($36 million) were only slightly less than the budgeted amount ($40 million). Major Projects Canberra drew down an additional $42 million (12 percent) in capital injections than the budgeted ($350 million) mainly due to additional appropriation provided in the mid-year budget review for capital works on new light rail vehicles, depot expansion and expanding additional capabilities at the Critical Services Building and Inpatient Unit as part of the Canberra Hospital expansion.

Public Sector Workers Compensation Fund

4.192 The Public Sector Workers Compensation Fund (PSWC Fund) is established and operates under the *Public Sector Workers Compensation Fund Act 2018*.

4.193 The PSWC Fund supports the Territory's workers' compensation self-insurance licence under the Commonwealth's *Safety, Rehabilitation and Compensation Act 1988* and related prudential and financial management arrangements.

4.194 The PSWC Fund commenced operations on 1 March 2019 when the Safety, Rehabilitation and Compensation Commission granted the licence to the Territory. The PSWC Fund has been designed to ensure the effective management of the Territory's assets to meet its workers' compensation liabilities under the self-insurance licence and features governance and management arrangements in relation to those assets and liabilities.

4.195 The compensation claims are managed through a third-party administrator agreement with Employers Mutual Limited (EML) performing the overall functions of a claims manager.

Summary

- The Audit Office issued an unmodified auditor's report on the PSWC Fund's 2022-23 financial statements and an unmodified limited assurance report on its 2022-23 statement of performance.
- The PSWC Fund's operating surplus ($54 million) exceeded the budgeted operating surplus ($13 million) by $41 million due to lower than expected actuarially estimated claims related expenses resulting in a reduction in outstanding claims liabilities.
- The PSWC Fund had sufficient assets ($455 million) to meet estimated gross outstanding claims liabilities ($256 million) at 30 June 2023.
- The PSWC Fund resolved the one previously reported audit finding relating to the processes for preparing its financial statements, recording its transactions and workpapers supporting the financial statements.
- One new audit finding was identified in 2022-23 relating to the review and approval of journals.

Financial results

Table 4-37 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Underwriting revenue	65	65	59
Underwriting expenses	(37)	(57)	(9)
Underwriting gain	**28**	**8**	**50**
Other revenue	12	10	32
Total income	**40**	**18**	**82**
Supplies and services	(1)	(8)	(1)
Expenses	**(1)**	**(8)**	**(1)**
Gain/(loss) on investments	15	3	(25)
Operating surplus	**54**	**13**	**56**

4.196 The PSWC Fund's income mostly consists of underwriting revenue from workers' compensation premium contributions collected from ACT Government agencies.

4.197 Underwriting revenue ($65 million) was consistent with the budgeted amount ($65 million).

4.198 Underwriting expenses consist of workers' compensation claims paid during the year, changes in the actuarial estimate of gross outstanding claims during the year including workers' compensation claims incurred during the year, and claims handling costs incurred for the PSWC Fund's claims management service provider, EML.

4.199 Total underwriting expenses ($37 million) were $20 million (35 percent) lower than the budgeted amount ($57 million). This was due to lower than expected actuarially estimated claims related expenses resulting in a reduction in outstanding claims liabilities. The budgeted amount assumes a breakeven underwriting result with no deterioration or improvement in the expectations from prior year claims.

4.200 Other revenue ($12 million) and gain on investments ($15 million) were higher than the respective budgeted amounts of $10 million and $3 million. The higher amounts were mainly due to better than expected market conditions of the investments held with the Territory Banking Account.

4.201 The PSWC Fund's operating surplus ($54 million) exceeded the budgeted operating surplus ($13 million) due to lower than anticipated underwriting expenses, higher than anticipated other revenue and gain on investments as previously discussed.

Financial position

Table 4-38 Net assets

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Total assets	455	435	416
Total liabilities	(270)	(322)	(286)
Net assets	**185**	**113**	**130**
Ratio of total assets to total liabilities	**1.7:1**	**1.3:1**	**1.4:1**

4.202 The PSWC Fund aims to hold sufficient assets to meet estimated gross outstanding claims liabilities.

4.203 The PSWC Fund continued to have sufficient assets to cover its liabilities at 30 June 2023. Its net asset position at 30 June 2023 ($185 million) is higher than the budgeted net asset position ($113 million) by $72 million (63 percent) due to lower than expected actuarially estimated gross outstanding claims held at year end and higher than expected cash held.

Audit findings

Table 4-39 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
1	(1)	-	-	1	1

4.204 The PSWC Fund resolved the one previously reported audit finding relating to the processes for preparing financial statements, recording transactions and workpapers supporting the financial statements.

4.205 In 2022-23, the PSWC Fund improved these processes by recording transactions in its general ledger on a more regular basis, including claims payments and adjustments relating to outstanding claims liabilities on a monthly basis. The PSWC Fund also improved its workpapers to adequately explain reconciliations performed for significant balances reported in the financial statements. Improved processes for recording transactions and accounting workpapers reduce the risk of errors being introduced in the general ledger and financial statements.

4.206 One new audit finding was identified in relation to the review and approval processes of journals. The Audit Office found that a number of year-end journals relating to actuarial assessment of outstanding claims liabilities were not reviewed by an independent officer.

4.207 The PSWC Fund has agreed to address the audit finding by improving the process for how its internal control requirement for the review of journals by an independent officer is implemented and monitored.

Suburban Land Agency

4.208 The Suburban Land Agency is a Public Non-Financial Corporation which develops and sells suburban, residential, community, commercial and industrial land in town centres and suburbs outside 'declared urban renewal precincts'.

4.209 Consistent with the ACT Government's policy on competitive neutrality (*Competitive Neutrality in the ACT*, *October 2010*), the Suburban Land Agency applies similar costing and pricing principles, taxation, debt guarantee requirements and regulations to a private sector entity.

4.210 The Suburban Land Agency reports the ACT Government's interest in the West Belconnen Joint Venture in its financial statements. The Joint Venture is a joint operation with Riverview Developments (ACT) Pty Ltd and undertakes land development at West Belconnen, across ACT and NSW borders. The assets, liabilities, income and expenses of the joint operation are proportionately consolidated in the financial statements of the Suburban Land Agency.

