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2015-16 FINANCIAL AUDITS – FINANCIAL RESULTS AND AUDIT FINDINGS

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ACT Audit Office

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The Office also conducts performance audits, to examine whether a Government agency is carrying out its activities effectively and efficiently, and in compliance with relevant legislation.

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ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

PA 16/19

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 '2015-16 Financial Audits - Financial Results and Audit Findings' for tabling in the Legislative Assembly pursuant to Subsection 17(5) of the *Auditor-General Act 1996*.

Yours sincerely

Dr Maxine Cooper
Auditor-General
21 December 2016

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CONTENTS

SUMMARY

Understanding the financial statements of the Australian Capital Territory Government (the Territory) is important as these provide essential information to the ACT Legislative Assembly and community about the Territory's financial performance and the state of its finances.

The Territory's financial statements can be used to provide an indication of the financial sustainability of the ACT Government's strategies and policies, particularly when assessed over time as well as providing information about the Territory's capacity to meet its financial obligations.

The inclusion of current year, budget and prior year information in the Territory's financial statements shows whether budgeted estimates were achieved and whether the Territory's finances are improving or declining.

The ACT Government's Budget Papers include the budget estimates for the period from 2016-17 to 2019-20 (the forward years). These provide an indication of the Territory's estimated future financial performance and the state of its finances.

This report contains a discussion of the Territory's financial results for the year ended 30 June 2016. It also includes details on the progress made by reporting agencies in resolving audit findings and an overview of the financial results and audit findings for selected reporting agencies.

This is the second of three audit reports on the 2015-16 financial audits. The first audit report '2015-16 Financial Audits – Audit Reports' (Report No. 10/2016) was tabled on 7 December 2016. The third report will be on 'Computer Information Systems'.

Appendix A contains explanations of key terms used in this report.

Conclusions

THE TERRITORY'S FINANCIAL STATEMENTS

An unqualified audit report was issued on the Territory's 2015-16 Consolidated Annual Financial Statements, indicating that the financial statements present a true and fair view of the Territory's financial position and results of operations.

The ACT Government achieved its budgeted operating results for 2015-16 with the deficit in the net operating balance and operating deficit being less than budgeted. However, as expenses exceeded revenue, the Territory incurred an operating deficit as it has done in each of the previous four years.

Deficits are budgeted for the next two years until 2018-19 and 2019-20, where a small surplus is forecast. However, as expenses are estimated to exceed revenue in 2018-19 and 2019-20, the projected surplus includes forecast gains from investments which depend on conditions in investment markets.

Past deficits and estimated future deficits mean that the costs of providing public services exceed revenue. These deficits will eventually have to be paid for in the future by higher revenue (for example, by increases in Commonwealth Government grants, land sales and taxes) and/or reductions in costs (for example, through efficiencies or reducing public services).

At 30 June 2016, the Territory had the capacity to meet its liabilities. However, net assets were much lower than anticipated in the budget due to large increases in the unfunded superannuation liability, which accounts for over half of the Territory's total liabilities. While the ACT Government predicts that its ability to cover its liabilities will increase from 2016-17 to 2019-20, this depends on a large decrease in the unfunded superannuation liability. The ACT Government has advised that 'for the expected reduction in the unfunded superannuation liability to occur, interest rates would need to return to around their long-term level with a resultant decrease in the superannuation liability'.

At 30 June 2016, the Territory had a strong capacity to pay its liabilities that were due within 12 months. The Territory is expected to retain a strong capacity to pay its liabilities due within 12 months, although net short-term assets of $1 147 million at 30 June 2016 are estimated to reduce to $760 million by 30 June 2020.

AUDIT FINDINGS

As audit findings have decreased in the last four years, this indicates that governance arrangements, internal controls and reporting practices of reporting agencies have steadily improved with reporting agencies implementing effective arrangements for addressing audit findings.

Key findings

THE TERRITORY'S FINANCIAL STATEMENTS	Paragraph
In 2015-16, the Territory incurred a deficit in its net operating balance of $373 million and an operating deficit of $371 million as the cost of services provided by the ACT Government ($5 486 million) exceeded revenue ($5 113 million) by $373 million (7.3 percent).	1.7
The deficit in the net operating balance ($373 million) in 2015-16 was lower than the budgeted deficit ($649 million) by $276 million (42.5 percent) due largely to higher than anticipated revenue ($242 million or 5.0 percent) as land revenue exceeded the budget estimate by $93 million (30.0 percent), taxation revenue by $82 million (5.6 percent), revenue from joint ventures by $40 million (59.7 percent) and sales of goods and services by $28 million (3.4 percent).	1.8
The operating deficit ($371 million) was less than budgeted ($391 million) by $20 million (5.1 percent) as the lower than expected deficit in the net operating balance was largely countered by lower than estimated gains from investments (recorded in other economic flows) as conditions in investment markets resulted in a lower return than estimated in the budget.	1.9
The deficit in the net operating balance in 2015-16 ($373 million) decreased from the deficit incurred in 2014-15 ($646 million) by $273 million (42.3 percent) due to an increase in revenue of $270 million (5.6 percent).	1.10
The increase in revenue of $270 million (5.6 percent) resulted from higher: • taxation revenue of $197 million (14.7 percent) with significant increases in payroll tax ($65 million or 18.8 percent), duties mainly from residential and property sales ($57 million or 21.1 percent) and general rates ($45 million or 12.4 percent); and • land sales (value-added component) of $157 million (64.9 percent) due to an increase in land settlements. These were partially offset by a decrease in Commonwealth grants of $107 million (5.4 percent) as the Territory received: • a smaller share of the National GST revenue pool from the Commonwealth Government; and • funding from the Commonwealth Government early (in 2014-15) for road infrastructure maintenance costs.	1.11
The operating deficit incurred in 2015-16 ($371 million) decreased by $44 million (10.6 percent) from the deficit incurred in 2014-15 ($415 million) due to increased revenue ($270 million or 5.6 percent). This was partially offset by a large reduction in other economic inflows ($229 million or 99.1 percent) as conditions in investment markets resulted in a lower return than estimated in the budget.	1.12

The deficit in the operating balance ($373 million) and operating deficit ($371 million) incurred in 2015-16 represents a continuation of: 1.13

- deficits in the operating balance which have ranged from $97 million to $646 million from 2011-12 to 2014-15; and
- operating deficits ranging from $26 million to $415 million from 2011-12 to 2014-15;

as the Territory's costs have not been managed to within revenue streams.

The ACT Government estimates that deficits in the net operating balance will decrease over the forward years from the deficit of $373 million incurred in 2015-16 to a deficit of $205 million in 2019-20. Achievement of these lower deficits is dependent on higher revenue, in particular, increases in taxation (general rates and payroll tax) and the ACT's share of the National GST revenue pool from the Commonwealth Government. 1.14

Deficits in the net operating balance have been incurred since 2011-12. The ACT Government estimates that deficits will continue over the forward years from 2016-17 to 2019-20 as the costs of providing public services exceed revenue. These past deficits and estimated future deficits cover a nine-year period. 1.15

The ACT Government estimates that operating deficits will decline from the deficit of $371 million incurred in 2015-16 to a deficit of $33 million in 2017-18 before achieving small surpluses of $25 million in 2018-19 and $35 million in 2019-20. 1.16

Achievement of these projected (estimated) lower deficits and small surpluses depends on continued growth in revenue, constraining expenses to forecasted amounts and the generation of sufficient gains from investments to offset the continued estimated deficits in the net operating balance. As investment markets are volatile, the Territory's exposure to more deficits remains high. 1.17

The Territory's net assets at 30 June 2016 were less than budgeted. Net assets ($12 882 million) at 30 June 2016 were less than budgeted ($16 489 million) by $3 607 million (21.9 percent) due mainly to higher than estimated unfunded superannuation liability. 1.21

The unfunded superannuation liability ($7 330 million) exceeded the budget estimate ($2 518 million) by $4 812 million (191.1 percent) due mainly to the use of a lower rate to estimate the present value of the superannuation liability at 30 June 2016 compared to the long-term rate used to prepare the budget estimate. A lower discount rate increases the estimated present value of the superannuation liability and the related expense. The long-term rate is used in budget estimates to reduce short-term volatility in liabilities. 1.22

The Territory's net assets at 30 June 2016 were less than that at 30 June 2015 and at 30 June 2012. 1.24

Net assets ($12 882 million) at 30 June 2016 decreased by $1 792 million (12.2 percent) from that at 30 June 2015 ($14 674 million) due mainly to an increase in the unfunded superannuation liability of $2 117 million (14.4 percent). 1.25

The Territory's net assets have decreased since 30 June 2012. Net assets have decreased by $1 210 million (8.6 percent or an average decrease of 2.1 percent) since 30 June 2012. 1.26

The decrease in net assets is due to a significant increase in: 1.27

- the unfunded superannuation liability of $2 088 million (39.8 percent or an average annual increase 10.0 percent); and
- borrowings of $1 550 million (79.0 percent or an average annual increase of 19.8 percent) to fund property, plant and equipment purchases (including land, buildings and infrastructure assets) as well as properties acquired under the Loose-Fill Asbestos Insulation Eradication Scheme.

These were partially offset by an increase in assets of $3 944 million (17.5 percent or an average annual increase of 4.4 percent) from $22 582 million at 30 June 2012 to $26 526 million at 30 June 2016 from upward revaluations of property, plant and equipment and capital expenditure on property, plant and equipment (in particular, land, buildings and infrastructure assets) as well as the acquisition of properties in 2015-16 as part of the Loose-Fill Asbestos Insulation Eradication Scheme.

The Territory's unfunded liabilities at 30 June 2016 ($11 214 million) exceeded the budgeted unfunded liabilities ($7 472 million) by $3 742 million (50.1 percent) due mainly to higher than estimated unfunded superannuation liability. 1.31

The Territory's unfunded liabilities at 30 June 2016 exceeded that at 30 June 2015 and that at 30 June 2012. 1.32

Unfunded liabilities at 30 June 2016 ($11 214 million) increased by $2 584 million (29.9 percent) from that at 30 June 2015 ($8 630 million) due mainly to a large increase in the unfunded superannuation liability. 1.33

Unfunded liabilities at 30 June 2016 ($11 214 million) have grown by $4 462 million (66.1 percent or an average annual increase of 16.6 percent) since 30 June 2012 ($6 752 million) due mainly to an increase in: 1.34

- the unfunded superannuation liability of $2 088 million (39.8 percent or an average annual increase 10.0 percent); and
- borrowings of $1 550 million (79.0 percent or an average annual increase of 19.8 percent).

The increase in the unfunded superannuation liability is mainly due to the use of a lower discount rate to estimate the present value of the superannuation liability at 30 June 2016 compared to the rate which was used to estimate the liability at 1.35

30 June 2015.

The estimated reduction in the unfunded superannuation liability of $4 627 million (an average annual decrease of $1 157 million or 15.9 percent) from $7 330 million at 30 June 2016 to $2 703 million at 30 June 2020 is due to the use of a higher discount rate in estimating this liability in the forward estimates compared to the rate used to estimate the liability at 30 June 2016. 1.38

For the expected reduction in unfunded liabilities to occur, there would need to be a substantial decrease in the superannuation liability. This projected decrease will not occur while the interest rate used to estimate the present value of the superannuation liability remains lower than the rate used to prepare the budget estimate. The ACT Government has advised that: 1.40

> For the expected reduction in the unfunded superannuation liability to occur, interest rates would need to return to around their long-term level with a resultant decrease in the superannuation liability.

The net short-term assets of the Territory at 30 June 2016 exceeded that anticipated in the budget. The Territory's net short-term assets at 30 June 2016 ($1 147 million) exceeded the budget estimate ($238 million) by $909 million (381.9 percent). 1.42

The short-term assets of the Territory at 30 June 2016 exceeded that at 30 June 2015 and have increased since 30 June 2012. 1.43

The Territory's net short-term assets at 30 June 2016 ($1 147 million) exceeded that at 30 June 2015 ($850 million) by $297 million (34.9 percent) and have increased since 30 June 2012 ($845 million) by $302 million (35.7 percent or an average annual increase of 8.9 percent). 1.44

The ACT Government estimates that net short-term assets of $1 147 million at 30 June 2016 will reduce to $760 million by 30 June 2020. 1.45

AUDIT FINDINGS

Paragraph

Audit findings have decreased from 292 at 30 June 2012 to 100 at 30 June 2016 as the number of audit findings resolved by reporting agencies have exceeded new audit findings. This indicates that: 2.4

- there has been a steady improvement in internal controls, governance arrangements and reporting practices; and
- most reporting agencies have implemented effective arrangements for addressing audit findings.

In 2015-16, the number of audit findings resolved (57) exceeded the number of new audit findings (47). 2.5

1 THE TERRITORY'S FINANCIAL STATEMENTS

1.1 This chapter considers the Australian Capital Territory Government's (the Territory's) consolidated financial statements and estimated future financial results over the period from 2016-17 to 2019-20.

1.2 The Territory's financial statements include the financial results of ACT Government directorates, authorities and companies that are controlled by the Territory as well as the Territory's share of the financial results of joint ventures, such as the ActewAGL joint venture and land joint ventures. These are listed in Appendix B.

1.3 This chapter provides a summary of the Territory's:

- key operating results, namely the net operating balance and operating surplus/deficit because they provide an indication of the financial sustainability of the ACT Government's strategies and policies, particularly when assessed over time;
- long-term financial position as shown by net assets position and unfunded liabilities position as these provide an indication of the Territory's capacity to meet its financial obligations over the long-term; and
- short-term financial position, as represented by the net short-term assets position as this provides an indication of the Territory's capacity to meet its financial obligations over the short term.

Conclusion

An unqualified audit report was issued on the Territory's 2015-16 Consolidated Annual Financial Statements, indicating that the financial statements present a true and fair view of the Territory's financial position and results of operations.

The ACT Government achieved its budgeted operating results for 2015-16 with the deficit in the net operating balance and operating deficit being less than budgeted. However, as expenses exceeded revenue, the Territory incurred an operating deficit as it has done in each of the previous four years.

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These were partially offset by a decrease in Commonwealth grants of $107 million (5.4 percent) as the Territory received:

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($1 147 million) exceeded the budget estimate ($238 million) by $909 million (381.9 percent).

The short-term assets of the Territory at 30 June 2016 exceeded that at 30 June 2015 and have increased since 30 June 2012. 1.43

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The ACT Government estimates that net short-term assets of $1 147 million at 30 June 2016 will reduce to $760 million by 30 June 2020. 1.45

Operating results

Table 1-1 Operating results

	Actual 2011-12 $m	Actual 2012-13 $m	Actual 2013-14 $m	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Revenue	4 261	4 321	4 537	4 843	5 113	4 871
Expenses	(4 358)	(4 777)	(4 846)	(5 489)	(5 486)	(5 520)
Net operating balance (deficit)	**(97)**	**(456)**	**(309)**	**(646)**	**(373)**	**(649)**
Other economic (outflows)/inflows	(58)	334	283	231	2	258
Operating deficit	**(155)**	**(122)**	**(26)**	**(415)**	**(371)**	**(391)**

1.4 The Territory's main sources of revenue are Commonwealth Government grants, taxation, sales of goods and services and land sales (value-added component[1]). Its major expenses include employee and operational costs, grants and depreciation.

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

[1] The value-added component of land sales is that part of land revenue attributed to development activity undertaken on the land that has contributed to an increase in the value of the land. In the Territory's financial statements, the value-added component is recorded in revenue.

1.6 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[2]. These gains/losses mostly reflect changes in market conditions that affect the value of investments and land.

2015-16 operating results

1.7 In 2015-16, the Territory incurred a deficit in its net operating balance of $373 million and an operating deficit of $371 million as the cost of services provided by the ACT Government ($5 486 million) exceeded revenue ($5 113 million) by $373 million (7.3 percent).

2015-16 operating results compared to budget estimates

Net operating balance

1.8 The deficit in the net operating balance ($373 million) in 2015-16 was lower than the budgeted deficit ($649 million) by $276 million (42.5 percent) due largely to higher than anticipated revenue ($242 million or 5.0 percent) as land revenue exceeded the budget estimate by $93 million (30.0 percent), taxation revenue by $82 million (5.6 percent), revenue from joint ventures by $40 million (59.7 percent) and sales of goods and services by $28 million (3.4 percent).

Operating deficit/surplus

1.9 The operating deficit ($371 million) was less than budgeted ($391 million) by $20 million (5.1 percent) as the lower than expected deficit in the net operating balance was largely countered by lower than estimated gains from investments (recorded in other economic flows) as conditions in investment markets resulted in a lower return than estimated in the budget.

2015-16 operating results compared to prior year results

1.10 The deficit in the net operating balance in 2015-16 ($373 million) decreased from the deficit incurred in 2014-15 ($646 million) by $273 million (42.3 percent) due to an increase in revenue of $270 million (5.6 percent).

1.11 The increase in revenue of $270 million (5.6 percent) resulted from higher:

- taxation revenue of $197 million (14.7 percent) with significant increases in payroll tax ($65 million or 18.8 percent), duties mainly from residential and property sales ($57 million or 21.1 percent) and general rates ($45 million or 12.4 percent); and
- land sales (value-added component) of $157 million (64.9 percent) due to an increase in land settlements.

[2] Land revenue included in other economic flows is the combination of market gains on land sales and the undeveloped land value.

These were partially offset by a decrease in Commonwealth grants of $107 million (5.4 percent) as the Territory received:

- a smaller share of the National GST revenue pool from the Commonwealth Government; and
- funding from the Commonwealth Government early (in 2014-15) for road infrastructure maintenance costs.

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1.13 The deficit in the operating balance ($373 million) and operating deficit ($371 million) incurred in 2015-16 represents a continuation of:

- deficits in the operating balance which have ranged from $97 million to $646 million from 2011-12 to 2014-15; and
- operating deficits ranging from $26 million to $415 million from 2011-12 to 2014-15;

as the Territory's costs have not been managed to within revenue streams.

Projected operating results

Table 1-2 Projected operating results – Note 1

	Actual 2015-16 $m	Budget 2016-17 $m	Estimate 2017-18 $m	Estimate 2018-19 $m	Estimate 2019-20 $m
Revenue	5 113	5 384	5 527	5 750	6 030
Expenses	(5 486)	(5 756)	(5 762)	(5 930)	(6 235)
Net operating balance - (deficit)	**(373)**	**(372)**	**(235)**	**(180)**	**(205)**
Other economic inflows	2	257	202	205	240
Operating (deficit)/surplus	**(371)**	**(115)**	**(33)**	**25**	**35**

Note 1: Budget and forward estimates were obtained from the 2016-17 Budget Papers.

1.14 The ACT Government estimates that deficits in the net operating balance will decrease over the forward years from the deficit of $373 million incurred in 2015-16 to a deficit of $205 million in 2019-20. Achievement of these lower deficits is dependent on higher revenue, in particular, increases in taxation (general rates and payroll tax) and the ACT's share of the National GST revenue pool from the Commonwealth Government.

1.15 Deficits in the net operating balance have been incurred since 2011-12. The ACT Government estimates that deficits will continue over the forward years from 2016-17 to 2019-20 as the costs of providing public services exceed revenue. These past deficits and estimated future deficits cover a nine-year period.

1.16 The ACT Government estimates that operating deficits will decline from the deficit of $371 million incurred in 2015-16 to a deficit of $33 million in 2017-18 before achieving small surpluses of $25 million in 2018-19 and $35 million in 2019-20.

1.17 Achievement of these projected (estimated) lower deficits and small surpluses depends on continued growth in revenue, constraining expenses to forecasted amounts and the generation of sufficient gains from investments to offset the continued estimated deficits in the net operating balance. As investment markets are volatile, the Territory's exposure to more deficits remains high.

1.18 The ACT Government has advised that:

> The Headline Net Operating Balance includes an adjustment for long-term expected superannuation investment earnings (consistent with the long-term expected return objective of the Consumer Price Index plus five percentage points). This adjustment is made because the Government does not operate a superannuation fund for employees and, under the Government Finance Statistics reporting framework, capital growth on financial assets is not included as transactional revenue in the net operating balance. Applying the Government Finance Statistics approach understates the expected investment revenue, which includes interest, dividends, distributions and capital growth, and therefore overstates the net superannuation expense related to the superannuation liability. The inclusion of the full amount of the long-term investment earnings provides an accurate assessment of the longer-term sustainability of the budget position.
>
> The budget forward estimates do not attempt to forecast expected total portfolio investment returns. Due to the volatile nature of global investment markets, investment earnings recognised in any particular year will vary from the annual budget estimates.
>
> Over the past twenty years the Superannuation Provision Account investment portfolio has achieved an annualised investment return of Consumer Price Index plus five percent which is in line with the long-term target investment return objective.

1.19 The Headline Net Operating Balance is not disclosed in the Territory's financial statements and is therefore not discussed in this report. The above advice does not affect the analysis of the Territory's financial statements.

Long-term financial position

Net assets

Table 1-3 Net assets

At 30 June	Actual 2012 $m	Actual 2013 $m	Actual 2014 $m	Actual 2015 $m	Actual 2016 $m	Budget 2016 $m
Assets						
Financial assets - Note 1	2 008	2 256	2 034	2 253	2 430	1 454
Property, plant and equipment	18 808	20 085	20 381	20 894	21 464	21 455
Other non-financial assets - Note 2	2 036	1 715	1 893	2 410	2 632	2 506
Total assets	**22 582**	**24 056**	**24 308**	**25 557**	**26 526**	**25 415**
Liabilities						
Borrowings	1 961	2 744	3 085	3 148	3 511	3 827
Unfunded superannuation - Note 3	5 242	4 276	4 471	5 213	7 330	2 518
Payables and finance leases	882	773	765	1 445	1 714	1 752
Employee benefits and other provisions	655	702	784	1 055	1 080	813
Other	20	10	10	22	9	16
Total liabilities	**8 760**	**8 505**	**9 115**	**10 883**	**13 644**	**8 926**
Net assets	**14 092**	**15 550**	**15 193**	**14 674**	**12 882**	**16 489**
Ratio of assets to liabilities	**2.58:1**	**2.83:1**	**2.67:1**	**2.35:1**	**1.94:1**	**2.85:1**

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.

Net assets at 30 June 2016 compared to budget estimate

1.20 The capacity of the Territory to meet its obligations over the long-term can be assessed by evaluating the Territory's net asset position.

1.21 The Territory's net assets at 30 June 2016 were less than budgeted. Net assets ($12 882 million) at 30 June 2016 were less than budgeted ($16 489 million) by $3 607 million (21.9 percent) due mainly to higher than estimated unfunded superannuation liability.

1.22 The unfunded superannuation liability ($7 330 million) exceeded the budget estimate ($2 518 million) by $4 812 million (191.1 percent) due mainly to the use of a lower rate to estimate the present value of the superannuation liability at 30 June 2016 compared to the long-term rate used to prepare the budget estimate. A lower discount rate increases the estimated present value of the superannuation liability and the related expense. The long-term rate is used in budget estimates to reduce short-term volatility in liabilities.

1.23 The ACT Government explained the significant impact of interest rates on the estimate of the superannuation liability and expense as follows:

> Australian Accounting Standards require the use of the yield (interest rate) on a suitable Commonwealth Government bond as the discount rate to estimate the present value of the future expected superannuation benefit payments ('the superannuation liability') at financial year end.
>
> The discount rate used to calculate the present value of the superannuation liability has a significant financial impact on the estimated value of the superannuation liability and related superannuation expense. A lower discount rate leads to a higher estimate of the superannuation liability and related superannuation expense.

Net assets at 30 June 2016 compared to the prior years

1.24 The Territory's net assets at 30 June 2016 were less than that at 30 June 2015 and at 30 June 2012.

1.25 Net assets ($12 882 million) at 30 June 2016 decreased by $1 792 million (12.2 percent) from that at 30 June 2015 ($14 674 million) due mainly to an increase in the unfunded superannuation liability of $2 117 million (14.4 percent).

1.26 The Territory's net assets have decreased since 30 June 2012. Net assets have decreased by $1 210 million (8.6 percent or an average decrease of 2.1 percent) since 30 June 2012.

1.27 The decrease in net assets is due to a significant increase in:

- the unfunded superannuation liability of $2 088 million (39.8 percent or an average annual increase 10.0 percent); and
- borrowings of $1 550 million (79.0 percent or an average annual increase of 19.8 percent) to fund property, plant and equipment purchases (including land, buildings and infrastructure assets) as well as properties acquired under the Loose-Fill Asbestos Insulation Eradication Scheme.

These were partially offset by an increase in assets of $3 944 million (17.5 percent or an average annual increase of 4.4 percent) from $22 582 million at 30 June 2012 to $26 526 million at 30 June 2016 from upward revaluations of property, plant and equipment and capital expenditure on property, plant and equipment (in particular, land, buildings and infrastructure assets) as well as the acquisition of properties in 2015-16 as part of the Loose-Fill Asbestos Insulation Eradication Scheme.

Unfunded liabilities

Table 1-4 Unfunded liabilities

At 30 June	Actual 2012 $m	Actual 2013 $m	Actual 2014 $m	Actual 2015 $m	Actual 2016 $m	Budget 2016 $m
Financial assets	**2 008**	**2 256**	**2 034**	**2 253**	**2 430**	**1 454**
Liabilities						
Unfunded superannuation – Note 1	5 242	4 276	4 471	5 213	7 330	2 518
Borrowings	1 961	2 744	3 085	3 148	3 511	3 827
Payables and finances leases	882	773	765	1 445	1 714	1 752
Other (including other employee benefits)	675	715	794	1 077	1 089	829
Total liabilities	**8 760**	**8 508**	**9 115**	**10 883**	**13 644**	**8 926**
Unfunded liabilities	**6 752**	**6 252**	**7 081**	**8 630**	**11 214**	**7 472**

Note 1: Unfunded superannuation is the amount by which estimated superannuation liabilities exceeds superannuation investments.

1.28 As discussed in paragraphs 1.20 to 1.27 (pages 16 and 17), the Territory's financial capacity to meet its obligations over the long-term can be assessed by evaluating its net asset position.

1.29 The Territory's long-term financial position can also be assessed by comparing financial assets to total liabilities, 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 are not generally available to meet its liabilities. While the Territory could meet its liabilities by selling non-financial assets, most are required to provide essential public services, such as schools and hospitals, and are therefore not readily available for sale.

1.30 As the Territory's total liabilities exceed the financial assets, the Territory is in an 'unfunded liability position'.

Unfunded liabilities at 30 June 2016 compared to the budget estimate

1.31 The Territory's unfunded liabilities at 30 June 2016 ($11 214 million) exceeded the budgeted unfunded liabilities ($7 472 million) by $3 742 million (50.1 percent) due mainly to higher than estimated unfunded superannuation liability.

Unfunded liabilities at 30 June 2016 compared to the prior years

1.32 The Territory's unfunded liabilities at 30 June 2016 exceeded that at 30 June 2015 and that at 30 June 2012.

1.33 Unfunded liabilities at 30 June 2016 ($11 214 million) increased by $2 584 million (29.9 percent) from that at 30 June 2015 ($8 630 million) due mainly to a large increase in the unfunded superannuation liability.

1.34 Unfunded liabilities at 30 June 2016 ($11 214 million) have grown by $4 462 million (66.1 percent or an average annual increase of 16.6 percent) since 30 June 2012 ($6 752 million) due mainly to an increase in:

- the unfunded superannuation liability of $2 088 million (39.8 percent or an average annual increase 10.0 percent); and
- borrowings of $1 550 million (79.0 percent or an average annual increase of 19.8 percent).

1.35 The increase in the unfunded superannuation liability is mainly due to the use of a lower discount rate to estimate the present value of the superannuation liability at 30 June 2016 compared to the rate which was used to estimate the liability at 30 June 2015.

1.36 The ACT Government has advised that:

> The unfunded superannuation liability position has been increasing since 30 June 2013 due to domestic interest rates falling to historic lows with the required use of lower discount rates to estimate the superannuation liability at 30 June 2013 (4.29 percent), 30 June 2014 (4.08 percent), 30 June 2015 (3.66 percent) and 30 June 2016 (2.69 percent).
>
> The superannuation liability valuation is sensitive to changes in the discount rate. For example, if the relevant Commonwealth Government bond (discount) rate increases from 2.69 percent to 3.69 percent, this would result in a significant decrease in the superannuation liability valuation of $1.9 billion (17.9 percent), from $10.7 billion to $8.8 billion, and subsequently result in a decrease in the unfunded position.
>
> The level and volatility of domestic interest rates in the future will continue to significantly impact the estimated superannuation liability valuations and the funding position.

Projected unfunded liabilities

Table 1-5 Projected unfunded liabilities – Note 1

At 30 June	Actual 2016 $m	Budget 2017 $m	Estimate 2018 $m	Estimate 2019 $m	Estimate 2020 $m
Financial assets	**2 430**	**2 003**	**1 880**	**1 865**	**1 958**
Liabilities					
Unfunded superannuation – Note 2	7 330	2 657	2 722	2 765	2 703
Borrowings	3 511	3 607	3 684	4 221	4 056
Payables and finance leases	1 714	1 632	1 682	2 021	1 978
Other liabilities (including other employee benefits)	1 089	1 541	1 488	1 459	1 513
Total liabilities	**13 644**	**9 437**	**9 576**	**10 466**	**10 250**
Unfunded liabilities	**11 214**	**7 434**	**7 697**	**8 601**	**8 292**

Note 1: Budget and forward estimates were obtained from the 2016-17 Budget Papers.

Note 2: The unfunded superannuation liability is the amount by which the estimated superannuation liability exceeds superannuation investments.

1.37 The ACT Government estimates that the Territory's unfunded liabilities will decrease from 30 June 2016 to 30 June 2020. Unfunded liabilities at 30 June 2016 of $11 214 million are estimated to decrease by $2 922 million (26.1 percent or an average annual decrease of 6.5 percent) to $8 292 million at 30 June 2020 due largely to a lower unfunded superannuation liability.

1.38 The estimated reduction in the unfunded superannuation liability of $4 627 million (an average annual decrease of $1 157 million or 15.9 percent) from $7 330 million at 30 June 2016 to $2 703 million at 30 June 2020 is due to the use of a higher discount rate in estimating this liability in the forward estimates compared to the rate used to estimate the liability at 30 June 2016.

1.39 The ACT Government has advised that:

> The use of a long-term discount rate for the budget and forward year estimates removes significant valuation volatility, and presents a realistic estimate of the liability's valuation and associated expense. This is particularly relevant in the current environment of historically low interest rates.
>
> A long-term average discount rate assumption of six percent is currently used to estimate the superannuation liability valuation and superannuation expense projections over the Budget and forward years.

The superannuation liability is a long-term liability and the use of an expected long-term discount rate assumption to estimate the liability valuation is appropriate. The 10-year Commonwealth Government bond interest rate has averaged approximately six percent over the past 25 years.

If current interest rates on Commonwealth Government bonds remain below this estimated long-term average assumption, then the estimated superannuation liability (and the unfunded superannuation liability) will be higher than the budget estimate.

1.40 For the expected reduction in unfunded liabilities to occur, there would need to be a substantial decrease in the superannuation liability. This projected decrease will not occur while the interest rate used to estimate the present value of the superannuation liability remains lower than the rate used to prepare the budget estimate. The ACT Government has advised that:

> For the expected reduction in the unfunded superannuation liability to occur, interest rates would need to return to around their long-term level with a resultant decrease in the superannuation liability.

Net short-term assets

Table 1-6 Net short-term assets

At 30 June	Actual 2012 $m	Actual 2013 $m	Actual 2014 $m	Actual 2015 $m	Actual 2016 $m	Budget 2016 $m
Short-term financial assets - Note 1	2 009	2 256	2 034	2 253	2 430	1 454
Short-term liabilities - Note 2	1 164	1 189	1 128	1 403	1 283	1 216
Net short-term assets	**845**	**1 067**	**906**	**850**	**1 147**	**238**
Ratio of short-term financial assets to short-term liabilities	**1.73:1**	**1.90:1**	**1.80:1**	**1.61:1**	**1.89:1**	**1.20:1**

Note 1: Financial assets 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 purpose of this analysis, these investments have been excluded from financial assets because these investments are not available to meet short-term liabilities.

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

1.41 The capacity of the Territory to meet its obligations over the short-term can be assessed by comparing the short-term financial assets available to cover short-term liabilities. The Territory is in a net short-term asset position because its short-term financial assets exceed its short-term liabilities.

Net short-term assets at 30 June 2016 compared to the budget estimate

1.42 The net short-term assets of the Territory at 30 June 2016 exceeded that anticipated in the budget. The Territory's net short-term assets at 30 June 2016 ($1 147 million) exceeded the budget estimate ($238 million) by $909 million (381.9 percent).

Net short-term assets at 30 June 2016 compared to prior years

1.43 The short-term assets of the Territory at 30 June 2016 exceeded that at 30 June 2015 and have increased since 30 June 2012.