Summary

- The Audit Office issued an unmodified auditor's report on the Suburban Land Agency's 2022-23 financial statements and an unmodified limited assurance report on its 2022-23 statement of performance.
- Revenue from contracts with customers ($191 million) was $161 million (46 percent) lower than the budgeted amount ($352 million) due to a lower volume of land sales.
- Write-down of inventory ($6 million) was not anticipated in the budget and relates to the value of land received free of charge from other ACT Government agencies and the inventory assessed to have a recoverable amount below its cost.
- The Suburban Land Agency and Environment, Planning and Sustainable Development Directorate are in the process of amending the Joint Venture Agreement to establish a more permanent financial reporting arrangement as recommended by the Audit Office since 2021-22.

Financial results

Table 4-40 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Revenue from contracts with customers	191	352	551
Cost of land sold	(75)	(154)	(193)
Gross profit on land sales	**116**	**198**	**358**
Other income	13	4	23
Write-down of inventory	(6)	-	(21)
Employee, supplies and services, and other expenses	(47)	(52)	(57)
Operating profit before income tax equivalents expense	**76**	**150**	**303**
Income tax equivalents expense	(23)	(45)	(91)
Operating profit	**53**	**105**	**212**

4.211 Revenue from contracts with customers ($191 million) was $161 million (46 percent) lower than the budgeted amount ($352 million) due to lower land sales from delays in West Belconnen Joint Venture land settlements as well as negative impact of property market conditions on the demand for land including higher interest rates and increased construction costs.

4.212 Cost of land sold ($75 million) was $79 million (51 percent) lower than the budgeted amount ($154 million) mainly due to lower land sales as discussed above.

4.213 Other income ($13 million) was $9 million (225 percent) higher than the budgeted amount ($4 million) mainly due to more than expected land received free of charge from other ACT Government agencies and higher interest income earned due to higher interest rates during the year.

4.214 Write-down of inventory ($6 million) was not anticipated in the budget. To comply with Australian Accounting Standard AASB 102: 'Inventories', the Suburban Land Agency writes down:

- the value of land received free of charge from other ACT Government agencies to zero to measure land at the lower of its cost and net realisable value. As there is no cost to the Suburban Land Agency for the land transferred, these are recorded at 'nil' value; and
- the cost of inventory for discontinued projects where the criteria for an asset is no longer met and where the net realisable value of inventory is lower than its cost.

4.215 Employee, supplies and services, and other expenses ($47 million) were $5 million (10 percent) below the budgeted amount ($52 million). This was mainly due to lower than expected supplies and services expenses relating to selling, consultant, contractor and asset management costs.

4.216 Income tax equivalents expense ($23 million) was $22 million (49 percent) lower than the budgeted amount ($45 million) because of a lower gross profit.

4.217 Operating profit ($53 million) was $52 million (50 percent) less than the budgeted amount ($105 million) mainly as a result of lower land sales as previously discussed.

Financial reporting arrangements for West Belconnen Joint Venture

4.218 The Suburban Land Agency reports the ACT Government's interest in the West Belconnen Joint Venture in its financial statements.

4.219 A written confirmation is currently provided by the Environment, Planning and Sustainable Development Directorate (Directorate) to facilitate financial reporting of the ACT Government's interest in the financial statements of the Suburban Land Agency. This arrangement is not permanent in nature as the Directorate has the discretion to change the reporting requirement on an annual basis.

4.220 Since 2020-21, the Audit Office has advised the Suburban Land Agency to liaise with the Directorate to pursue establishing a more permanent arrangement for financial reporting of the ACT Government's interest in the West Belconnen Joint Venture in its financial statements.

4.221 Representatives of the Suburban Land Agency advised that the Directorate and the Agency are in the process of amending the Joint Venture Agreement to establish a more permanent financial reporting arrangement. However, due to the complexity of the legal, financial, tax and government arrangements, this changeover is taking longer than anticipated.

Superannuation Provision Account

4.222 The Superannuation Provision Account administers funds reserved to meet the defined benefit employer superannuation liabilities of the Territory. These defined benefit superannuation liabilities relate to:

- current and former ACT Government employees who are members of Commonwealth Government defined benefit superannuation schemes, the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS); and
- eligible Members of the ACT Legislative Assembly who are entitled to the defined benefit superannuation scheme under the *Legislative Assembly (Members' Superannuation) Act 1991.*

4.223 The CSS and PSS are administered by the Commonwealth Superannuation Corporation (CSC). The Territory reimburses CSC for the employer- financed share of the superannuation benefits paid to eligible ACT Government employee members since 1 July 1989. The superannuation liabilities incurred prior to that date are covered by the Commonwealth Government.

4.224 The CSS and PSS were closed to new members from 1 July 1990 and 1 July 2005 respectively. The Public Sector Superannuation Accumulation Plan (PSSap) was offered to employees from 1 July 2005 until this scheme was closed to new members from 7 October 2006 with new employees offered superannuation accumulation schemes of their choice.

Summary

- The Audit Office issued an unmodified auditor's report on the Superannuation Provision Account's 2022-23 financial statements and an unmodified limited assurance report on its 2022-23 statement of performance.
- The operating deficit ($89 million) was lower than the budgeted amount ($265 million) by $176 million (66 percent) primarily due to the higher than estimated net gain on the fair value of investments due to better than expected performance of investments.
- The unfunded superannuation liability at 30 June 2023 ($5 056 million) exceeded the budgeted amount ($3 581 million) by $1 475 million largely due to the use of a lower discount rate assumption and pension indexation being higher than anticipated.
- Annual cash payments required to meet the superannuation obligations are projected to increase significantly over future years, peaking at $764 million in 2045 and then reducing until the liabilities are fully paid.
- The Superannuation Provision Account will continue to rely on appropriation funding from the ACT Government to meet the annual cash payments for the Territory's superannuation obligations until the liability is fully funded by investment assets.

Financial Results

Table 4-41 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Income	172	165	112
Net gain/(loss) on the fair value of investments	392	218	(313)
Expenses	(653)	(648)	(616)
Operating deficit	**(89)**	**(265)**	**(817)**
Capital injections	**348**	**348**	**328**

4.225 The Superannuation Provision Account invests available funds in Australian and global markets to meet the defined benefit employer superannuation liabilities, as a result, these investments are subject to market risk and fluctuate according to global economic and financial conditions.