1.44 The Territory's net short-term assets at 30 June 2016 ($1 147 million) exceeded that at 30 June 2015 ($850 million) by $297 million (34.9 percent) and have increased since 30 June 2012 ($845 million) by $302 million (35.7 percent or an average annual increase of 8.9 percent).

Projected net short-term assets

Table 1-7 Projected net short-term assets – Note 1

At 30 June	Actual 2016 $m	Budget 2017 $m	Estimate 2018 $m	Estimate 2019 $m	Estimate 2020 $m
Short-term financial assets – Note 2	2 430	2 003	1 880	1 865	1 958
Short-term liabilities - Note 3	1 283	1 644	1 105	1 690	1 198
Net short-term assets	**1 147**	**359**	**775**	**175**	**760**
Ratio of short-term assets to short-term liabilities	**1.89:1**	**1.22:1**	**1.70:1**	**1.10:1**	**1.63:1**

Note 1: Budget and forward estimates were obtained from the 2016-17 Budget Papers.

Note 2: Financial assets exclude investments in joint ventures because these assets are not generally available to meet the Territory's immediate debts. Superannuation investments have also been excluded from financial assets because, under the *Territory Superannuation Provision Protection Act 2000*, the Territory can only use these assets to make payments related to employee superannuation and therefore the assets are also not available to cover short-term liabilities.

Note 3: Short-term liabilities are calculated by subtracting the current employee superannuation benefit liabilities from the current liabilities reported in the Territory's financial statements.

1.45 The ACT Government estimates that net short-term assets of $1 147 million at 30 June 2016 will reduce to $760 million by 30 June 2020.

2 AUDIT FINDINGS

2.1 This chapter provides an overview of the performance by reporting agencies in resolving audit findings. Audit findings include weaknesses in governance arrangements, breakdowns in internal controls and areas where reporting practices need improvement.

2.2 As required by Australian Auditing Standards[3], the Audit Office reports audit findings to agency heads or chairs and, where applicable, the relevant Minister. The Audit Office also monitors and reports on progress made in addressing previously reported audit findings.

Conclusion

As audit findings have decreased in the last four years, this indicates that governance arrangements, internal controls and reporting practices of reporting agencies have steadily improved with reporting agencies implementing effective arrangements for addressing audit findings.

Key findings

	Paragraph
Audit findings have decreased from 292 at 30 June 2012 to 100 at 30 June 2016 as the number of audit findings resolved by reporting agencies have exceeded new audit findings. This indicates that: • there has been a steady improvement in internal controls, governance arrangements and reporting practices; and • most reporting agencies have implemented effective arrangements for addressing audit findings.	2.4
In 2015-16, the number of audit findings resolved (57) exceeded the number of new audit findings (47).	2.5

[3] Australian Auditing Standards ASA 260: 'Communication with Those Charged with Governance' and ASA 265: 'Communicating Deficiencies in Internal Control to Those Charged with Governance and Management'.

Status of audit findings

2.3 The status of audit findings reported to reporting agencies in audit management reports in the period from 2012-13 to 2015-16 is shown in Table 2-1.

Table 2-1 Status of audit findings (number of findings)

Year	Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
2012-13	292	211	50	31	69	150
2013-14	145[4]	76	44	25	55	124
2014-15	124	74	28	22	60	110
2015-16	110	57	25	28	47	100

2.4 Audit findings have decreased from 292 at 30 June 2012 to 100 at 30 June 2016 as the number of audit findings resolved by reporting agencies have exceeded new audit findings. This indicates that:

- there has been a steady improvement in internal controls, governance arrangements and reporting practices; and
- most reporting agencies have implemented effective arrangements for addressing audit findings.

2.5 In 2015-16, the number of audit findings resolved (57) exceeded the number of new audit findings (47).

2.6 The number of new audit findings identified declined from 69 in 2012-13 to 47 in 2015-16.

2.7 At 30 June 2016, the previously reported audit findings (110) that were partially resolved (25) or were not resolved (28):

- related to weaknesses in controls over computer information systems (23 of 53 or 43 percent). These will be discussed in the report titled '2015-16 Financial Audits - Computer Information Systems'; and
- occurred where reporting agencies disagreed with the Audit Office (ten of 53 or 19 percent). Seven of these occurred where reporting agency disagreed with the Audit Office on accounting treatments and reporting practices used by the reporting agency in preparing their financial statements, and three resulted from the reporting agency determining that the costs of addressing the audit finding outweigh the benefits.

[4] The 2013-14 previously reported audit findings balance has been amended from the 2012-13 closing balance of 150 to 145. The financial statements of UC Global Pty Limited (formerly NATSEM Pty Limited) were not required to be audited in 2013-14 and the audit findings for NATSEM Pty Limited have therefore been removed.

3 FINANCIAL RESULTS AND AUDIT FINDINGS OF SELECTED REPORTING AGENCIES

3.1 This chapter contains a discussion of the financial results of selected reporting agencies and, where applicable, discusses their financial results compared to budget estimates. It also provides details of audit findings reported in audit management reports provided to these reporting agencies. Reporting agencies were selected on the basis of their financial significance or where audit findings were considered to warrant public reporting.

ACT Insurance Authority

3.2 The ACT Insurance Authority (the Authority) operates under the *Insurance Authority Act 2005* and is the insurer of major risks faced by the Territory and ACT Government agencies. It:

- buys insurance from external insurance providers (reinsurance) to cover catastrophic risks, including natural disasters and medical malpractice;
- settles insurance claims on behalf of the Territory and ACT Government agencies;
- promotes better practices on risk management to ACT Government agencies; and
- provides guidance on insurance and management of the Territory's risks.

Key Issues

- The Audit Office issued an unqualified audit report on the Authority's 2015-16 financial statements and an unqualified report of factual findings on its 2015-16 statement of performance.
- The Authority achieved its budgeted operating result. It made an operating surplus of $49.3 million compared to a budgeted operating deficit of $13.5 million as fewer than expected large medical malpractice and public liability claims resulted in a much lower than anticipated net insurance claims expense.
- As expected in the budget, the Authority paid $60 million in capital distributions to the ACT Government in 2015-16.
- The Authority continued to have sufficient assets to cover its liabilities at 30 June 2016 and its net asset position was much stronger than anticipated in the budget. Its net asset position at 30 June 2016 ($119.6 million) exceeded the budgeted position at 30 June 2015 ($34.8 million) by $84.8 million (243.7 percent).

- The Authority expects to make a capital distribution of $50 million in 2016-17[5].
- The Authority resolved the one previously reported audit finding by providing:
  - sufficient information in its statement of performance on how the targets (planned performance) and results of accountability indicators were calculated; and
  - more information on reasons for significant variances from planned performance targets.
- One new audit finding was identified in 2015-16. Two of the six insurance contract payments examined by the Audit Office were authorised by a person who did not have the required financial delegation. While the Authority has advised that these payments were properly related to its operations, this control weakness increases the risk of payment errors and fraud.

Financial results

Table 3-1 Key Results

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Gross premiums	56.5	57.0	57.0
Net returns from investments	13.7	16.1	8.2
Income	**70.2**	**73.1**	**65.2**
Reinsurance expenses	(11.3)	(8.2)	(11.5)
Other	(2.7)	(2.7)	(3.0)
Expenses	**(14.0)**	**(10.9)**	**(14.5)**
Claims revenue/(expenses)	11.4	(13.7)	(64.3)
Reinsurance (losses)/recoveries	(5.0)	0.3	-
Other	1.1	0.5	0.1
Net insurance claims revenue/(expenses)	**7.5**	**(12.9)**	**(64.2)**
Operating surplus/(deficit)	**63.7**	**49.3**	**(13.5)**
Capital distributions	**-**	**60**	**60**

[5] Page 155 of 2016-17 Budget Statements B, Table 9: ACT Insurance Authority: Statement of Changes in Equity.

3.3 Income is mostly comprised of insurance premiums collected from ACT Government agencies and net returns from investments.

3.4 Income ($73.1 million) exceeded the budgeted amount ($65.2 million) by $7.9 million (12.1 percent) due to higher than estimated net returns from investments from better than anticipated market conditions and a higher than expected investment balance.

3.5 Expenses mainly consist of reinsurance premiums paid to external insurance providers and administration costs. Expenses ($10.9 million) were $3.6 million (24.8 percent) lower than budgeted ($14.5 million) as amounts paid for reinsurance premiums were less than anticipated.

3.6 Net insurance claims revenue/expenses consists of insurance claims settlement payments, movements in the estimated insurance claims liabilities (explained in paragraph 3.6); minus amounts recovered from insurance providers under reinsurance arrangements.

3.7 The estimate of insurance claims liabilities is significantly affected by the quantity and type of insurance claims received, amounts historically paid to settle claims, and the discount and inflation rates used to estimate the present value of future insurance claims payments.

3.8 The net insurance claims expense ($12.9 million) was much lower than the budget estimate ($64.2 million) by $51.3 million (79.9 percent) as there were fewer than expected large medical malpractice and public liability claims.

3.9 The Authority achieved its budgeted operating result. It made an operating surplus of $49.3 million compared to a budgeted operating deficit of $13.5 million as fewer than expected large medical malpractice and public liability claims resulted in a much lower than anticipated net insurance claims expense.

3.10 As expected in the budget, the Authority paid $60 million in capital distributions to the ACT Government in 2015-16.

Net assets

Table 3-2 Net assets

At 30 June	Actual 2015 $m	Actual 2016 $m	Budget 2016 $m
Total assets	389.4	377.4	354.4
Total liabilities	(259.2)	(257.8)	(319.6)
Net assets	**130.2**	**119.6**	**34.8**
Ratio of total assets to total liabilities	**1.5 to 1**	**1.5 to 1**	**1.1 to 1**

3.11 The Authority aims to hold sufficient assets to meet its estimated claims liabilities.

3.12 The Authority continued to have sufficient assets to cover its liabilities at 30 June 2016 and its net asset position was much stronger than anticipated in the budget. Its net asset position at 30 June 2016 ($119.6 million) exceeded the budgeted position at 30 June 2016 ($34.8 million) by $84.8 million (243.7 percent).

3.13 The Authority expects to make a capital distribution of $50 million in 2016-17[6].

Audit findings

Table 3-3 Status of audit findings (number of findings)

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

3.14 The Authority resolved the one previously reported audit finding by providing:

- sufficient information in its statement of performance on how the targets (planned performance) and results of accountability indicators were calculated; and
- more information on reasons for significant variances from planned performance targets.

3.15 One new audit finding was identified in 2015-16. Two of the six insurance contract payments examined by the Audit Office were authorised by a person who did not have the required financial delegation. While the Authority has advised that these payments were properly related to its operations, this control weakness increases the risk of payment errors and fraud.

3.16 The Authority has agreed to address this audit finding.

[6] Page 155 of 2016-17 Budget Statements B, Table 9: ACT Insurance Authority: Statement of Changes in Equity.

ACT Local Hospital Network Directorate

3.17 The ACT Local Hospital Network Directorate (the Directorate) is administered by the Director-General of the Health Directorate. Information on the Health Directorate is provided on pages 67 to 71.

3.18 Public hospital services are funded under arrangements between Australian states and territories and the Commonwealth Government. These arrangements were settled under the National Health Reform Agreement (the Agreement), signed in August 2011.

3.19 Under these arrangements, public hospital services are funded by the Australian states and territories and the Commonwealth Government through the National Health Funding Pool.

3.20 In the ACT, activity-based and block funding is paid from the National Health Funding Pool to the Directorate. With this funding the Directorate purchases public hospital services from four ACT public hospital providers (Canberra Hospital and Health Services, Calvary Public Hospital, Clare Holland House and Queen Elizabeth II Family Centre).

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2015-16 financial statements and an unqualified report of factual findings on its 2015-16 statement of performance.
- The Directorate achieved its budgeted net cost of services. Its net cost of services ($928.5 million) was consistent with the budgeted cost ($926.6 million) and exceeded the prior year's cost ($874.1 million) by $54.4 million (6.2 percent).
- One new audit finding was identified in 2015-16. Many explanations of major variances between current year amounts and budgeted amounts and current year amounts and prior year amounts included in the draft financial statements submitted for audit were not provided or were not informative. Furthermore, some accounting policy disclosures included in the previous year's financial statements were omitted from the current year's draft financial statements. While the financial statements were improved during the audit, there is a higher risk that the readers of the financial statements will not understand the Directorate's financial results where explanatory information is not provided or is not informative and accounting policies used to prepare the financial statements are incorrect or incomplete.

Financial results

Table 3-4 Key results

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Expenses	(966.0)	(1 025.5)	(1 019.6)
Cross-border health revenue	91.9	97.0	93.0
Net cost of services	**(874.1)**	**(928.5)**	**(926.6)**
Amounts received from the Commonwealth Government to fund public hospital services	310.9	324.7	321.4
Amounts received from the ACT Government to fund public hospital services	567.3	601.8	605.2
Operating surplus/(deficit)	4.1	(2.0)	-

3.21 Expenses largely consist of payments to:

- Canberra Hospital and Health Services, Calvary Public Hospital, Clare Holland House and Queen Elizabeth II Family Centre for providing public hospital services; and
- Australian states and the Northern Territory for providing hospital services to ACT residents in their respective jurisdictions under cross-border arrangements.

3.22 The Directorate earns cross-border health revenue from providing health services to residents of Australian states, the Northern Territory and under cross-border arrangements.

3.23 The Directorate achieved its budgeted net cost of services. Its net cost of services ($928.5 million) was consistent with the budgeted cost ($926.6 million) and exceeded the prior year's cost ($874.1 million) by $54.4 million (6.2 percent).

Table 3-5 Status of audit findings (number of findings)

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

3.24 One new audit finding was identified in 2015-16. Many explanations of major variances between current year amounts and budgeted amounts and current year amounts and prior year amounts included in the draft financial statements submitted for audit were not provided or were not informative. Furthermore, some accounting policy disclosures included in the previous year's financial statements were omitted from the current year's draft financial statements. While the financial statements were improved during the audit, there is a higher risk that the readers of the financial statements will not understand the

Directorate's financial results where explanatory information is not provided or is not informative and accounting policies used to prepare the financial statements are incorrect or incomplete.

3.25 The Directorate has agreed to address this audit finding.

ActewAGL Joint Venture

3.26 The ActewAGL Joint Venture (ActewAGL) sells energy and owns and operates the energy networks which provide energy (electricity and gas) to customers in the ACT and surrounding regions. It consists of the ActewAGL Retail Partnership and ActewAGL Distribution Partnership.

3.27 Icon Water Limited (Icon Water) holds the Territory's 50 percent interest in the ActewAGL Retail Partnership and ActewAGL Distribution Partnership through its subsidiaries, Icon Retail Investments Limited and Icon Distribution Investments Limited respectively. Icon Water is discussed on pages 76 to 79.

Key Issues

- The Audit Office issued an unqualified audit report on the 2015-16 financial statements of the ActewAGL Joint Venture, ActewAGL Retail Partnership and ActewAGL Distribution Partnership.
- ActewAGL's profit in 2015-16 ($199.2 million) was consistent with the profit generated in 2014-15 ($201.0 million).
- Cash distributions paid by ActewAGL to Icon Water in 2015-16 ($68.5 million) significantly exceeded cash distributions paid in 2014-15 ($56.5 million) by $12.0 million (21.2 percent).
- ActewAGL had sufficient short-term assets to cover its short-term liabilities at 30 June 2016 and its net short-term assets position at 30 June 2016 was stronger than the position which existed at 30 June 2015.
- ActewAGL had sufficient total assets to cover its total liabilities at 30 June 2016 and its net assets position at 30 June 2016 was stronger than the position which existed at 30 June 2015.
- ActewAGL resolved all four previously reported audit findings by:
  - removing unnecessary generic accounts (accounts shared between users) with privileged access to the financial accounting system (Oracle). This reduces the risk of erroneous or fraudulent access;
  - increasing the complexity of passwords for privileged user accounts which provide access to the payroll system (Aurion) so that they complied with ActewAGL's 'Information Technology Security Policy'. This reduces the risk of unauthorised or fraudulent access;
  - promptly reconciling items in the ActewAGL Distribution Partnership bank reconciliation. This reduces the risk of material errors or fraudulent transactions not being promptly detected; and

- ceasing the use of 'manual fixes' to correct errors in collating and reporting of data after a major upgrade to its financial systems. This reduces the risk of errors and fraud and improves the efficiency and effectiveness of the financial systems.