4.226 Income is mainly distributions from investments held with the Territory Banking Account. Income ($172 million) was $7 million (4 percent) higher than budgeted ($165 million) as net distributions received on investments were higher than estimated due to stronger performance of investment markets.

4.227 Net gain on the fair value of investments ($392 million) was substantially higher than budgeted ($218 million) by $174 million (80 percent) due to better than expected performance of financial investment assets.

4.228 Expenses mostly consist of superannuation costs associated with the estimated growth in the superannuation liability. The superannuation expense was largely consistent with budget.

4.229 The operating deficit ($89 million) was lower than the budgeted deficit ($265 million) by $176 million (66 percent) primarily due to a higher than estimated net gain on the fair value of investments.

4.230 Capital injection appropriations fund the Superannuation Provision Account's cash requirements to meet annual superannuation emerging cost payments until such time as the superannuation liability is fully covered by investment assets. Capital injections of $347 million were consistent with the budgeted amount.

Actual unfunded superannuation liability

Table 4-42 Actual financial position

At 30 June	Actual 2019-20 $m	Actual 2020-21 $m	Actual 2021-22 $m	Actual 2022-23 $m	Budget 2022-23 $m
Financial assets – Note 1	4 322	5 132	4 941	5 509	5 594
Superannuation liability	(12 056)	(13 231)	(10 872)	(10 565)	(9 175)
Unfunded superannuation liability	**(7 734)**	**(8 099)**	**(5 931)**	**(5 056)**	**(3 581)**
Ratio of investments to superannuation liability	**0.4 to 1**	**0.4 to 1**	**0.5 to 1**	**0.5 to 1**	**0.6 to 1**

Source: Actual figures were obtained from Superannuation Provision Account's audited financial statements. Budget figures were obtained from 2022-23 Budget Papers.

Note 1: Financial assets consist of cash, investment distributions receivable and investments.

4.231 The Superannuation Provision Account's financial assets which consist of cash, investment distributions receivable and fair value of investments, are not sufficient to cover the superannuation liability, therefore a substantial component of the liability is unfunded. However, the ratio of investments to superannuation liability is improving overtime.

4.232 The superannuation liability is valued to present value using a Commonwealth Government bond interest (discount) rate at the end of the financial year. This valuation is sensitive to changes in the discount rate due to the long-term settlement period of the liability. Therefore, the discount rate used to calculate the present value of the superannuation liability has a significant impact on its estimated value. A lower discount rate increases the estimated superannuation liability, and a higher discount rate decreases the estimated superannuation liability.

4.233 The Superannuation Provision Account uses a long-term average discount rate in the budget and forward year estimates to remove significant valuation volatility resulting from changes in the Commonwealth Government bond interest rate from year to year.

4.234 The unfunded superannuation liability at 30 June 2023 ($5 057 million) exceeded the budgeted amount ($3 581 million) by $1 476 million largely due to the use of a lower discount rate assumption and pension indexation being higher than anticipated.

4.235 The unfunded superannuation liability as at 30 June 2023 ($5 057 million) decreased from the unfunded position at 30 June 2022 ($5 931 million) by $874 million (15 percent) mainly due to an increase in the fair value of investments and decrease in the superannuation liability largely resulting from the use of a higher discount rate compared to the prior year.

4.236 The unfunded superannuation liability position has fluctuated significantly in recent years mostly due to the changes in the Commonwealth Government bond (discount) rate.

Projected unfunded superannuation liability

Table 4-43 Estimated forward years financial position

At 30 June	Actual 2022-23 $m	Estimate 2023-24 $m	Estimate 2024-25 $m	Estimate 2025-26 $m
Financial assets – Note 1	5 509	6 002	6 440	6 910
Superannuation liability	(10 565)	(9 426)	(9 656)	(9 867)
Unfunded superannuation liability	**(5 056)**	**(3 424)**	**(3 216)**	**(2 957)**
Ratio of investments to superannuation liability	**0.5 to 1**	**0.6 to 1**	**0.7 to 1**	**0.7 to 1**

Source: Actual figures were obtained from Superannuation Provision Account's audited financial statements. Forward estimate figures were obtained from the 2022-23 Budget Papers.

Note 1: Financial assets consist of cash, investment distributions receivable and investments.

4.237 The ACT Government's plan to extinguish the unfunded superannuation liability over time requires the accumulated funds to be invested and investment earnings to be re-invested to grow the investment portfolio and reduce the longer-term cost of the liability.

4.238 The unfunded superannuation liability position is estimated to decrease substantially from $5 057 million at 30 June 2023 to an estimated $2 957 million by 30 June 2026 reported in the forward estimates. This is due to the estimated:

- increase in financial assets of $1 402 million (25 percent) over the forward years from the current balance of $5 508 million to $6 910 million by 30 June 2026 as a result of the previously mentioned re-investment plan to grow the investment portfolio; and
- reduction in the superannuation liability by $698 million (7 percent) from $10 565 million in the current year to $9 867 million by 30 June 2026 largely from superannuation payments.

4.239 For the significant estimated decrease in the unfunded superannuation liability to occur over the forward years, there would need to be:

- market conditions that enable the previously mentioned growth of the investment portfolio; and
- an increase in the discount rate used to estimate the superannuation liability, unless other assumptions used in the estimation were to change.

Table 4-44 Future superannuation cash payments schedule

Year ended 30 June	Nominal terms $m
2024	382
2029	502
2034	621
2039	718
2045 (peak)	764
2050	728
2055	640
2060	522

Source: Information above was obtained from the 'Report on Actuarial Investigation as at 30 June 2022' prepared by the Territory's consulting actuary, Willis Towers Watson. The actuarially assessed amounts are represented in nominal terms (i.e. not adjusted for inflation).

4.240 The annual cash payments required to meet superannuation obligations are projected to increase significantly in coming years, peaking at $764 million in 2045 and then gradually decreasing over the years until the liabilities are fully paid. This reflects the expected retirement of employees who are members of the CSS and PSS over the next two decades. Members of these two schemes will receive retirement benefits in the form of indexed pensions, which will continue throughout their lives and that of their surviving spouses.

4.241 The Superannuation Provision Account will continue to rely on appropriation funding from the ACT Government to meet the projected significant increase in annual cash payments for the Territory's superannuation obligations until the liability is fully funded by investment assets. The timing of when the superannuation liability becomes fully funded is subject to the achievement of estimated investment returns and the projected cash payments not significantly increasing beyond the estimated amounts in future years.

Transport Canberra and City Services Directorate

4.242 Transport Canberra and City Services Directorate (Directorate) is responsible for Canberra's municipal services and public transport planning functions. The Directorate undertakes planning, building and maintenance of majority of the Territory's infrastructure assets. It also operates linen cleaning services, domestic animal services, Yarralumla Nursery and Birrigai Outdoor School.

4.243 Transport Canberra Operations, Canberra's public transport provider, is also part of the Directorate.

4.244 The Directorate has administrative oversight responsibility for the Cemeteries and Crematoria Authority which operates the Woden, Gungahlin, and Hall cemeteries.

Summary

- The Audit office issued an unmodified auditor's report on the Directorate's 2022-23 financial statements.
- The Audit office issued an unmodified limited assurance report on the Directorate's 2022-23 Statement of performance.
- The Directorate's net cost of services ($686 million) was $148 million (27 percent) higher than the budgeted cost ($539 million) due to lower than expected asset contributions from the Suburban Land Agency and private developers, and expensing of capital works in progress costs which were not anticipated in the budget.
- Capital injections ($148 million) were $73 million (33 percent) lower than the budgeted amount ($221 million) mainly due to the delays and deferral in capital infrastructure projects.
- The Directorate resolved the three previously reported audit findings relating to monthly reconciliations of the waste management system and the finance system, Information and Communication Technology Strategic Plan, and an accountability indicator whose result was not measured last year as required by the *Financial Management Act 1996.*

Financial results

Table 4-45 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Expenses	(777)	(736)	(767)
Income	91	198	84
Net cost of services	**(686)**	**(538)**	**(683)**
Government contributions	491	481	467
Contributed assets from other ACT Government entities and private developers	40	147	40
Operating (deficit)/surplus	**(155)**	**90**	**(176)**
Capital injections	**148**	**221**	**129**

4.245 The Directorate's expenses mainly consist of employee costs, depreciation costs, contributions to Transport Canberra Operations, and supplies and services expenses such as contractors and consultancy costs, operating costs, repairs and maintenance and ICT services.

4.246 Total expenses of $777 million were $41 million (6 percent) higher than the budgeted amount of $736 million mainly due to:

- the expensing of capital works which did not meet the criteria to be recorded as an asset under the Australian Accounting Standards; and
- higher than budgeted employee expenses mainly due to higher staff numbers resulting from the transition of contractors to staff to support the operational functions of the Directorate.

4.247 The Directorate's income is mostly derived from providing linen cleaning services, collecting fees for the disposal of contaminated waste at the Territory's landfill sites and the sale of plants from Yarralumla Nursery.

4.248 Income ($91 million) was significantly lower than the budgeted amount ($198 million) mainly due to lower than budgeted grants and contributions as a result of lower than expected asset contributions from the Suburban Land Agency and private developers.

4.249 The Directorate's net cost of services ($686 million) was $147 million (27 percent) higher than budgeted ($538 million) mainly due to higher than expected expenses and lower than expected asset contributions from the Suburban Land Agency and private developers.

4.250 Government contributions ($491 million) were $10 million (2 percent) higher than budgeted ($481 million) mainly due to additional funding received to address higher waste management contract expenses, which were attributed to higher fuel prices. In addition, funds were allocated for managing the transportation and processing of recycling materials in the aftermath of the fire incident at the Material Recovery Facility in December 2022.

4.251 Contributed assets from other ACT Government entities and private developers ($40 million) were $107 million (73 percent) lower than budgeted ($147 million) primarily due to the lower than expected value of assets contributed from the Suburban Land Agency and private developers.

4.252 Capital injections ($148 million) were $73 million (33 percent) lower than the budgeted amount ($221 million) primarily due to deferral and delays in capital infrastructure projects such as Road Upgrades and Safety projects.

Audit findings

Table 4-46 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
3	(3)	-	-	-	-

4.253 The three previously reported audit findings were resolved in 2022-23. These related to:

- monthly reconciliations of the waste management system and the finance system which was first reported in 2019-20. Reconciliations of the Newcastle Weighbridge System and Oracle were not always prepared and reviewed in a timely manner (i.e. within four weeks of month end). This increases the risk that errors and irregularities in revenue records will not be promptly followed up and resolved. In 2022- 23, the Directorate implemented the monthly reconciliation process for the waste management system and the finance system;
- the up-to-date ICT strategic plan for current information and communication technology as its 'Information and Technology Strategy 2017-2020' was the last strategic plan available in 2021-22. This increases the risk that planning, and implementation of new information technology systems will be less likely to be effective and may not meet emerging priorities and needs of the Directorate. In 2022-23, the 'TCCS Digital and Technology Strategy 2023-28' had been developed and approved; and
- result not measured in the statement of performance for an accountability indicator in Output Class 2.2: Library Services, *h. 'Percentage of participants with a learning outcome from library programs'* as required by the *Financial Management Act 1996*. In 2022-23, that the Directorate measured the result for the accountability indicator.

Transport Canberra Operations

4.254 Transport Canberra Operations is a business unit of the Transport Canberra and City Services Directorate (Directorate) and a separate reporting entity for financial reporting purposes. Information on the Directorate is provided earlier in this chapter.

4.255 Transport Canberra Operations' primary business is the provision of public transport services to the ACT community, for which subsidy in the form of contributions and capital payments are received from the Directorate.

4.256 Transport Canberra Operations is a Public Non-Financial Corporation for the purposes of whole-of-government reporting and is subject to the National Tax Equivalents Regime.

Summary

- The Audit Office issued an unmodified auditor's report on Transport Canberra Operations' 2022-23 financial statements and an unmodified limited assurance report on its 2022-23 statement of performance.
- Transport Canberra Operations' net cost of services ($244 million) was slightly higher than the budgeted cost ($242 million).
- Transport Canberra Operations' operating deficit before income tax equivalents of $40 million was slightly higher than the budgeted amount ($34 million) due to unbudgeted expensing of capital works in progress as these costs did not meet the criteria to be recorded as an asset under Australian Accounting Standards.
- Capital payments received from the Directorate ($16 million) were $13 million (45 percent) lower than the budgeted amount ($29 million) largely due to the leasing arrangements for six diesel buses, twelve zero-emission buses, six battery charging units and supporting infrastructure.
- Transport Canberra Operations' public private partnership operational expenditure commitments for Canberra's light rail ($648 million) was $22 million lower than the prior year amount ($680 million) mainly due to monthly service payments made during the year.
- Three previously reported audit findings were resolved in 2022-23.