- Five new audit findings were identified in 2015-16:
  - Three former employees continued to have access to the ActewAGL Distribution billing system after ceasing employment. Failure to promptly remove user accounts of former employees increases the risk of fraudulent access.
  - Password settings for the operating system, on which the financial accounting system operates, were not as complex as required by ActewAGL's 'Information Technology Security Policy'. This increases the risk of unauthorised or fraudulent access.
  - There was no evidence that the appropriateness of user access to the ActewAGL Distribution billing system was being periodically reviewed. Many users have privileged access which should be tightly controlled to prevent changes being made to the billing system and its data. Multiple accounts with privileged access increases the risk of inappropriate or fraudulent access.
  - Testing documentation could not be provided for three out of 24 application changes reviewed during the audit. Untested changes increase the risk that systems will not process transactions completely and accurately after being changed.
  - The electronic funds transfer file generated from the financial accounting system (Oracle) and payroll system (Aurion), for upload into ActewAGL's electronic banking platform (Commbiz) to process supplier and payroll payments, was stored in a network directory location which was accessible to employees who do not require access. There is a higher risk of fraudulent payments when access to the electronic funds file is not adequately restricted.

Financial results

Table 3-6 Key results

	Actual 2014-15 $m	Actual 2015-16 $m
Income	819.7	785.5
Expenses	(618.7)	(586.3)
Profit	**201.0**	**199.2**
Distributions paid to partners	**113.0**	**137.0**
Distributions paid to Icon Water (50 percent)	**56.5**	**68.5**

3.28 Income largely comes from the sale and distribution of energy (electricity and gas).

3.29 Expenses are mainly comprised of energy purchases, employment costs, payments to subcontractors, leasing expenses and depreciation.

3.30 ActewAGL's profit in 2015-16 ($199.2 million) was consistent with the profit generated in 2014-15 ($201.0 million).

3.31 Cash distributions paid by ActewAGL to Icon Water in 2015-16 ($68.5 million) significantly exceeded cash distributions paid in 2014-15 ($56.5 million) by $12.0 million (21.2 percent).

Net short-term assets

Table 3-7 Net short-term assets

At 30 June	**Actual 2015 $m**	**Actual 2016 $m**
Short-term assets	264.2	257.5
Short-term liabilities	(192.1)	(175.8)
Net short-term assets	**72.1**	**81.7**
Ratio of short-term assets to short-term liabilities	**1.4 to 1**	**1.5 to 1**

3.32 ActewAGL's coverage of short-term assets to short-term liabilities can be assessed by comparing the amount of short-term assets available to cover short-term liabilities.

3.33 The short-term assets position shown in Table 3-7 (page 34) is the position after the payment of cash distributions to the partners of ActewAGL.

3.34 ActewAGL had sufficient short-term assets to cover its short-term liabilities at 30 June 2016 and its net short-term assets position at 30 June 2016 was stronger than the position which existed at 30 June 2015.

Net assets

Table 3-8 Net assets

At 30 June	Actual 2015 $m	Actual 2016 $m
Total assets	1 490.7	1 537.5
Total liabilities	(214.7)	(199.2)
Net assets	**1 276.0**	**1 338.3**
Ratio of total assets to total liabilities	**6.9 to 1**	**7.7 to 1**

3.35 Total assets consist mainly of the electricity and gas network assets.

3.36 ActewAGL had sufficient total assets to cover its total liabilities at 30 June 2016 and its net assets position at 30 June 2016 was stronger than the position which existed at 30 June 2015.

Audit findings

Table 3-9 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
4	4	-	-	5	5

3.37 ActewAGL resolved all four previously reported audit findings by:

- removing unnecessary generic accounts (accounts shared between users) with privileged access to the financial accounting system (Oracle). This reduces the risk of erroneous or fraudulent access;
- increasing the complexity of passwords for privileged user accounts which provide access to the payroll system (Aurion) so that they complied with ActewAGL's 'Information Technology Security Policy'. This reduces the risk of unauthorised or fraudulent access;

- promptly reconciling items in the ActewAGL Distribution Partnership bank reconciliation. This reduces the risk of material errors or fraudulent transactions not being promptly detected; and
- ceasing the use of 'manual fixes' to correct errors in collating and reporting of data after a major upgrade to its financial systems. This reduces the risk of errors and fraud and improves the efficiency and effectiveness of the financial systems.

3.38 Five new audit findings were identified in 2015-16:

- Three former employees continued to have access to the ActewAGL Distribution billing system after ceasing employment. Failure to promptly remove user accounts of former employees increases the risk of fraudulent access.

  ActewAGL has advised that these user accounts have been removed and that six-monthly reviews of user access will be performed to identify and remove dormant or inappropriate user accounts.

- Password settings for the operating system, on which the financial accounting system operates, were not as complex as required by ActewAGL's 'Information Technology Security Policy'. This increases the risk of unauthorised or fraudulent access.

  ActewAGL has advised that password settings have been ungraded to comply with its 'Information Technology Security Policy'.

- There was no evidence that the appropriateness of user access to the ActewAGL Distribution billing system was being periodically reviewed. Many users have privileged access which should be tightly controlled to prevent changes being made to the billing system and its data. Multiple accounts with privileged access increases the risk of inappropriate or fraudulent access.

  ActewAGL has advised that:

  - a review of user accounts has now been performed to ensure that access rights given to users is limited to that needed for their role;
  - the number of users with privileged access will be limited; and
  - six-monthly reviews of user access will be carried out.

- Testing documentation could not be provided for three out of 24 application changes reviewed during the audit. Untested changes increase the risk that systems will not process transactions completely and accurately after being changed.

  ActewAGL has advised that its 'Change Management Policy' will be updated to define the testing requirements for changes and that relevant staff will be provided with training on these new requirements.

- The electronic funds transfer file generated from the financial accounting system (Oracle) and payroll system (Aurion), for upload into ActewAGL's electronic banking platform (Commbiz) to process supplier and payroll payments, was stored in a network directory location which was accessible to employees who do not require access. There is a higher risk of fraudulent payments when access to the electronic funds file is not adequately restricted.

  ActewAGL has advised that access rights to the network directory for these employees who do not require access were removed after this was brought to their attention.

3.39 ActewAGL has agreed to address all audit findings.

ACTION

3.40 ACTION provides public bus services to the ACT community, including school and special needs bus services as well as charter hire buses. In 2015-16, ACTION was part of the Territory and Municipal Services Directorate but was a separate entity for reporting purposes.

Key Issues

- The Audit Office issued an unqualified audit report on ACTION's 2015-16 financial statements and an unqualified report of factual findings on its 2015-16 statement of performance.
- ACTION achieved its budgeted net cost of services. Its net cost of services ($118.4 million) aligned with the budgeted cost ($118.9 million).
- Government contributions ($103.6 million) were lower than the budgeted amount ($106.4 million) by $2.8 million (2.6 percent) due mainly to delays in implementing a new weekday bus network.
- One of the three previously reported audit findings was resolved, one partially resolved and one not resolved.
- ACTION resolved one audit finding by ensuring that reports of cash floats held by bus drivers were promptly updated for changes in floats issued to, or returned by, bus drivers. This ensured that cash float reports agreed to the cash floats balance reported in the financial statements.
- ACTION partially resolved one audit finding by ensuring that reconciliations between cash fares collected by bus drivers and cash fares recorded in ACTION's ticketing system (MyWay) were reviewed by an independent officer. However, at one depot, reconciliations were not being signed by the responsible preparing officer.
- One previously reported audit finding was not resolved as ACTION has not been able to automate key controls in its human resources system (Aurion) due to system limitations. ACTION commenced work to progressively transfer staff data from Aurion to another human resources system which has automated controls (CHRIS21).

  While compensating manual controls have been implemented, automated controls are more effective because they are consistently applied and can prevent erroneous and fraudulent salary payments instead of identifying them after they occur.

  However, in 2015-16, bus drivers and transport officers continued to be paid through Aurion because of technical issues and delays in the transfer of staff data from Aurion to CHRIS21.

- One new audit finding was identified in 2015-16. ACTION previously appointed transport officers as 'authorised persons' to conduct ticket and compliance inspections on the proper use of concession cards, including checking that concession cards were being used by eligible persons. However, in 2015-16 these officers no longer performed these inspections to minimise the risk of incorrect and fraudulent use of concession cards.

Financial results

Table 3-10 Key results

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Expenses	(144.5)	(144.8)	(144.4)
Income	26.5	26.4	25.5
Net cost of services	**(118.0)**	**(118.4)**	**(118.9)**
Government contributions	106.6	103.6	106.4
Other gains on de-recognition of finance leases	0.3	0.0	0.0
Operating deficit	**(11.1)**	**(14.8)**	**(12.5)**

3.41 ACTION's expenses mainly consist of employee and bus operating costs, including fuel and maintenance costs.

3.42 Expenses ($144.8 million) aligned with the budgeted amount ($144.4 million).

3.43 ACTION's income is mostly derived from fares charged for its bus services.

3.44 Income ($26.4 million) exceeded the budgeted amount ($25.5 million) by $0.9 million (3.5 percent). This was mainly due to higher than expected fuel tax credits claimed from the Commonwealth Government for fuel used to operate auxiliary electronic equipment on buses, mainly the air conditioning system.

3.45 ACTION achieved its budgeted net cost of services. Its net cost of services ($118.4 million) aligned with the budgeted cost ($118.9 million).

3.46 Government contributions ($103.6 million) were lower than the budgeted amount ($106.4 million) by $2.8 million (2.6 percent) due mainly to delays in implementing a new weekday bus network.

Audit findings

Table 3-11 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
3	1	1	1	1	3

3.47 One of the three previously reported audit findings was resolved, one partially resolved and one not resolved.

3.48 ACTION resolved one audit finding by ensuring that reports of cash floats held by bus drivers were promptly updated for changes in floats issued to, or returned by, bus drivers. This ensured that cash float reports agreed to the cash floats balance reported in the financial statements.

3.49 ACTION partially resolved one audit finding by ensuring that reconciliations between cash fares collected by bus drivers and cash fares recorded in ACTION's ticketing system (MyWay) were reviewed by an independent officer. However, at one depot, reconciliations were not being signed by the responsible preparing officer.

3.50 One previously reported audit finding was not resolved as ACTION has not been able to automate key controls in its human resources system (Aurion) due to system limitations. ACTION commenced work to progressively transfer staff data from Aurion to another human resources system which has automated controls (CHRIS21).

While compensating manual controls have been implemented, automated controls are more effective because they are consistently applied and can prevent erroneous and fraudulent salary payments instead of identifying them after they occur.

However, in 2015-16, bus drivers and transport officers continued to be paid through Aurion because of technical issues and delays in the transfer of staff data from Aurion to CHRIS21.

3.51 One new audit finding was identified in 2015-16. ACTION previously appointed transport officers as 'authorised persons' to conduct ticket and compliance inspections on the proper use of concession cards, including checking that concession cards were being used by eligible persons. However, in 2015-16 these officers no longer performed these inspections to minimise the risk of incorrect and fraudulent use of concession cards.

3.52 ACTION has advised that all audit findings will be addressed.

Canberra Institute of Technology

3.53 The Canberra Institute of Technology (the Institute) provides vocational education and training services to students and public and private sector organisations.

Key Issues

- The Audit Office issued an unqualified audit report on the 2015 financial statements of the Institute and an unqualified report of factual findings on its 2015 statement of performance.

- The Institute achieved its budgeted net cost of services. Its net cost of services ($77.6 million) aligned with the budgeted cost ($76.9 million) and exceeded the prior year's cost ($74.2 million) by $3.4 million (4.6 percent).

- The Institute resolved one previously reported audit finding. It reduced the risk of undetected errors and fraud in payments to employees by implementing the prompt review of salary reports and retaining evidence of these reviews regardless of whether anomalies were identified.

- One previously reported audit finding was not resolved. The Institute did not sufficiently improve the quality of the workpapers supporting its statement of performance. These workpapers did not include sufficient information on the:

  - definition and explanation of accountability indicators;

  - basis of calculation of each accountability indicator's target and actual result; and

  - details of the documentation available to support the reported results.

  There was also insufficient evidence of the independent review of the reported results. This increases the risk of erroneous or fraudulent reporting.

- One new audit finding was identified in 2015. The Institute's Chief Executive Financial Instructions have not been reviewed and updated since 2008 and therefore do not reflect all of the Institute's financial management policies and procedures. This increases the risk that these will not be correctly implemented.

Financial results

Table 3-12 Key results (calendar years)

	Actual 2014 $m	Actual 2015 $m	Budget 2015 $m
Expenses	(110.9)	(113.0)	(109.8)
Income	36.7	35.4	32.9
Net cost of services	**(74.2)**	**(77.6)**	**(76.9)**
Government contributions	67.2	66.4	66.4
Operating deficit	**(7.0)**	**(11.2)**	**(10.5)**

3.54 Expenses mainly consist of employee costs, operating costs, depreciation and amortisation. Operating costs include information and communication technology expenses, costs of consultants and contractors engaged to provide courses, repairs and maintenance and printing costs.

3.55 The Institute's main source of income comes from providing vocational education and training services to public and private sector organisations.

3.56 The Institute achieved its budgeted net cost of services. Its net cost of services ($77.6 million) aligned with the budgeted cost ($76.9 million) and exceeded the prior year's cost ($74.2 million) by $3.4 million (4.6 percent).

3.57 The increase in the Institute's net cost of services from the prior year's cost was due mainly to a small increase in repairs and maintenance expenses and a decrease in revenue due largely to the loss of the contract to deliver the Adult English Migrant Program.

Audit findings

Table 3-13 Status of audit findings (number of findings)

Previously Reported	Resolved	Not Resolved	New	Balance
2	1	1	1	2

3.58 The Institute resolved one previously reported audit finding. It reduced the risk of undetected errors and fraud in payments to employees by implementing the prompt review of salary reports and retaining evidence of these reviews regardless of whether anomalies were identified.

3.59 One previously reported audit finding was not resolved. The Institute did not sufficiently improve the quality of the workpapers supporting its statement of performance. These workpapers did not include sufficient information on the:

- definition and explanation of accountability indicators;
- basis of calculation of each accountability indicator's target and actual result; and
- details of the documentation available to support the reported results.

There was also insufficient evidence of the independent review of the reported results. This increases the risk of erroneous or fraudulent reporting.

3.60 One new audit finding was identified in 2015. The Institute's Chief Executive Financial Instructions have not been reviewed and updated since 2008 and therefore do not reflect all of the Institute's financial management policies and procedures. This increases the risk that these will not be correctly implemented.

3.61 The Institute has agreed to address all audit findings.

Capital Metro Agency

3.62 The Capital Metro Agency was set up to manage the planning, design, procurement and delivery of the first stage of a light rail network in Canberra (the Light Rail Project).

3.63 In May 2016, the Capital Metro Agency, on behalf of the Territory, entered into a public-private partnership with a private sector consortium (Canberra Metro) to design, construct, operate, maintain and finance the first stage of the light rail network. Construction of the first stage is scheduled for completion in late 2018 with operations commencing at that time.

3.64 Canberra Metro will operate and maintain the light rail system for 20 years. After this time, the Territory will obtain ownership of light rail system assets such as light rail vehicles, depots and tracks.

3.65 The Capital Metro Agency was abolished and its functions transferred to the new Transport Canberra and City Services Directorate effective from 1 July 2016.

Key Issues

- The Audit Office issued an unqualified audit report on the Capital Metro Agency's 2015-16 financial statements and an unqualified report of factual findings on its 2015-16 statement of performance.
- Note 17: 'Commitments' to the 2015-16 financial statements of the Capital Metro Agency discloses commitments of $1 649.3 million (excluding GST) for the design, construction, operation, maintenance and financing of the first stage of the light rail network.
- The one audit finding identified in 2015-16 relates to accounting for the Light Rail Project in future financial statements of the Transport Canberra and City Services Directorate.

Light Rail Project – Commitments

Table 3-14 Light Rail Project – Commitments

	Finance Lease Commitments $m	Operating Commitments $m	Total (excluding GST) $m
Within one year	-	-	-
Later than one year but not later than five years	446.9	73.1	520.0
Later than five years	490.1	639.2	1 129.3
Total public-private partnership commitments	**937.0**	**712.3**	**1 649.3**

3.66 Note 17: 'Commitments' to the 2015-16 financial statements of the Capital Metro Agency discloses commitments of $1 649.3 million (excluding GST) for the design, construction, operation, maintenance and financing of the first stage of the light rail network.

3.67 The Territory will commence making monthly payments to Canberra Metro over the 20-year term of the arrangement once the light rail system commences operations (expected to be in August 2018).