Financial results

Table 4-47 Key results

	Actual 2022-23 $m	Budget 2022-23 $m	Actual 2021-22 $m
Expenses	(278)	(272)	(262)
Revenue	25	30	18
Net cost of services	**(253)**	**(242)**	**(244)**
Government contributions	213	208	207
Operating deficit before income tax equivalents	**(40)**	**(34)**	**(37)**
Income tax equivalents income	12	-	11
Operating deficit	**(28)**	**(34)**	**(26)**
Capital funding received from Transport Canberra and City Services Directorate	**16**	**29**	**14**

4.257 Transport Canberra Operations' expenses mostly consist of employee expenses, depreciation costs and supplies and services costs, such as light rail service payments to the Canberra Metro Consortium (Canberra Metro) and bus operating costs including fuel, maintenance and insurance.

4.258 Expenses ($278 million) were $6 million (2 percent) higher than the budgeted amount ($272 million) primarily due to unbudgeted expensing of capital works in progress which do not meet the criteria to be recorded as an asset under the Australian Accounting Standards.

4.259 Transport Canberra Operations' revenue is primarily derived from passenger fares on the public transport network.

4.260 Total revenue of $25 million was $5 million (17 percent) lower than the budgeted revenue of $30 million mainly due to the continuation of flexible working arrangements post the pandemic. Overall, public transport patronage has been slowly recovering after the lockdown was lifted in November 2021.

4.261 Net cost of services ($253 million) was $11 million (5 percent) higher than the budgeted net cost of services ($242 million) due to the previously discussed lower than expected revenue and higher than expected expenses.

4.262 Government contributions ($213 million) were slightly higher than the budgeted amount ($208 million).

4.263 The operating deficit before income tax equivalents of $40 million was slightly higher than the budgeted amount of $34 million.

4.264 The income tax equivalents income of $12 million was not anticipated in the budget.

4.265 Capital payments received from the Directorate ($16 million) were $13 million (45 percent) lower than the budgeted amount ($29 million) largely due to the leasing arrangements for six diesel buses, 12 zero-emission buses, six battery charging units and supporting infrastructure. The budget expected these items to be purchased outright rather than being leased.

Table 4-48 Light Rail Project - Public Private Partnership Commitments

	Operational Commitments (excluding GST)	
	2022-23 $m	**2021-22 $m**
Within one year	34	31
Later than one year but not later than five years	144	142
Later than five years	470	507
Total Public Private Partnership Commitments	**648**	**680**

Source: Note 18: 'Capital and other expenditure commitments' of Transport Canberra Operations' audited financial statements.

4.266 At 30 June 2023, Transport Canberra Operations had $648 million in commitments for the public private partnership with Canberra Metro to operate and maintain Canberra's light rail. The 20-year contracted term will end in 2039 after which the ACT Government will assume ownership of the light rail network assets.

4.267 The commitments for the operation of Canberra's light rail ($648 million) was $22 million lower than the prior year ($680 million) mainly due to monthly service payments made during the year.

Audit findings

Table 4-49 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
3	(3)	-	-	-	-

4.268 The three previously reported audit findings were resolved in 2022-23. These related to:

- Transport Canberra Operations did not formally document its assessment that the carrying amount of property, plant and equipment, which was not subject to valuation in the current year, did not materially differ from its fair value at the end of the reporting period as required by the Australian Accounting Standards. This increases the risk of non-compliance with the requirements of Australian Accounting Standards. In 2022- 23, the Audit Office found Transport Canberra Operations properly documented the fair value assessment and implemented an annual review to confirm the carrying amount of assets are held at fair value at each reporting date.
- Transport Canberra Operations did not have an approved asset accounting policy specific to its operations as it used the Directorate's asset accounting policy which has not been specifically tailored to support Transport Canberra Operations' strategic asset management requirements. This increases the risk that asset management information reported in Transport Canberra Operations' financial statements is less likely to be accurate, comparable and consistent over the years. In 2022-23, the Audit Office found that the Transport Canberra and City Services Directorate had updated the asset accounting policy to include reference to Transport Canberra Operations' asset categories to support its strategic asset management requirements.
- Transport Canberra Operations did not have an approved strategic plan up-to-date for current information and communication technology as its 'Information and Technology Strategy 2017-2020' is the last strategic plan available in 2021-22. This increases the risk that planning, and implementation of new information technology systems will be less likely to be effective and may not meet emerging priorities and needs of Transport Canberra Operations. In 2022-23, the Audit Office found that 'TCCS Digital and Technology Strategy 2023-28' had been developed and approved. Transport Canberra Operations also advised that the communication technology strategic plan will be reviewed and updated on a regular basis (e.g. annually).

University of Canberra

4.269 The University of Canberra (University) provides graduate and post-graduate education to Australian and international students. The University also provides research, consultancy and student accommodation services.

4.270 The University Council (Council) is established under section 9 of the *University of Canberra Act 1989 (Act)* as the governing authority of the University. Under the Act, the Council is responsible for the control and management of the entire University.

4.271 In 2022, the University controlled:

- UCX Ltd which provides goods and services to the staff, students and visitors to the campus;
- UC Global Pty Limited which provides business services, including contract management, market analysis and other specialist commercial management services to the education industry;
- WJ Weeden Post-Graduate Scholarship Trust Fund which provides scholarships to students enrolled at the University for post-graduate studies; and
- University of Canberra Royal Institute of Public Administration Research Fund which provides funds to conduct research projects and the production of publications relating to public administration studies.

4.272 The Audit Office audited the 2022 financial statements of:

- the University under the *Financial Management Act 1996* (as amended by the *University of Canberra Act 1989*), and *the Australian Charities and Not-for-profits Commission Act 2012*; and
- UCX Ltd under the *Australian Charities and Not-for-profits Commission Act 2012*.

Summary

- The Audit Office issued an unmodified auditor's report on the 2022 financial statements of the University.
- The University's 2022 operating surplus ($7 million) was $98 million lower than prior year surplus ($105 million) primarily due to one-off revenue of approximately $85 million related to dividend receipts and associated imputation credits arising from the restructure of shares in IDP by Education Australia Limited in 2021.
- The University had net short-term liabilities of $16 million at 31 December 2022. It disclosed in its financial statements that it can meet these short-term liabilities using undrawn borrowing facilities with banks, funding provided by the Commonwealth Government and other university related funding. The University will need to continue to carefully manage its cash flows to meet these short-term liabilities.

- Two of the ten previously reported audit findings were resolved. One related to the review of payroll variation reports and the other related to improving financial reporting processes.
- Eight of the ten previously reported audit findings were partially resolved. Five of these audit findings relate to weaknesses over computer information systems, one related to improving financial reporting processes to resolve long-standing credit balances in student and sponsor fee accounts, one related to assessment for revenue recognition and one related to internal controls over financial management policies.
- Three new audit findings were identified in 2022. Two relating to weaknesses over computer information systems and one relating to improving financial reporting processes over property, plant and equipment.

Financial results

Table 4-50 Key results (calendar years)

University of Canberra Group – Note 1	Actual 2022 $m	Actual 2021 $m
Income	324	398
Expenses	(317)	(293)
Operating surplus	**7**	**105**

Note 1: The financial information presented is for the University and its controlled entities.

4.273 Income mainly consists of Commonwealth Government financial assistance for student places, higher education loan programs, research activities, domestic and international student fees, and revenue from providing student accommodation.

4.274 Income ($324 million) was $74 million lower than prior year income ($398 million) primarily due to one-off revenue related to dividend receipts and associated imputation credits arising from the restructure of shares in IDP by Education Australia Limited in 2021.

4.275 Expenses consists mainly of employee costs, administrative expenses, and depreciation and amortisation. Expenses ($317 million) were $24 million higher than prior year ($293 million) primarily due to an increase in Full Time Equivalent staff from 1 025 in 2021 to 1 099 in 2022 and increases in expenditure such as academic partner payments, commissions and travel with a return to business as usual operations subsequent to the COVID-19 pandemic.

4.276 The University's 2022 operating surplus ($7 million) was $98 million lower than the prior year operating surplus ($105 million) primarily due to the decrease in investment income discussed above.

Financial position

Table 4-51 Net short-term liabilities (calendar years)

University of Canberra Group – Note 1 **At 31 December**	**Actual 2022 $m**	**Actual 2021 $m**
Short-term assets - Note 2	97	95
Short-term liabilities - Note 3	113	107
Net short-term liabilities	**(16)**	**(12)**
Ratio of short-term assets to short-term liabilities	**0.9 to 1**	**0.9 to 1**

Note 1: The financial information presented is for the University and controlled entities.

Note 2: Short-term assets (rounded down to $97 million) consist of current assets ($97.8 million) as presented in the Statement of Financial Position minus restricted cash ($0.4 million) held in the WJ Weeden Post-Graduate Scholarship Trust Fund. Current restricted cash were subtracted from current assets as these funds cannot be used to pay liabilities.

Note 3: Short-term liabilities ($113 million) are less than current liabilities ($123 million) presented in the Statement of Financial Position. Short-term liabilities only include liabilities expected to be paid within 12 months as this provides a better indication of the short-term asset coverage.

4.277 At 31 December 2022, the University's consolidated short-term liabilities ($113 million) exceeded its short-term assets ($97 million) by $16 million (16 percent). The amount by which short-term liabilities exceeded short-term assets increased from $12 million at 31 December 2021 to $16 million at 31 December 2022. This was largely due to the University having a larger other liabilities balance arising from course fees received in advance and unspent government grants.

4.278 The University's financial statements disclose that it can meet its short-term liabilities using undrawn borrowing facilities with banks, funding provided by the Commonwealth Government and other university related funding. However, the net short-term liability position means that the University needs to continue to carefully manage its cash flows to ensure that it can meet its short-term liabilities.

Audit findings

Table 4-52 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
10	(2)	8	-	3	11

4.279 Two of the ten previously reported audit findings were resolved, eight are partially resolved and three new audit findings were identified during the audit of the 2022 financial statements.

4.280 Two previously reported audit findings were resolved. In prior years, the Audit Office recommended the University:

- strengthen alternative key controls over review of payroll variation reports and changes to employee data in the payroll system. The University resolved this finding by ensuring that the review of changes to employee data within the Ascender payroll system and the approvals for the pay variation review is performed and documented; and
- implement an alternative method for evidencing the preparation, review and timing of its financial reconciliations that are unmodifiable. The University resolved this finding by implementing unmodifiable time stamps for reconciliations that are electronically signed off by the reviewer.

4.281 Eight previously reported audit findings remain partially resolved. In prior years, the University:

- restricted system administrators from making changes to their computers, however other users can make changes to their computers where the user submits a request for local administrator rights, and this is approved. The University's controls over providing local administrator rights are inadequate as there was not always an apparent business need for providing this access to some users, nor was there evidence that the software installed by users with this access is security assessed or subject to ongoing security patching. This increases the risk that the computers of the users holding local administrator privileges could be compromised and introduce security threats to the University network which could remain undetected. The University has agreed with this finding and has implemented processes and procedures to resolve this finding. It was observed that, while a framework and elements of processes appear to have been developed to support the process for allocating and controlling local administrator rights, the Audit Office has not had opportunity to observe a period of operation which would allow for testing and assessment of the suitability of the control;
- had not documented its procedures for managing privileged user access, placed appropriate restrictions on privileged users (administrator) accounts1 and regularly monitored the activities of these users. The University has implemented most recommendations such as documenting procedures and introducing controls to monitor privileged user activities, however internet access for privileged users remain. There is a risk to the security of University's network should a privileged user account be compromised. The University has agreed with the finding and is currently testing for appropriate solutions;
- General information technology controls were assessed against those recommended in the Essential Eight mitigation strategies set out by the Australian Cyber Security Centre (ACSC). The University has agreed and implemented a number of the essential eight

[1] Privileged user (administrator) access provides these users with considerable access within an entity's network and applications, and the ability to perform higher risk activities in applications without approval.