3.68 Commitments consist of capital and operational commitments.

- Finance lease commitments: These are payments for the design and construction of the light rail asset and the right to use the asset. The Capital Metro Agency has advised these costs will be accounted for as a finance lease under Australian Accounting Standard AASB 117: 'Leases'.

  This will involve recording the constructed assets and corresponding finance lease liabilities from the date the light rail system commences operations until ownership of the assets reverts to the Territory.

- Operational commitments: These are payments for the operation and ongoing maintenance of the light rail system. These costs will be recorded as an expense when payments are made.

Audit findings

Table 3-15 Status of findings (number of findings)

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

3.69 The one audit finding identified in 2015-16 relates to accounting for the Light Rail Project in future financial statements of the Transport Canberra and City Services Directorate.

3.70 The Transport Canberra and City Services Directorate has agreed to account for all transactions relating to the Light Rail Project in accordance with Australian Accounting Standards.

Chief Minister, Treasury and Economic Development Directorate

3.71 The Chief Minister, Treasury and Economic Development Directorate (the Directorate) provides leadership, strategic advice and support on policy development to the ACT Public Service. Other key functions include:

- coordinating the Territory's budget process and financial management;
- administering ACT Government's land release program and infrastructure projects;
- providing information and communication technology, publishing and recordkeeping, human resources, and finance services (shared services) across the ACT Government;
- collecting and managing the Territory's taxation revenue;
- promoting tourism, managing ACT arts facilities, facilitating sporting and major events;
- promoting business development and investment programs;
- providing customer and regulatory services through Access Canberra;
- overseeing the program involving the overhaul of public housing (Public Housing Renewal Program); and
- administering the Loose-Fill Asbestos Eradication Scheme. Under the Scheme, the Directorate purchases properties (land and homes) that are affected by loose-fill asbestos, demolishes and disposes of the homes, remediates the affected land and sells the remediated land.

3.72 Under changes to administrative arrangements on 22 January 2016, the Directorate received Vocational Education and Training functions from the former Education and Training Directorate and the National Arboretum Canberra from the former Territory and Municipal Services Directorate.

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2015-16 financial statements and an unqualified report of factual findings on its 2015-16 statement of performance.
- The Directorate did not achieve its budgeted net cost of services excluding assets transferred to other ACT Government agencies. Its net cost of services excluding assets transferred to other ACT Government agencies ($422.2 million) exceeded the budgeted cost ($384.7 million) by $37.5 million (9.7 percent) due to lower than anticipated income ($61.2 million); partially offset by lower than expected expenses ($23.7 million).

- Seven of the 11 previously reported audit findings were resolved, one was partially resolved and three were not resolved.
- Seven previously reported audit findings were resolved as follows:
  - An information management and information communications technology strategic plan ('Digital Strategy 2015-2020') was approved, thereby increasing assurance that information technology systems will meet the needs of the Directorate.
  - Meeting minutes of the Directorate's Executive Management Group (a key decision-making group that meets on a monthly basis) were approved.
  - There were no errors in the spreadsheet used to calculate revenue and receivables relating to extension of time to build fees reported in the financial statements. This reduces the risk of errors in the financial statements.
  - Unidentified cash receipts recorded in a 'suspense account' in the accounting system were resolved in a timely manner. This ensures that cash receipts are correctly recorded in the financial statements.
  - The Directorate's assessment of property, plant and equipment and intangible assets for impairment was documented as required by Australian Accounting Standard AASB 136: 'Impairment of Assets'.
  - The general ledger reconciled to the supporting asset registers. This reduces the risk of errors in the financial statements.
  - In 2014-15, the report of factual findings on the statement of performance of the former Economic Development Directorate for the period from 1 July 2014 to 6 July 2014 was qualified because targets for accountability indicators were not established and reported against, as required by Section 30(2) of the *Financial Management Act 1996*. This matter was resolved in 2015-16 as a statement of performance for the Economic Development Directorate was not required as a result of the Economic Development Directorate ceasing operations due to changed administrative arrangements.
- One previously reported audit finding was partially resolved. The Directorate approved a strategic asset management plan ('Strategic Asset Management Plan - Shared Services') for Shared Services, however, the Directorate does not have an approved Strategic Asset Management Plan which encompasses each of the Strategic Asset Management Plans for the Directorate's key asset management areas. A Strategic Asset Management Plan is needed to provide guidance on key areas of asset management, including the planning, acquisition, disposal and maintenance of assets.

- The Directorate did not resolve three previously reported audit findings:
  - There was often no evidence that reviews of salary reports were being performed or performed in a timely manner. This increases the risk that incorrect or fraudulent employee payments will not be promptly detected and addressed.
  - Some accountability indicators and related targets were not clearly explained in the Directorate's budget papers. This presents a risk of incorrect or fraudulent reporting as it may be difficult to subsequently verify whether the actual results reported in the statement of performance are consistent with planned performance targets disclosed in the budget papers.
  - Each year, the Chief Minister, Treasury and Economic Development Directorate issues a whole-of-government reporting timetable. The 2015-16 timetable[7] included the dates by which reporting agencies were to submit their financial statements to the Audit Office. The Directorate did not submit their financial statements by the required due date. Furthermore, explanatory information (in particular, explanations for major variances between the current year's results and budget estimates and the current year's results and prior year's results) needs to be improved. For example, the variance information did not always explain why a variance occurred or technical terms (jargon) were sometimes used that would only likely be understood by staff of the Directorate. While these explanations were improved during the audit, further work is needed. There is a higher risk that the readers of the financial statements will not understand the financial results if explanations of major variances are not presented in plain English or do not explain underlying reasons.
- One new audit finding was identified in 2015-16. The draft statement of performance submitted for review was late and incomplete. Furthermore, it was often not obvious from the information provided in the statement of performance how the accountability indicators and related targets provide a basis for a meaningful assessment of the Directorate's performance. While explanatory information was improved during the audit, there is a higher risk that the readers of the statement of performance will not understand the performance of the Directorate when accountability indicators and related targets do not provide a meaningful assessment of the Directorate's performance.

[7] Budget Memorandum '2016/13 2015-16 Agency Financial Statements and Consolidated Financial Statements for the Territory'.

Financial results

Table 3-16 Key results

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Expenses excluding Loose-Fill Asbestos Eradication Scheme grants and assets transferred to other ACT Government agencies	(572.8)	(652.6)	(682.5)
Loose-Fill Asbestos Eradication Scheme grants – Note 1	(336.1)	(48.8)	(42.6)
Total expenses excluding assets transferred to other ACT Government agencies	**(908.9)**	**(701.4)**	**(725.1)**
Income	289.6	279.2	340.4
Net cost of services excluding assets transferred to other agencies	**(619.3)**	**(422.2)**	**(384.7)**
Government contributions	482.5	410.8	411.7
Other gains	5.1	19.6	-
Assets transferred to other ACT Government agencies	(3.1)	(95.7)	-
Operating (deficit)/surplus	**(134.8)**	**(87.5)**	**27.0**

Note 1: The 2015-16 budget amount ($42.6 million) consists of Grants and Purchased Services ($1.4 million) and Other Expenses ($41.3 million) (Page 92 of the 2015-16 Budget Statements).

3.73 Expenses, excluding Loose-Fill Asbestos Eradication Scheme grants and assets transferred to other ACT Government agencies, consist of employee expenses, contractors and consultants costs, accommodation expenses, information and communication technology expenses, repairs and maintenance costs, depreciation expenses and grants paid to major sporting, business, industry, tourism and event organisations.

3.74 Loose-Fill Asbestos Eradication Scheme grants are paid to buy properties affected by loose-fill asbestos.

3.75 Total expenses excluding assets transferred to other agencies ($701.4 million) were lower than the budget estimate ($725.1 million) by $23.7 million (3.3 percent) as purchases of information and communication technology assets by Shared Services on behalf of the other ACT Government agencies, grant payments to major sporting, business, industry, tourism and event organisations and services acquired from other ACT Government agencies and external organisations were less than anticipated. These were partially offset by higher than expected:

- employee expenses as functions were transferred to the Directorate after the budget was prepared; and

- Loose-Fill Asbestos Eradication Scheme grants as more homeowners opted into the Scheme than expected.

3.76 Income is obtained from:

- other ACT Government agencies for the provision of property services, information communication technology services, procurement support, publishing and records management services, human resource and financial services;
- extension of time to build fees; and
- sporting and tourism events and activities.

3.77 Income ($279.2 million) was significantly lower than budgeted ($340.4 million) by $61.2 million (18.0 percent). This was mainly due to lower than anticipated:

- rent revenue after the transfer of the Magistrates Court to the Justice and Community Safety Directorate;
- recoveries from ACT Government agencies for information and communication technology assets purchased on their behalf by Shared Services; and
- recoveries of repairs and maintenance costs incurred by the ACT Property Group on properties rented by other ACT Government agencies.

3.78 The Directorate did not achieve its budgeted net cost of services excluding assets transferred to other ACT Government agencies. Its net cost of services excluding assets transferred to other ACT Government agencies ($422.2 million) exceeded the budgeted cost ($384.7 million) by $37.5 million (9.7 percent) due to lower than anticipated income ($61.2 million); partially offset by lower than expected expenses ($23.7 million).

3.79 Assets transferred to other ACT Government agencies ($95.7 million) mainly consisted of the transfer of:

- completed road works and water quality ponds to the former Territory and Municipal Services Directorate (renamed the Transport Canberra and City Services Directorate on 1 July 2016); and
- the Magistrates Court land and buildings to the Justice and Community Safety Directorate.

3.80 The Directorate's territorial operations mainly consist of revenue from Commonwealth grants, and the collection of taxes, fees and fines; including land tax, general rates, duties, payroll tax and income tax equivalents. A discussion on the Directorate's territorial revenue is incorporated with the discussion on the Territory's revenue in Chapter 1: 'The Territory's financial statements' (pages 12 to 15).

Audit findings

Table 3-17 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
11	7	1	3	1	5

3.81 Seven of the 11 previously reported audit findings were resolved, one was partially resolved and three were not resolved.

3.82 Seven previously reported audit findings were resolved as follows:

- An information management and information communications technology strategic plan ('Digital Strategy 2015-2020') was approved, thereby increasing assurance that information technology systems will meet the needs of the Directorate.
- Meeting minutes of the Directorate's Executive Management Group (a key decision-making group that meets on a monthly basis) were approved.
- There were no errors in the spreadsheet used to calculate revenue and receivables relating to extension of time to build fees reported in the financial statements. This reduces the risk of errors in the financial statements.
- Unidentified cash receipts recorded in a 'suspense account' in the accounting system were resolved in a timely manner. This ensures that cash receipts are correctly recorded in the financial statements.
- The Directorate's assessment of property, plant and equipment and intangible assets for impairment was documented as required by Australian Accounting Standard AASB 136: 'Impairment of Assets'.
- The general ledger agreed to the supporting asset registers. This reduces the risk of errors in the financial statements.
- In 2014-15, the report of factual findings on the statement of performance of the former Economic Development Directorate for the period from 1 July 2014 to 6 July 2014 was qualified because targets for accountability indicators were not established and reported against, as required by Section 30(2) of the *Financial Management Act 1996*. This matter was resolved in 2015-16 as a statement of performance for the Economic Development Directorate was not required as a result of the Economic Development Directorate ceasing operations due to changed administrative arrangements.

3.83 One previously reported audit finding was partially resolved. The Directorate approved a strategic asset management plan ('Strategic Asset Management Plan - Shared Services') for Shared Services, however, the Directorate does not have an approved Strategic Asset Management Plan which encompasses each of the Strategic Asset Management Plans for the Directorate's key asset management areas. A Strategic Asset Management Plan is

needed to provide guidance on key areas of asset management, including the planning, acquisition, disposal and maintenance of assets.

3.84 The Directorate agreed to address this audit finding and advised that:

> A Strategic Asset Management Plan was provided to the Audit Office in early September 2016.

3.85 The Directorate did not resolve three previously reported audit findings:

- There was often no evidence that reviews of salary reports were being performed or performed in a timely manner. This increases the risk that incorrect or fraudulent employee payments will not be promptly detected and addressed.

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

  > An electronic salary reporting solution will be implemented during 2016-17 to improve the timeliness and consistency of salary report reviews.

- Some accountability indicators and related targets were not clearly explained in the Directorate's budget papers. This presents a risk of incorrect or fraudulent reporting as it may be difficult to subsequently verify whether the actual results reported in the statement of performance are consistent with planned performance targets disclosed in the budget papers.

  The Directorate partially agreed with this audit finding and advised that:

  > The Directorate reviews its accountability indicators annually as part of the budget process to ensure that the most useful, relevant and up to date information is being provided.
  >
  > Internally, this review process is supported through the annual development of detailed audit worksheets for each accountability indicator. These include a description of the indicator, an explanation of what is being measured and how this is calculated, and the documentation to be provided as evidence of the result.
  >
  > Future review processes will continue to focus on providing clear explanatory descriptions of accountability indicators and their targets in the budget papers.

- Each year, the Chief Minister, Treasury and Economic Development Directorate issues a whole-of-government reporting timetable. The 2015-16 timetable[8] included the dates by which reporting agencies were to submit their financial statements to the Audit Office. The Directorate did not submit their financial statements by the required due date. Furthermore, explanatory information (in particular, explanations for major variances between the current year's results and budget estimates and the current year's results and prior year's results) needs to be improved. For example, the variance information did not always explain why a variance occurred or technical terms (jargon) were sometimes used that would only likely be understood by staff of the Directorate. While these explanations were improved during the audit, further work is needed. There is a higher risk that the readers of the financial statements will not understand the financial results if explanations of major variances are not presented in plain English or do not explain underlying reasons.

[8] Budget Memorandum '2016/13 2015-16 Agency Financial Statements and Consolidated Financial Statements for the Territory'.

The Directorate partially agreed with this audit finding and advised that:

> The systems and processes used to prepare the Directorate's annual financial statements were updated during the year, and will continue to be revised and improved.
>
> Although the Directorate as a whole remains complex, it is not expected similar delays will recur in 2016-17.
>
> With respect to the clarity and usefulness of variance explanations, Strategic Finance will continue to pay particular attention to the variance commentary provided in its annual financial statements to ensure published information is readily understood by the target audiences.
>
> The Directorate will also review the materiality thresholds used to determine what variance commentary must be provided as a minimum in future annual financial statements, and will give consideration to prior experience regarding the nature and frequency of questions asked in the absence of variance explanations for certain 'immaterial items' to determine whether variance explanations continue to be provided for some financially immaterial items.

3.86 One new audit finding was identified in 2015-16. The draft statement of performance submitted for review was late and incomplete. Furthermore, it was often not obvious from the information provided in the statement of performance how the accountability indicators and related targets provide a basis for a meaningful assessment of the Directorate's performance. While explanatory information was improved during the audit, there is a higher risk that the readers of the statement of performance will not understand the performance of the Directorate when accountability indicators and related targets do not provide a meaningful assessment of the Directorate's performance.

The Directorate partially agreed with this audit finding and advised that:

> The internal processes used to prepare the statement of performance will continue to be revised and improved.
>
> As advised in prior years, the Directorate will also continue to comprehensively review its accountability indicators annually as part of the budget process to ensure that the most useful, relevant and up to date information is being provided, and that it is as clear as possible what is being measured and how.

Community Services Directorate

3.87 The Community Services Directorate (the Directorate) provides services to children and young people, families, people with disability, carers, women, Aboriginal and Torres Strait Islander peoples, people from culturally and linguistically diverse background and people who are ageing.

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2015-16 financial statements and an unqualified report of factual findings on its 2015-16 statement of performance.

- The Directorate did not achieve its budgeted net cost of services. Its net cost of services ($246.3 million) exceeded the budgeted cost ($232.7 million) by $13.6 million (5.8 percent) as the cost of transitioning the provision of therapy and disability services to non-government organisations under the Commonwealth Government's National Disability Insurance Scheme (NDIS) were higher than anticipated. These costs were only partially offset by income associated with this transition.

- Government contributions ($252.0 million) exceeded the budgeted amount ($230.4 million) by $21.6 million (9.4 percent) as the Directorate received a Treasurer's Advance mainly to meet the higher than expected costs in transitioning the provision of therapy and disability services to non-government organisations.

- The Directorate resolved all three previously reported audit findings by ensuring that:

  - payments were authorised by an officer acting within the amount of their financial delegation. This reduces the risk of payment errors and fraud;

  - its statement of performance was submitted to the Audit Office in accordance with the Chief Minister, Treasury and Economic Development Directorate's whole-of-government reporting timetable; and

  - the statement of performance submitted to the Audit Office for review contained few errors.

- One new audit finding was identified in 2015-16. Several explanations of major variances between current year amounts and budgeted amounts and current year amounts and prior year amounts, included in the draft financial statements submitted for audit, were not informative. For example, terms and expressions (jargon) were used that would only likely be understood by its authors or possibly staff in the Directorate. While these explanations were improved during the audit, there is a higher risk that the readers of the financial statements will not understand the Directorate's financial results where explanatory information is not informative.

Financial results

Table 3-18 Key results

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Expenses	(265.7)	(271.6)	(238.0)
Income	19.4	25.3	5.3
Net cost of services	**(246.3)**	**(246.3)**	**(232.7)**
Government contributions	244.2	252.0	230.4
Asset transfers to other agencies	-	(2.2)	-
Operating (deficit)/surplus	**(2.1)**	**3.5**	**(2.3)**

3.88 Expenses are mainly comprised of employee expenses and grants and other payments to non-government organisations to fund various services including disability support services, out-of-home care for children and child protection programs.

3.89 Income includes grants received from the Commonwealth Government, recoveries of unspent grant funding from non-government organisations and reimbursements from the Chief Minister, Treasury and Economic Development Directorate's 'Restructure Fund' to assist in meeting the cost of voluntary employee redundancies and restructuring costs associated with the transition of service provisions to non-government organisations under the Commonwealth Government's National Disability Insurance Scheme (NDIS).

The 'Restructure Fund' is used to provide funds to ACT Government agencies to meet the costs of restructuring which are expected to provide cost savings or long-term budgetary benefits.

3.90 Expenses ($271.6 million) exceeded the budgeted amount ($238.0 million) by $33.6 million (14.1 percent). The costs incurred in transitioning the provision of therapy and disability services to non-government organisations under the NDIS were higher than anticipated. These costs included:

- voluntary redundancies paid to therapy and disability services staff; and
- grants to non-government organisations to provide disability support and therapy services.

3.91 Income ($25.3 million) exceeded the budgeted amount ($5.3 million) by $20.0 million (377.4 percent) due to higher than anticipated:

- grants from the Commonwealth Government and recovery of costs from the Health Directorate associated with NDIS disability initiatives;
- recoveries of unspent grant funding from non-government organisations that provide disability and therapy services under the NDIS; and
- reimbursements from the Chief Minister, Treasury and Economic Development Directorate's 'Restructure Fund'.

3.92 The Directorate did not achieve its budgeted net cost of services. Its net cost of services ($246.3 million) exceeded the budgeted cost ($232.7 million) by $13.6 million (5.8 percent) as the cost of transitioning the provision of therapy and disability services to non-government organisations under the Commonwealth Government's National Disability Insurance Scheme (NDIS) were higher than anticipated. These costs were only partially offset by income associated with this transition.

3.93 Government contributions ($252.0 million) exceeded the budgeted amount ($230.4 million) by $21.6 million (9.4 percent) as the Directorate received a Treasurer's Advance mainly to meet the higher than expected costs in transitioning the provision of therapy and disability services to non-government organisations.

Audit findings

Table 3-19 Status of audit findings (number of findings)

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

3.94 The Directorate resolved all three previously reported audit findings by ensuring that:

- payments were authorised by an officer acting within the amount of their financial delegation. This reduces the risk of payment errors and fraud;
- its statement of performance was submitted to the Audit Office in accordance with the Chief Minister, Treasury and Economic Development Directorate's whole-of-government reporting timetable; and
- the statement of performance submitted to the Audit Office for review contained few errors.

3.95 One new audit finding was identified in 2015-16. Several explanations of major variances between current year amounts and budgeted amounts and current year amounts and prior year amounts, included in the draft financial statements submitted for audit, were not informative. For example, terms and expressions (jargon) were used that would only likely be understood by its authors or possibly staff in the Directorate. While these explanations were improved during the audit, there is a higher risk that the readers of the financial statements will not understand the Directorate's financial results where explanatory information is not informative.

3.96 The Directorate agreed-in-principle with the audit finding and advised that:

> As part of the process for the development of the Directorate's financial statements the staff involved review and discuss the key variance explanations to ensure that they outline the significant reasons for the variances in a simple and transparent way.
>
> The Directorate also seeks to comply with Australian Accounting Standards which require that 'an essential quality of the information provided in financial statements is that it is readily understandable by users where 'users' are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence'.
>
> The Directorate seeks to tailor financial information to a broader audience of stakeholders and are therefore open to taking advice on simplifying and reducing jargon to improve the standard of this communication each year.

Education Directorate

3.97 The Education Directorate (the Directorate) provides public school and early childhood education services, regulates education and care services, and registers non-government schools and home educators.

3.98 Under changed administrative arrangements which took effect on 22 January 2016, the Directorate's vocational education and training functions were transferred to the Chief Minister, Treasury and Economic Development Directorate.

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2015-16 financial statements and an unqualified report of factual findings on its 2015-16 statement of performance.
- The Directorate achieved its budgeted net cost of services. The net cost of its services ($686.8 million) was $39.2 million (5.4 percent) below the budgeted cost ($726.0 million). This was largely due to lower than expected:
  - grant payments as the responsibility for payment of grants to registered training organisations for vocational education services was transferred to the Chief Minister, Treasury and Economic Development Directorate under changed administrative arrangements in January 2016; and
  - supplies and services expenses as expenditure on repairs and maintenance occurred earlier than expected; in 2014-15 rather than in 2015-16.
- The Directorate did not draw down $11.3 million (19.0 percent) of the budgeted capital injections due mainly to lower than budgeted construction costs associated with the Charles Weston School in Coombs.
- Grants provided to non-government schools ($259.3 million) exceeded the budgeted amount ($246.6 million) by $12.7 million (5.2 percent). This was largely due to the Goods and Services Tax being incorrectly excluded from the budgeted amount for Commonwealth Government grants. If the budget amount had included this Goods and Services Tax, then the grants expense would have aligned with the budget estimate.
- One of the three previously reported audit findings was resolved and two were unresolved.
- The Directorate resolved a previously reported audit finding and reduced the risk of errors in the financial statements by improving its processes for correctly classifying transactions as expenses or assets.

- Two previously reported audit findings were not resolved as:
  - salary reports distributed to schools and business units did not always have evidence of review. This control weakness increases the risk of erroneous or fraudulent salary payments not being promptly detected and corrected; and
  - the Directorate's school administration system (Maze) does not have a capability to generate audit logs on access to the system or its data. The Directorate also does not have a documented policy for the review of audit logs.

    Audit logs are system-generated records of security events. They can include details of the identities of users, dates, times and locations of access, or attempts to access the system to make changes to applications and data stored in databases.

    There is an increased risk that erroneous or fraudulent changes will not be promptly detected and rectified when audit logs are unable to be generated and reviewed.
- Two new audit findings were identified in 2015-16:
  - A review of the Directorate's 'Fraud and Corruption, Prevention and Response Plan 2013-15' (the Plan) was due to be completed by July 2015. This did not occur, however, the Directorate commenced a review of the Plan in 2015-16. As the Plan has not been reviewed and updated in a timely manner, the Directorate has less assurance that fraud and corruption is reduced.
  - The method used by the Directorate to measure a result for accountability indicator 'Investigations and complaints commenced within stated policy timeframes' (Output Class 1 'Public School Education') was incorrect as the timeliness of action was not being measured. This presents a risk of incorrect or fraudulent reporting. The Directorate has deleted this accountability indicator for 2016-17.

Financial results

Table 3-20 Key results - Directorate

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Expenses	(698.8)	(729.2)	(766.2)
Income	41.7	42.4	40.2
Net cost of services	**(657.1)**	**(686.8)**	**(726.0)**
Government contributions	591.0	626.6	656.2
Operating deficit	**(66.1)**	**(60.2)**	**(69.8)**
Capital injections	**90.3**	**48.3**	**59.6**

3.99 Expenses mainly consist of employee expenses, school operating costs, supplies and services expenses, depreciation costs and grant payments.

3.100 Income consists mainly of international student tuition fees, voluntary contributions by parents to schools and hire of school facilities. The Directorate also receives funding from the Commonwealth Government for various school programs.

3.101 The Directorate achieved its budgeted net cost of services. The net cost of its services ($686.8 million) was $39.2 million (5.4 percent) below the budgeted cost ($726.0 million). This was largely due to lower than expected:

- grant payments as the responsibility for payment of grants to registered training organisations for vocational education services was transferred to the Chief Minister, Treasury and Economic Development Directorate under changed administrative arrangements in January 2016; and
- supplies and services expenses as expenditure on repairs and maintenance occurred earlier than expected; in 2014-15 rather than in 2015-16.

3.102 The Directorate did not draw down $11.3 million (19.0 percent) of the budgeted capital injections due mainly to lower than budgeted construction costs associated with the Charles Weston School in Coombs.

Table 3-21 Key results - Territorial expenses

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Grants to non-government schools	(249.4)	(259.3)	(246.6)
Other grants	(0.7)	(0.7)	(0.7)
Territorial expenses	**(250.1)**	**(260.0)**	**(247.3)**

Source: The breakdown of budget information was provided by the Education Directorate.

3.103 Territorial expenses largely consist of grants paid to non-government schools. The Directorate receives funding from the ACT Government and Commonwealth Government to provide these grants. These grants are based on the number of student enrolments and fund specific projects.

3.104 Grants provided to non-government schools ($259.3 million) exceeded the budgeted amount ($246.6 million) by $12.7 million (5.2 percent). This was largely due to the Goods and Services Tax being incorrectly excluded from the budgeted amount for Commonwealth Government grants. If the budget had included this Goods and Services Tax, then the grants expense would have aligned with the budget estimate.

3.105 The Directorate has advised that:

> The different treatment of Goods and Services Tax on grants in the financial statements was a result of advice sought by the Directorate from an external taxation specialist.

Audit findings

Table 3-22 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
3	1	-	2	2	4

3.106 One of the three previously reported audit findings was resolved and two were unresolved.

3.107 The Directorate resolved a previously reported audit finding and reduced the risk of errors in the financial statements by improving its processes for correctly classifying transactions as expenses or assets.

3.108 Two previously reported audit findings were not resolved as:

- salary reports distributed to schools and business units did not always have evidence of review. This control weakness increases the risk of erroneous or fraudulent salary payments not being promptly detected and corrected; and

- the Directorate's school administration system (Maze) does not have a capability to generate audit logs on access to the system or its data. The Directorate also does not have a documented policy for the review of audit logs.

  Audit logs are system-generated records of security events. They can include details of the identities of users, dates, times and locations of access, or attempts to access the system to make changes to applications and data stored in databases.

  There is an increased risk that erroneous or fraudulent changes will not be promptly detected and rectified when audit logs are unable to be generated and reviewed.

3.109 The Directorate has advised that:

> ….it will address this control weakness as part of the replacement of the student administration system. Replacement of this system is expected to commence in 2016-17.

3.110 Two new audit findings were identified in 2015-16.

- A review of the Directorate's 'Fraud and Corruption, Prevention and Response Plan 2013-15' (the Plan) was due to be completed by July 2015. This did not occur, however, the Directorate commenced a review of the Plan in 2015-16. As the Plan has not been reviewed and updated in a timely manner, the Directorate has less assurance that fraud and corruption is reduced; and
- The method used by the Directorate to measure a result for accountability indicator 'Investigations and complaints commenced within stated policy timeframes' (Output Class 1 'Public School Education') was incorrect as the timeliness of action was not being measured. This presents a risk of incorrect or fraudulent reporting. The Directorate has deleted this accountability indicator for 2016-17.

3.111 The Directorate has agreed to address all audit findings.

Environment and Planning Directorate

3.112 The Environment and Planning Directorate (the Directorate) is responsible for developing and implementing policies and programs that address environment protection and sustainability, nature conservation, heritage, water and energy security, sustainable urban design, sustainable transport and spatial planning.

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2015-16 financial statements and an unqualified report of factual findings on its 2015-16 statement of performance.
- The Directorate achieved its budgeted net cost of services. The net cost of its services ($52.2 million) was slightly below the budgeted cost ($54.7 million).
- Government contributions ($49.8 million) were below the budgeted amount ($53.1 million) by $3.3 million (6.2 percent) as the Directorate did not draw down planned contributions due mainly to delays in climate change, environment and planning projects.
- The Directorate did not draw down $3.7 million (32.2 percent) of the budgeted capital injections due mainly to:
  - delays in a planned upgrade of a development application computer information system to allow more time for a better solution to be found; and
  - fewer than anticipated loan applications being received from ACT Government agencies to meet the cost of energy efficiency projects.
- One previously reported audit finding did not recur. In 2014-15, the statement of performance submitted to the Audit Office did not include targets and results of the accountability indicators for functions that were transferred to the Chief Minister, Treasury and Economic Development Directorate. These targets and results should have been included in the statement of performance for the period the Directorate was accountable for these functions.
- One new audit finding was identified in 2015-16. The Directorate's accounting policy for revenue received in advance (a liability) does not comply with Australian Accounting Standard AASB 1004: 'Contributions'. As a result, grant revenue of $3.1 million was incorrectly recorded as revenue received in advance rather than revenue. The audit report on the 2015-16 financial statements was not qualified as this error was not material to the financial statements.

Financial results

Table 3-23 Key results - Directorate

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Expenses	(78.5)	(66.2)	(62.3)
Income	10.1	14.0	7.6
Net cost of services	**(68.4)**	**(52.2)**	**(54.7)**
Government contributions	63.2	49.8	53.1
Assets transferred to other agencies	(34.5)	-	-
Operating deficit	**(39.7)**	**(2.4)**	**(1.6)**
Capital injections – Note 1	**6.7**	**7.8**	**11.5**

Note 1: Budgeted capital injections of $11.5 million consist of $5.5 million provided in the 2015-16 budget and additional appropriation of $6.0 million provided in 2015-16.

3.113 Expenses mainly consist of employee costs, costs of consultants and contractors used on feasibility studies and planning projects, information technology and office equipment costs and office accommodation costs. In addition, grants are paid to:

- community groups to fund environmental projects; and
- lower income households to improve their energy and water efficiency.

3.114 Expenses ($66.2 million) exceeded the budgeted cost ($62.3 million) by $3.9 million (6.3 percent) due mainly to engaging a higher than anticipated number of:

- staff to complete Commonwealth-funded environment and climate change projects; and
- consultants and contractors for transport and climate change studies.

3.115 Income largely consists of:

- funding received for energy efficiency programs in households and small to medium enterprises; and
- fees charged for conveyancing of land and public notification of development applications.

3.116 Income also includes revenue from receiving large scale energy generation certificates from large scale renewable energy generators. 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 surrender them to the Directorate at no cost. The value of these certificates is recorded as income.

3.117 Income ($14.0 million) exceeded the budgeted amount ($7.6 million) by $6.4 million (84.2 percent) as income from receiving large scale energy generation certificates was higher than anticipated.

3.118 The Directorate achieved its budgeted net cost of services. The net cost of its services ($52.2 million) was slightly below the budgeted cost ($54.7 million).

3.119 Government contributions ($49.8 million) were below the budgeted amount ($53.1 million) by $3.3 million (6.2 percent) as the Directorate did not draw down planned contributions due mainly to delays in climate change, environment and planning projects.

3.120 In 2014-15, assets transferred to other agencies ($34.5 million) related to the transfer of Inner North Reticulation Network and Valley Ponds in Gungahlin to the Territory and Municipal Services Directorate. There were no asset transfers in 2015-16.

3.121 The Directorate did not draw down $3.7 million (32.2 percent) of the budgeted capital injections due mainly to:

- delays in a planned upgrade of a development application computer information system to allow more time for a better solution to be found; and
- fewer than anticipated loan applications being received from ACT Government agencies to meet the cost of energy efficiency projects.

Table 3-24 Key results – Territorial income

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Fees and fines	42.7	17.5	21.4
Land rent	4.4	4.9	4.0
Fees and fines and land rent revenue	**47.1**	**22.4**	**25.4**

3.122 The Directorate collects fees and fines revenue on behalf of the Territory. This mostly consists of fees charged for development applications and lease variations. Land rent is received from leasing Territorial land.

3.123 Fees and fines revenue ($17.5 million) was $3.9 million (18.2 percent) below the budgeted amount ($21.4 million) as fewer than anticipated applications for lease variations were received.

Audit findings

Table 3-25 Status of audit findings (number of findings)

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

3.124 One previously reported audit finding did not recur. In 2014-15, the statement of performance submitted to the Audit Office did not include targets and results of the accountability indicators for functions that were transferred to the Chief Minister, Treasury and Economic Development Directorate. These targets and results should have been included in the statement of performance for the period the Directorate was accountable for these functions.