controls apart from application whitelisting (permitting only specified applications to operate on systems) and the previously identified deficiencies of local administrator rights and management of privileged users. This presents a higher risk that the University's information technology network environment and applications could be compromised. The University has agreed to implement application whitelisting and relevant recommendations under local administrator rights and management of privileged users discussed above;

- could not provide evidence that database privileged users (administrators) activities for the University's financial management, payroll and student administration systems were consistently logged and monitored, or an alternative mitigating control exists. Since administrator users have the ability to perform higher risk activities in key applications without approval, there is an increased risk of unauthorised (including fraudulent) access to the system and its data, and that any such changes remain undetected. The University has partially resolved this finding by conducting risk assessments of key financial systems and identified sensitive fields and has further agreed to refine front end reporting of audit logs for easier review and develop a responsibility matrix for monitoring and reviewing activities;
- had deficiencies in the University's application specific security documentation for key financial information technology applications. The University had not developed System Security Plans, Continuous Monitoring Plans, Security Assessment Reports or Plans of Action and Milestones, recommended as better practice in the Information Security Manual[2]. The absence of system specific documentation creates a higher risk that security related activities for key financial application systems may not be enforced resulting in inappropriate system access and insufficient monitoring of high-risk activities that have the potential to compromise the integrity of payments and financial data. The University has agreed and partially resolved the finding by drafting system specific security plans and refining documentation supporting key applications, but key elements of documentation required for system specific security documentation are still in progress;
- had long-standing credit balances in many student and sponsor fee accounts recorded in its student administration system which were not regularly reviewed. These credit balances are money received by the University more than three years ago that need to be reviewed and corrected against a receivable in the system, a refund provided to the relevant student or sponsor and/or recognised as fee income. This increases the risk of misstatements in the financial statements as these credit balances are potentially incorrectly recorded if the amounts are not related to students' future studies. The University has agreed and partially resolved this finding by performing a detailed review of these long standing balances and adjusting where appropriate those individual student and sponsor accounts. The University has agreed to implement procedures to review student and sponsor credit balances regularly and document such reviews;

[2] https://www.cyber.gov.au/acsc/view-all-content/ism

- lacked sufficient appropriate documentary evidence to support assessments made for research and consultancies contract revenue recognised in the financial statements. The University has partially resolved this finding by documenting the initial assessments and performing a secondary review for each of the sampled contracts. However, the non-modifiable reviewer time stamps indicate that review of those assessments were not performed in a timely manner which increases the risk of incorrect application of Australian Accounting Standards and recognition of revenue by the University. The University has agreed with the finding to assess customer contracts in a timely manner; and
- had not kept the financial management policies and procedures up to date. This increases the risk that such policies and procedures will not be adequately or consistently applied, which in turn increases the risk of irregularities and fraud. The University has agreed to this audit finding and has reviewed and published a Policy Framework which is intended to act as a better practice guide to assist owners of policy documents review and update the policies and procedures. The University has also published its Treasury policy while the Investment and Financial Management policies are yet to be approved and published as at the date of the auditor's report.

4.282 Three new audit findings were identified in 2022. These relate to:

- the inability to verify that documented processes, procedures and authentication requirements had been followed in all circumstances in relation to granting and management of user access over key application systems. Where inappropriate or unnecessary access are granted to system users there is an increased risk of system misuse or abuse. The risk is further increased where the incorrect allocation of access/privilege is linked to a financial system. The University has agreed to review current procedure documentation and update for current practices for the granting and review of access to key application systems as well as assessing for incompatible duties and access for users;
- inconsistent logging and monitoring of users access and activities for payroll system and student administration system, and not at all for the financial management system. This increased the risk that unauthorised (including fraudulent) changes to the system and its data will not be detected and promptly addressed when logging and monitoring of user activities at the application level is not performed and documented on a regular basis. The University has agreed with the finding and will further investigate application level logging capabilities and document monitoring and subsequent record retention as a business as usual process; and
- exceptions identified in the property, plant and equipment note in the financial statements against the valuation report and the property, plant and equipment register. The property, plant and equipment register was not provided in a timely manner to support the reconciliation of property, plant and equipment note in the financial statements which resulted in material changes in Statement of Comprehensive Income and the property, plant and equipment note. Where preparation and review of the detailed property, plant and equipment register, related reconciliations and quality

assurances over these balances are not effective, there is an increased risk that errors may not be identified and corrected in a timely manner and potentially result in delays with the audit. The University has agreed to improve its processes and quality assurance practices relating to the preparation, review of the property, plant and equipment register and related reconciliations as part of its financial statements close process.

APPENDIX A: KEY TERMS

This report contains terms the reader may not be familiar with. These are discussed below.

Financial statements

Financial statements are a summary of transactions undertaken by reporting agencies. These transactions are summarised from the accounting records maintained by the reporting agencies to present the financial information in a meaningful way.

Financial statements show a reporting agency's financial performance (revenue, expenses and surpluses/deficits and cash flows) and financial position (assets, liabilities and net assets/liabilities). The financial position shows the capacity of a reporting agency to meet its financial obligations (liabilities).

Reporting agencies are required to prepare financial statements in accordance with Australian Accounting Standards set by the Australian Accounting Standards Board. These standards outline the reporting and disclosure requirements for financial statements.

An auditor's report is issued on a reporting agency's financial statements after the completion of an audit in accordance with the Australian Auditing Standards.

Auditor's report on financial statements

An auditor's report with an unmodified audit opinion is issued where the Auditor-General concludes the financial statements provide a fair representation of a reporting agency's financial performance and position in accordance with the relevant reporting and disclosure requirements.

An auditor's report with a modified audit opinion is issued where the Audit Office:

- disagrees with management about the financial statements. This includes disagreements in relation to the reported amounts or other disclosures; or
- has been unable to gain sufficient evidence, or perform sufficient work, to form an opinion in relation to the information (amounts and disclosures) reported in the financial statements.

Statements of performance

A statement of performance shows the results of a reporting agency's accountability indicators (performance measures) and related performance targets. This facilitates an assessment of the reporting agency's performance in providing public services by enabling the actual performance to be compared to planned (targeted) levels of performance.

The statement of performance is also required to include explanations for significant variances between actual and planned performance for each accountability indicator. Accountability indicators are set by the reporting agency and included in its Budget Papers or Statement of Intent presented to the ACT Legislative Assembly and may provide information on the number, quality and timeliness of services provided.