3.125 One new audit finding was identified in 2015-16. The Directorate's accounting policy for revenue received in advance (a liability) does not comply with Australian Accounting Standard AASB 1004: 'Contributions'. As a result, grant revenue of $3.1 million was incorrectly recorded as revenue received in advance rather than revenue. The audit report on the 2015-16 financial statements was not qualified as this error was not material to the financial statements.

3.126 The Directorate has 'noted' this audit finding and advised that:

> The Directorate will seek further accounting advice before the financial statements are prepared for 2016-17.

3.127 The Audit Office will review the accounting advice obtained by the Directorate during the audit of the 2016-17 financial statements of the Directorate.

Health Directorate

3.128 The Health Directorate (the Directorate) provides community based health services such as public hospital and extended care services, managing public health risks and promotes health and early care interventions.

3.129 Public hospital services provided by the Directorate are mostly funded by amounts received from the ACT Local Hospital Network Directorate. Details of these funding arrangements are explained on page 29 (ACT Local Hospital Network Directorate).

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2015-16 financial statements and an unqualified report of factual findings on its 2015-16 statement of performance.
- The Directorate did not achieve its budgeted net cost of services. Its net cost of services ($334.7 million) exceeded the budgeted cost ($311.1 million) by $23.6 million (7.6 percent) due mainly to higher than expected employee and pharmaceutical costs from a higher than expected growth in the demand for public hospital services. These higher costs were partly offset by additional revenue from the Commonwealth.
- The Directorate did not draw down $27.8 million (16.7 percent) of the budgeted capital injections due mainly to delays in completing planned capital projects. In particular:
  - the construction of a secure mental health unit was delayed due to adverse weather conditions; and
  - computer software developments were delayed due to protracted contract negotiations.
- The Directorate resolved three of the four previously reported audit findings by:
  - arranging an external review of its internal audit function. Implementation of the recommendations from this review should help ensure that this function operates effectively;
  - testing the effectiveness of its business continuity plan for the residence billing system (Room Master). This reduces the risk of the Directorate being unable to promptly resume operations in the event of a major disruption or disaster; and
  - promptly preparing and reviewing monthly bank reconciliations for the Canberra Hospital and Health Services. This reduces the risk of undetected erroneous or fraudulent use of these bank accounts.

- The Directorate did not resolve one previously reported audit finding. Credit card acquittals were not consistently performed in a timely manner to reduce the risk that any erroneous or fraudulent use of credit cards will not be promptly detected.

- Four new audit findings were identified in 2015-16:

  - The Directorate did not have evidence that goods or services were satisfactorily received prior to payment for five (10.0 percent) of 50 payments reviewed by the Audit Office. While the Directorate has advised that these goods or services were satisfactorily received prior to payment, and the related payments were properly related to the operations of the Directorate, this control weakness increases the risk of payment errors and fraud.

  - There were three instances (6.0 percent) from 50 payments reviewed by the Audit Office where the officer authorising the payments did not have the required financial delegation. While the Directorate has advised that these payments were properly related to the operations of the Directorate, this control weakness increases the risk of payment errors and fraud.

  - The draft financial statements submitted for audit did not have explanations for all major variances between current year and budgeted amounts. These explanations were included in the financial statements before the audit was completed.

  - Many explanations of major variances between current year amounts and budgeted amounts, and current year amounts and prior year amounts, included in the draft financial statements submitted for audit, needed improvement. For example, several explanations of variances were poor and terms and expressions (jargon) were used that would only likely be understood by its authors or possibly staff in the Directorate. While these variance explanations were improved during the audit, there is a higher risk that the readers of the financial statements will not understand the Directorate's financial results where explanatory information is not clear and in plain English.

Financial results

Table 3-26 Key results

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Expenses	(1 195.3)	(1 295.0)	(1 253.8)
Income	898.1	960.3	942.7
Net cost of services	**(297.2)**	**(334.7)**	**(311.1)**
Government contributions	252.6	272.4	264.9
Operating deficit	**(44.6)**	**(62.3)**	**(46.2)**
Other comprehensive income			
Decrease in the asset revaluation surplus	(0.1)	1.6	-
Total comprehensive deficit	**(44.7)**	**(60.7)**	**(46.2)**
Capital injections	**74.0**	**138.3**	**166.1**

3.130 The Directorate's income largely consists of:

- amounts received from the ACT Local Hospital Network Directorate for providing public hospital services in the ACT; and
- fees and charges for providing other health services and selling medical supplies and pharmaceuticals.

3.131 Income ($960.3 million) exceeded the budgeted amount ($942.7 million) by $17.6 million (1.9 percent) as the Directorate received higher than anticipated revenue from the Commonwealth due to the inclusion of additional high cost drugs to the Pharmaceutical Benefit Scheme from 1 March 2016.

3.132 Expenses mainly consist of employee expenses, visiting medical officer expenses, pharmaceutical costs and payments to non-government health service providers.

3.133 Expenses ($1 295.0 million) exceeded the budgeted cost ($1 253.8 million) by $41.2 million (3.3 percent) as the higher than expected demand for public hospital services resulted in higher than expected employee expenses and pharmaceutical costs.

3.134 The Directorate did not achieve its budgeted net cost of services. Its net cost of services ($334.7 million) exceeded the budgeted cost ($311.1 million) by $23.6 million (7.6 percent) due mainly to higher than expected employee and pharmaceutical costs from a higher than

expected growth in the demand for public hospital services. These higher costs were partly offset by additional revenue from the Commonwealth.

3.135 The Directorate did not draw down $27.8 million (16.7 percent) of budgeted capital injections due mainly to delays in completing planned capital projects. In particular:

- the construction of a secure mental health unit was delayed due to adverse weather conditions; and
- computer software developments were delayed due to protracted contract negotiations.

Table 3-27 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
4	3	-	1	4	5

3.136 The Directorate resolved three of the four previously reported audit findings by:

- arranging an external review of its internal audit function. Implementation of the recommendations from this review should help ensure that this function operates effectively;
- testing the effectiveness of its business continuity plan for the residence billing system (Room Master). This reduces the risk of the Directorate being unable to promptly resume operations in the event of a major disruption or disaster; and
- promptly preparing and reviewing monthly bank reconciliations for the Canberra Hospital and Health Services. This reduces the risk of undetected erroneous or fraudulent use of these bank accounts.

3.137 The Directorate did not resolve one previously reported audit finding. Credit card acquittals were not consistently performed in a timely manner to reduce the risk that any erroneous or fraudulent use of credit cards will not be promptly detected.

3.138 Four new audit findings were identified in 2015-16:

- The Directorate did not have evidence that goods or services were satisfactorily received prior to payment for five (10.0 percent) of 50 payments reviewed by the Audit Office. While the Directorate has advised that these goods or services were satisfactorily received prior to payment, and the related payments were properly related to the operations of the Directorate, this control weakness increases the risk of payment errors and fraud.

- There were three instances (6.0 percent) from 50 payments reviewed by the Audit Office where the officer authorising the payments did not have the required financial delegation. While the Directorate has advised that these payments were properly related to the operations of the Directorate, this control weakness increases the risk of payment errors and fraud.
- The draft financial statements submitted for audit did not have explanations for all major variances between current year and budgeted amounts. These explanations were included in the financial statements before the audit was completed.
- Many explanations of major variances between current year amounts and budgeted amounts and current year amounts and prior year amounts, included in the draft financial statements submitted for audit, needed improvement. For example, several explanations of variances were poor and terms and expressions (jargon) were used that would only likely be understood by its authors or possibly staff in the Directorate. While these variance explanations were improved during the audit, there is a higher risk that the readers of the financial statements will not understand the Directorate's financial results where explanatory information is not clear and in plain English.

3.139 The Directorate has agreed to address all audit findings.

Housing ACT

3.140 Housing ACT aims to provide secure and affordable housing that addresses the needs of socially and financially disadvantaged families. It also manages arrangements with organisations that provide services to people who have become or are at risk of becoming homeless.

Key Issues

- The Audit Office issued an unqualified audit report on Housing ACT's 2015-16 financial statements and an unqualified report of factual findings on its 2015-16 statement of performance.
- Housing ACT achieved its budgeted net cost of services. The net cost of its services ($65.1 million) was slightly below the budgeted cost ($67.5 million).
- The value of Housing ACT's property portfolio at 30 June 2016 ($4 680 million) exceeded the value at 30 June 2015 ($4 495 million) by $185 million (4.1 percent) due largely to an upwards revaluation of land in 2015-16.
- Housing ACT resolved three of the five previously reported audit findings by:
  - promptly preparing and reviewing revenue reconciliations between the accounting system (Oracle) and the system used to record rental revenue from public housing tenants (Homenet). This reduces the risk that errors and fraud will not be promptly detected and addressed;
  - regularly testing the effectiveness of backup and restoration procedures for Homenet and retaining evidence of test results. This reduces the risk that Homenet will not be recovered in the event of a disaster, disruption or other adverse event; and
  - submitting its statement of performance to the Audit Office for review in accordance with the Chief Minister, Treasury and Economic Development Directorate's whole-of-government reporting timetable.
- One previously reported audit finding was partially resolved. While Housing ACT documented the results of its assessment of the impairment of properties, it did not address the potential impairment of public housing properties identified for demolition and sale in the next four years. This increases the risk that Housing ACT will not record impairment losses relating to these properties in accordance with Australian Accounting Standard AASB 136: 'Impairment of Assets'.

- In 2015-16, Housing ACT improved its management discussion and analysis of the financial statements by including explanations for variances between current year and prior year results for revenue and expenses. However, this explanatory information was poorly presented and incomplete. In particular, explanations for variances between current and prior year results:
  - were not presented separately from explanations of variances between current year and budgeted results; and
  - for assets and liabilities were not provided.

  This increases the risk that the readers of the financial statements will not understand the financial results of Housing ACT.

Financial results

Table 3-28 Key results

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Expenses	(164.2)	(162.1)	(160.3)
Income	101.9	94.9	92.3
Gain from the sale of properties	2.4	2.1	0.5
Net cost of services	**(59.9)**	**(65.1)**	**(67.5)**
Government contributions	43.4	43.5	43.5
Other gains	6.9	2.4	0.3
Losses from transferring assets to other entities	(3.6)	(2.8)	-
Operating deficit	**(13.2)**	**(22.0)**	**(23.7)**

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

3.142 Income consists mainly of rent received from public housing tenants.

3.143 Housing ACT achieved its budgeted net cost of services. The net cost of its services ($65.1 million) was slightly below the budgeted cost ($67.5 million).

3.144 The net cost of Housing ACT's services ($65.1 million) exceeded the prior year's cost ($59.9 million) by $5.2 million (8.7 percent) as a recovery of Good and Services input tax credits from the Australian Taxation Office in 2014-15 did not occur in 2015-16.

Property portfolio

Table 3-29 Number and value of land and dwellings

At 30 June	Actual 2014	Actual 2015	Actual 2016
Number of land parcels – Note 1	6 811	6 777	6 771
Land value ($m)	**$3 147**	**$3 182**	**$3 342**
Number of dwellings – Note 1	11 773	11 585	11 658
Dwellings value ($m)	**$1 270**	**$1 312**	**$1 338**
Total value of land and dwellings ($m)	**$4 417**	**$4 495**	**$4 680**

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

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

3.145 The value of Housing ACT's property portfolio at 30 June 2016 ($4 680 million) exceeded the value at 30 June 2015 ($4 495 million) by $185 million (4.1 percent) due largely to an upwards revaluation of land in 2015-16.

Audit findings

Table 3-30 Status of audit findings (number of findings)

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

3.146 Housing ACT resolved three of the five previously reported audit findings by:

- promptly preparing and reviewing revenue reconciliations between the accounting system (Oracle) and the system used to record rental revenue from public housing tenants (Homenet). This reduces the risk that errors and fraud will not be promptly detected and addressed;
- regularly testing the effectiveness of backup and restoration procedures for Homenet and retaining evidence of test results. This reduces the risk that Homenet will not be recovered in the event of a disaster, disruption or other adverse event; and

- submitting its statement of performance to the Audit Office for review in accordance with the Chief Minister, Treasury and Economic Development Directorate's whole-of-government reporting timetable.

3.147 One previously reported audit finding was partially resolved. While Housing ACT documented the results of its assessment of the impairment of properties, it did not address the potential impairment of public housing properties identified for demolition and sale in the next four years. This increases the risk that Housing ACT will not record impairment losses relating to these properties in accordance with Australian Accounting Standard AASB 136: 'Impairment of Assets'.

3.148 Housing ACT agreed to address this audit finding.

3.149 Housing ACT did not resolve one previously reported audit finding. In 2014-15, the Audit Office reported that the management discussion and analysis of Housing ACT's financial statements did not include explanations of variances between the current and prior year results as required by the 'Management Discussion and Analysis Better Practice Guideline' issued by the former Treasury Directorate's Accounting Branch.

3.150 In 2015-16, Housing ACT improved its management discussion and analysis of the financial statements by including explanations for variances between current year and prior year results for revenue and expenses. However, this explanatory information was poorly presented and incomplete. In particular, explanations for variances between current and prior year results:

- were not presented separately from explanations of variances between current year and budgeted results; and
- for assets and liabilities were not provided.

This increases the risk that the readers of the financial statements will not understand the financial results of Housing ACT.

3.151 Housing ACT partially agreed with this audit finding and advised that:

> Reporting in the management discussion and analysis will be further improved for the year ended 30 June 2017. However, the report will also consider a more strategic focus on the public housing operations, rather than contain a detailed analysis of variances, as there is considerable variance analysis in the financial statements.

3.152 Housing ACT plans to improve its management discussion and analysis and correctly notes that its financial statements include explanations for variances. If the management discussion and analysis were presented in accordance with the 'Management Discussion and Analysis Better Practice Guideline', then the analysis would have included variance explanations for key financial results, including Housing ACT's net cost of services, total revenue, total expenses, total assets and total liabilities. This information was not provided in the financial statements.

Icon Water Limited

3.153 The main activities of Icon Water Limited (Icon Water) are to provide water, sewerage and related services and manage its 50 percent interest in the ActewAGL Joint Venture (ActewAGL) energy business. ActewAGL is discussed on pages 32 to 37.

3.154 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.

Key Issues

- The Audit Office issued an unqualified audit report on the 2015-16 financial statements of Icon Water Limited, Icon Distribution Investments Limited and Icon Retail Investments Limited.
- Icon Water's share of profit from ActewAGL in 2015-16 ($100.2 million) was consistent with 2014-15 ($101.1 million).
- Icon Water's operating profit ($122.4 million) significantly exceeded the previous year's profit ($97.7 million) by $24.7 million (25.3 percent) due mainly to an increase in:
  - water and sewerage revenue from higher customer numbers and consumption; and
  - water and sewerage assets constructed by developers and contributed to Icon Water.
- Dividends paid or payable to the ACT Government decreased significantly by $13.9 million (14.8 percent) from $93.9 million in 2014-15 to $80.0 million in 2015-16.
- Icon Water's short-term financial position at 30 June 2016 (net short-term liabilities of $12.9 million) is much stronger than the position which existed at 30 June 2015 (net short-term liabilities of $70.1 million). This stronger position was mainly due to the refinancing of borrowings which resulted in borrowings being reclassified from a current liability to a non-current liability.
- Icon Water continued to have sufficient assets to cover its liabilities at 30 June 2016. Its net assets position increased by $51.2 million (4.2 percent) from $1 225.3 million at 30 June 2015 to $1 276.5 million at 30 June 2016.
- Icon Water resolved the one previously reported audit finding by implementing processes which ensure that all water and sewerage assets contributed from private developers are recorded.
- No new audit findings were identified in 2015-16.

Financial results

Table 3-31 Key results

	Actual 2014-15 $m	Actual 2015-16 $m
Revenue excluding share of profit from ActewAGL	320.7	350.1
Share of profit from ActewAGL	101.1	100.2
Revenue	**421.8**	**450.3**
Expenses	(281.5)	(277.3)
Operating profit before income tax expense	**140.3**	**173.0**
Income tax expense	(42.6)	(50.6)
Operating profit	**97.7**	**122.4**
Dividends paid or payable to the ACT Government	**93.9**	**80.0**

Note: The financial results shown above are the consolidated results of Icon Water group. This consists of Icon Water Limited, Icon Distribution Investments Limited and Icon Retail Investments Limited.