A limited assurance report is issued on a reporting agency's statement of performance after the Audit Office has completed audit work on the reported results.

The Audit Office performs a limited assurance engagement for each reporting agency's statement of performance. The work performed in a limited assurance engagement is substantially less than those performed in an audit of financial statements and therefore a lower level of assurance is provided.

Work performed on accountability indicators is limited to making inquiries with representatives of the reporting agency, performing analytical and other review procedures, and examining selected evidence supporting the results of accountability indicators.

The limited assurance report does not include an opinion on the relevance or usefulness of the accountability indicators or targets included in the statement of performance because these indicators and their related targets are set by the reporting agency during the annual budget process.

Limited assurance report on statements of performance

A limited assurance report with an unmodified conclusion is issued where no matters have come to the Audit Office's attention which indicate the results of the accountability indicators reported in the statement of performance are not fairly or accurately presented.

A limited assurance report with a modified conclusion will be issued where the reporting agency has not complied with the requirements of the Financial Management Act 1996 to establish accountability indicators and targets, or measure a result, for one or more of its accountability indicators.

A limited assurance report with a modified conclusion can have either a qualified conclusion, adverse conclusion or a disclaimer of conclusion. The conclusion provided will be based on the materiality and number of the accountability indicators that are not correctly reported or measured or that cannot be independently verified.

Materiality

In assessing whether information included in financial statements or statement of performance is fairly presented, the Audit Office assesses whether any misstatements (whether caused by error or fraud) are material. Material information is that which affects decisions made by readers of the financial statements or statement of performance.

Where misstatements are identified but their combined effect is not material, the Auditor-General is required to provide an unmodified auditor's report or unmodified limited assurance report.

The Audit Office focuses on information in financial statements and statement of performance that is of higher risk of material misstatement to provide readers with assurance that they are free of material misstatements.

Rounding

The totals for the financial information included in the tables of this report may not add as the figures are rounded to the nearest million dollars.

Misstatements

Misstatements are the amount by which the correct amount varies from the reported amounts. Misstatement may be caused by errors or fraud (deliberate misreporting).

Net assets

Net assets are the amount by which total assets exceed total liabilities.

Net operating balance

Net operating balance is the difference between revenue and expenses. The net operating balance is 'in surplus' where revenue exceeds expenses and is 'in deficit' where expenses exceed revenue.

Operating results

The operating surplus/(deficit) is the sum of the net operating balance and other economic flows. Other economic flows mainly comprise gains/(losses) on investments and land revenue. These gains/(losses) mostly reflect changes in market conditions that affect the value of investments and land.

Net cost of services

The net cost of services shows how much of an agency's operations can be funded from the revenue it generates and the extent of reliance on government funding to subsidise its operations. The net cost of services is the difference between total expenses and the revenue or own services income generated by an agency.

The items excluded to calculate the net cost of services by some agencies in their management discussion and analysis accompanying the financial statements may not be identical with the items excluded by the Audit Office in this ACT Auditor-General's report.

Government contributions and income or expenses not directly relating to the agency's operations such as those from transferring assets from/to other ACT Government agencies are typically excluded when calculating the net cost of services.

Present value

Present value is the estimate of the current value of the future net cash flows using a discount rate prevalent in the market. The reported amount will be higher when a lower discount rate is applied and vice-versa assuming other factors being equal.

Discount rate

Discount rate is the interest rate used to calculate the present value.

APPENDIX B: AGENCIES INCLUDED IN THE TERRITORY'S FINANCIAL STATEMENTS

The following agencies are included in the Territory's financial statements[3].

ACT Audit Office

ACT Electoral Commission

ACT Executive

ACT Gambling and Racing Commission

ACT Health Directorate

ACT Insurance Authority

ACT Integrity Commission

ACT Local Hospital Network

Cemeteries and Crematoria Authority

Canberra Health Services

Canberra Institute of Technology

Chief Minister, Treasury and Economic Development Directorate

Community Services Directorate

Cultural Facilities Corporation

Education Directorate

Environment, Planning and Sustainable Development Directorate

Independent Competition and Regulatory Commission

Justice and Community Safety Directorate

Legal Aid Commission (ACT)

Lifetime Care and Support Fund

Major Projects Canberra

Motor Accident Injuries Commission

[3] Note 3 on page 16 of the 2022-23 Australian Capital Territory Government Consolidated Annual Financial Statements.

Office of the Legislative Assembly

Office of the Work Health and Safety Commissioner

Public Sector Workers Compensation Fund

Public Trustee and Guardian

Superannuation Provision Account

Territory Banking Account

Transport Canberra and City Services Directorate

CIT Solutions Pty Limited

City Renewal Authority

Housing ACT

Icon Water Limited

Suburban Land Agency

Transport Canberra Operations

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Reports Published in 2022-23	
Report No. 10 – 2023	Human Resources Information Management System (HRIMS) Program
Report No. 09 – 2023	2022-23 Financial Audits - Overview
Report No. 08 – 2023	Supports for students with disability in ACT public schools
Report No. 07 – 2023	Annual Report 2022-23
Report No. 06 – 2023	Implementation of the ACT Aboriginal and Torres Strait Islander Agreement
Report No. 05 – 2023	Activities of the Government Procurement Board
Report No. 04 – 2023	Procurement of a hybrid electric fire truck
Report No. 03 – 2023	Financial Management Services for Protected Persons
Report No. 02 – 2023	Management of Operation Reboot (Outpatients)
Report No. 01 – 2023	Construction occupations licensing
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Report No. 08 – 2022	2021-22 Financial Audits - Overview
Report No. 07 – 2022	ACT Childhood Healthy Eating and Active Living Programs
Report No. 06 – 2022	Annual Report 2021-22
Report No. 05 – 2022	Procurement and contracting activities for the Acton Waterfront Project
Report No. 04 – 2022	Governance arrangements for the planning of services for Parkwood, Ginninderry
Report No. 03 – 2022	Taxi Subsidy Scheme
Report No. 02 – 2022	Fraud Prevention
Report No. 01 – 2022	Management of detainee mental health services in the Alexander Maconochie Centre

These and earlier reports can be obtained from the ACT Audit Office's website at http://www.audit.act.gov.au.