3.155 Revenue mostly consists of charges for water supply, sewerage services and share of profit from ActewAGL.

3.156 Revenue excluding share of profit from ActewAGL ($350.1 million) exceeded the previous year's amount ($320.7 million) by $29.4 million (9.2 percent). This was due mainly to an increase in:

- water and sewerage revenue from higher customer numbers and consumption; and
- water and sewerage assets constructed by developers and contributed to Icon Water.

3.157 Icon Water's share of profit from ActewAGL in 2015-16 ($100.2 million) was consistent with 2014-15 ($101.1 million).

3.158 Expenses largely consist of operating costs for the business, interest costs incurred on borrowings, depreciation and amortisation expenses and employee expenses.

3.159 Total expenses ($277.3 million) were slightly lower than the prior year's amount ($281.5 million) by $4.2 million (1.5 percent).

3.160 Income tax expense ($50.6 million) exceeded the prior year's expense ($42.6 million) by $8.0 million (18.8 percent) due to higher taxable profits.

3.161 Icon Water's operating profit ($122.4 million) significantly exceeded the previous year's profit ($97.7 million) by $24.7 million (25.3 percent) due mainly to an increase in:

- water and sewerage revenue from higher customer numbers and consumption; and
- water and sewerage assets constructed by developers and contributed to Icon Water.

3.162 Dividends paid or payable to the ACT Government decreased significantly by $13.9 million (14.8 percent) from $93.9 million in 2014-15 to $80.0 million in 2015-16.

Net short-term liabilities

Table 3-32 Net short-term liabilities

At 30 June	Actual 2015 $m	Actual 2016 $m
Short-term assets	133.2	122.2
Short-term liabilities including dividend payable to the ACT Government	(203.3)	(135.1)
Net short-term liabilities	**(70.1)**	**(12.9)**
Ratio of short-term assets to short-term liabilities including dividend payable to the ACT Government	**0.7 to 1**	**0.9 to 1**

3.163 Icon Water's short-term financial position at 30 June 2016 (net short-term liabilities of $12.9 million) is much stronger than the position which existed at 30 June 2015 (net short-term liabilities of $70.1 million). This stronger position was mainly due to the refinancing of borrowings which resulted in borrowings being reclassified from a current liability to a non-current liability.

Net assets

Table 3-33 Net assets

At 30 June	Actual 2015 $m	Actual 2016 $m
Assets	3 215.2	3 308.8
Liabilities	(1 989.9)	(2 032.3)
Net assets	**1 225.3**	**1 276.5**
Ratio of assets to liabilities	**1.6 to 1**	**1.6 to 1**

3.164 Icon Water continued to have sufficient assets to cover its liabilities at 30 June 2016. Its net assets position increased by $51.2 million (4.2 percent) from $1 225.3 million at 30 June 2015 to $1 276.5 million at 30 June 2016.

Audit findings

Table 3-34 Status of audit findings (number of findings)

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

3.165 Icon Water resolved the one previously reported audit finding by implementing processes which ensure that all water and sewerage assets contributed from private developers are recorded.

3.166 In 2014-15, Icon Water identified that it has not been recording water and sewerage assets constructed by private developers. Private developers perform site works, including placing water and sewerage pipes at new developments. Once these are completed, the assets are contributed to Icon Water and form part of the water and sewerage network maintained by Icon Water. These errors were corrected in the 2014-15 financial statements of Icon Water.

3.167 No new audit findings were identified in 2015-16.

Justice and Community Safety Directorate

3.168 The Justice and Community Safety Directorate (the Directorate) provides courts, corrections, justice, legal, emergency and policing services. It contains the Legislation, Policy and Programs; ACT Law Courts and Tribunal; ACT Government Solicitor's Office; ACT Parliamentary Counsel's Office; ACT Corrective Services; Security and Emergency Management Branch and Emergency Services Agency. The Directorate's operations include services provided by the Director of Public Prosecutions and ACT Human Rights Commission.

3.169 Policing services provided by the Australian Federal Police are paid for from the Directorate's territorial operations.

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2015-16 financial statements and an unqualified report of factual findings on its 2015-16 statement of performance.
- The Directorate achieved its budgeted net cost of services excluding the gain from assets received as its net cost of services excluding the gain from assets received ($276.8 million) was slightly below the budgeted cost ($280.9 million).
- Capital injections received by the Directorate ($49.4 million) were significantly less than planned ($83.9 million). The Directorate did not draw down $34.5 million (41.1 percent) of the planned capital injections due to:
  - delays in several capital projects, including the upgrade and relocation of emergency services stations, and information and communication technology projects (e.g. a radio transmission network) for the Emergency Services Agency; and replacement of the case management system for the ACT Law Courts and Tribunal; and
  - less than budgeted cost of constructing new facilities at the Alexander Maconochie Centre and ACT Law Courts (temporary accommodation for judicial staff and court room).
- Payments to the Australian Federal Police for policing services ($154.2 million) aligned with the budgeted payments ($154.2 million).
- Note 36: 'Commitments' to the 2015-16 financial statements discloses $706.5 million (excluding GST) in commitments relating to the Directorate's public-private partnership with a private sector consortium (Juris Partnership) to design, construct, operate, maintain and finance new ACT Law Courts. The Directorate has advised the ACT Law Courts project will be accounted for as a finance lease under Australian Accounting Standard AASB 117: 'Leases'. This will involve recording of the constructed assets and corresponding finance lease liabilities from the commencement date of each stage of the project (Stage 1 - November 2017, Stage 2 – August 2018).

- The Directorate resolved two of the four previously reported audit findings with the remaining two being partially resolved.
- The Directorate resolved two audit findings by ensuring that:
  - the financial delegations register on the Directorate's intranet was consistent with the financial delegations approved by the Director-General. This reduces the risk of payment errors and fraud; and
  - long outstanding unreconciled items in its bank accounts were investigated and resolved. This reduces the risk of undetected errors and fraud.
- The Directorate partially resolved two audit findings:
  - The Directorate tested the effectiveness of the business continuity plans for the ACT Law Courts and Tribunal and ACT Corrective Services. However, the Emergency Services Agency's business continuity plan was not tested. This increases the risk that critical systems will not be promptly recovered and key operations resumed without the loss of data, in the event of a disaster or other major disruption.
  - While the Directorate approved an information technology strategic plan for 2016-17 ('Justice and Community Safety ICT Strategic Plan 2016-17'), this did not include actions to achieve the plan's stated objectives. This increases the risk that information technology systems may not meet emerging priorities and needs of the Directorate.
- Two new audit findings were identified in 2015-16:
  - Salary reports were not always reviewed in a timely manner. This increases the risk of erroneous or fraudulent payments to employees not being promptly detected and addressed.
  - The Directorate will need to ensure that transactions relating to the public-private partnership for the new ACT Law Courts continue to be accounted for, and disclosed, in accordance with relevant accounting standards in its financial statements.

Financial results

Table 3-35 Key results - Directorate

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Expenses	(307.5)	(307.8)	(302.2)
Income excluding assets transfer	33.7	31.0	21.3
Net cost of services excluding gains from assets received	**(273.8)**	**(276.8)**	**(280.9)**
Government contributions	253.6	249.5	257.6
Gain from assets received	1.2	27.6	-
Operating (deficit)/surplus	**(19.0)**	**0.3**	**(23.3)**
Capital injections	**52.7**	**49.4**	**83.9**

3.170 Expenses mostly consist of the cost of providing justice services, corrective services, courts and tribunal and emergency services.

3.171 Income is mainly comprised of fees for services provided by the ACT Government Solicitor's Office, ACT Law Courts and Tribunal and the Emergency Services Agency such as fees received for providing ambulance transport and fire protection services.

3.172 The Directorate achieved its budgeted net cost of services excluding the gain from assets received as its net cost of services excluding the gain from assets received ($276.8 million) was slightly below the budgeted cost ($280.9 million).

3.173 The gain from assets received ($27.6 million) consisted of the unbudgeted receipt of Magistrates Court land and buildings from the Chief Minister, Treasury and Economic Development Directorate.

3.174 Capital injections received by the Directorate ($49.4 million) were significantly less than planned ($83.9 million). The Directorate did not draw down $34.5 million (41.1 percent) of the planned capital injections due to:

- delays in several capital projects, including the upgrade and relocation of emergency services stations, and information and communication technology projects (e.g. a radio transmission network) for the Emergency Services Agency and; replacement of the case management system for the ACT Law Courts and Tribunal; and
- less than budgeted cost of constructing new facilities at the Alexander Maconochie Centre and ACT Law Courts (temporary accommodation for judicial staff and court room).

Table 3-36 Key results - Territorial expenses

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Payments to the Australian Federal Police	153.5	154.2	154.2
Other expenses	13.0	10.9	9.1
	166.5	**165.1**	**163.3**

Source: The breakdown of budget information was provided by the Justice and Community Safety Directorate.

3.175 Territorial expenses consist mainly of payments to the Australian Federal Police to provide policing services.

3.176 Payments to the Australian Federal Police for policing services ($154.2 million) aligned with the budgeted payments ($154.2 million).

Table 3-37 ACT Law Courts project – Public-Private Partnership commitments

	Finance Lease Commitments $m	Capital Commitments $m	Operating Commitments $m	Total (excluding GST) $m
Within one year	-	-	-	-
Later than one year but not later than five years	49.9	-	20.9	70.8
Later than five years	329.6	118.8	187.3	635.7
Total public-private partnership commitments	**379.5**	**118.8**	**208.2**	**706.5**

3.177 Note 36: 'Commitments' to the 2015-16 financial statements discloses $706.5 million (excluding GST) in commitments relating to the Directorate's public-private partnership with a private sector consortium (Juris Partnership) to design, construct, operate, maintain and finance new ACT Law Courts. The Directorate has advised the ACT Law Courts project will be accounted for as a finance lease under Australian Accounting Standard AASB 117: 'Leases'. This will involve recording of the constructed assets and corresponding finance lease liabilities from the commencement date of each stage of the project (Stage 1 - November 2017, Stage 2 - August 2018).

Audit findings

Table 3-38 Status of findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
4	2	2	-	2	4

3.178 The Directorate resolved two of the four previously reported audit findings with the remaining two being partially resolved.

3.179 The Directorate resolved two audit findings by ensuring that:

- the financial delegations register on the Directorate's intranet was consistent with the financial delegations approved by the Director-General. This reduces the risk of payment errors and fraud; and
- long outstanding unreconciled items in its bank accounts were investigated and resolved. This reduces the risk of undetected errors and fraud.

3.180 The Directorate partially resolved two audit findings:

- The Directorate tested the effectiveness of the business continuity plans for the ACT Law Courts and Tribunal and ACT Corrective Services. However, the Emergency Services Agency's business continuity plan was not tested. This increases the risk that critical systems will not be promptly recovered and key operations resumed, without the loss of data, in the event of a disaster or other major disruption.

  The Directorate agreed with this audit finding and advised that it:

  > …. will ensure that business units test their business continuity plans and evaluate the results of those tests to resolve any identified issues.

- While the Directorate approved an information technology strategic plan for 2016-17 ('Justice and Community Safety ICT Strategic Plan 2016-17'), this did not include actions to achieve the plan's stated objectives. This increases the risk that information technology systems may not meet emerging priorities and needs of the Directorate.

  The Directorate partially agreed with this audit finding and advised that:

  > A new information technology strategic plan will be developed to align to the new Directorate strategic plan which covers the period from 2017 to 2021. The planned actions to meet the objectives will be documented and tracked.

3.181 Two new audit findings were identified in 2015-16:

- Salary reports were not always reviewed in a timely manner. This increases the risk of erroneous or fraudulent payments to employees not being promptly detected and addressed.

  The Directorate has agreed to address this audit finding.

- The Directorate will need to ensure that transactions relating to the public-private partnership for the new ACT Law Courts continue to be accounted for, and disclosed, in its financial statements in accordance with relevant accounting standards.

  The Directorate noted this audit finding and has advised that it:

  > … will continue to ensure that the ACT Law Courts Project is accounted for in accordance with relevant accounting standards. Developments in accounting standards in this area will be closely monitored and complied with. The Directorate will continue open and proactively engage Chief Minister, Treasury and Economic Development Directorate and the Audit Office on any accounting issues and treatments in relation to Public-Private Partnerships (PPP), with expert accounting advice sought where appropriate.

Land Development Agency

3.182 The Land Development Agency develops and sells residential, commercial and industrial land on behalf of the ACT Government. It was established under the *Planning and Development Act 2007*.

Key Issues

- The Audit Office issued an unqualified audit report on the Land Development Agency's 2015-16 financial statements and an unqualified report of factual findings on its 2015-16 statement of performance.
- The Land Development Agency's operating profit ($173.3 million) exceeded the budgeted operating profit ($156.8 million) by $16.5 million (10.5 percent) due mainly to a higher than budgeted gross profit being generated on land sales; partially offset by the cost of an unbudgeted inventory write-down and a higher than budgeted income tax equivalents expense.
- The operating profit ($173.3 million) increased by $95.2 million (121.9 percent) from the previous year's operating profit ($78.1 million) as higher profits were generated from residential land sales.
- The Land Development Agency resolved two of the three previously reported audit findings by:
  - documenting arrangements for the transfer of land between the Territory and Municipal Services Directorate and the Land Development Agency in a formal agreement (memorandum of understanding); and
  - developing a policy for the recording of land recorded as inventory that complies with Australian Accounting Standard AASB 102: 'Inventories'.
- The Land Development Agency partially resolved one previously reported audit finding by updating its Chief Executive Financial Instructions and supporting guidelines to reflect its current financial management policies and procedures. However, the supporting procurement guide was out of date and is being updated based on the internal audit recommendations.
- Two new audit findings were identified during the Audit Office's review of the statement of performance:
  - The Land Development Agency did not have a method of calculating a result for performance indicator 'compliance with work health and safety policy'. This problem was addressed before the completion of the Audit Office's review of the statement of performance.

– The statement of performance includes seven non-financial performance indicators for which the 100 percent target has been consistently achieved since they were first reported. This indicates these indicators may not be contributing to improved performance by the Land Development Agency against its strategic objectives and providing readers with an understanding of the issues the Land Development Agency has encountered in achieving, or not achieving, its targets.

Financial results

Table 3-39 Key results

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Land sales revenue	353.5	593.7	557.8
Cost of land sales	(187.2)	(308.3)	(297.1)
Gross profit on land sales	**166.3**	**285.4**	**260.7**
Other income	8.1	17.7	5.2
Other expenses	(39.6)	(38.8)	(41.9)
Inventory write-down	(18.9)	(20.7)	-
Asset transferred to other agencies	(3.6)	(2.4)	-
Share of operating (loss)/profit from land joint ventures	(0.7)	6.4	-
Operating profit before income tax equivalents expense	**111.6**	**247.6**	**224.0**
Income tax equivalents expense	(33.5)	(74.3)	(67.2)
Operating profit	**78.1**	**173.3**	**156.8**

3.183 Gross profit on land sales is the revenue earned from selling land minus the cost of land sales. The cost of land sales consists of the costs of acquiring the land and developing it to a stage where it can be sold.

3.184 Gross profit on land sales ($285.4 million) exceeded the budgeted gross profit ($260.7 million) by $24.7 million (9.5 percent) as land sales revenue ($593.7 million) exceeded the budgeted amount ($557.8 million) by $35.9 million (6.4 percent). This was mainly due to:

- obtaining higher than budgeted sales prices for residential blocks in Moncrieff and a large multi-use (residential and commercial use) block in Belconnen; and

- additional revenue from a variation to a sale agreement for a commercial block in Canberra city.

These were partially offset by lower than budgeted sales of ACT Government assets (mainly public housing and office buildings) as the anticipated transfer of assets from other ACT Government agencies to the Land Development Agency for sale in 2015-16 did not occur.

3.185 The Land Development Agency incurred an unbudgeted cost of $20.7 million in 2015-16 ($18.9 million in 2014-15) from writing down the value of land inventories received free of charge from other ACT Government agencies to nil. Australian Accounting Standard AASB 102: 'Inventories' requires inventories to be measured at the lower of their cost and net realisable value. As the Land Development Agency received these land inventories at no cost, their value was therefore written down to zero.

3.186 The income tax equivalents expense exceeded the budgeted cost by $7.1 million (10.6 percent) due to the generation of a higher than budgeted gross profit from land sales.

3.187 The Land Development Agency's operating profit ($173.3 million) exceeded the budgeted operating profit ($156.8 million) by $16.5 million (10.5 percent) due mainly to a higher than budgeted gross profit being generated on land sales; partially offset by the cost of an unbudgeted inventory write-down and a higher than budgeted income tax equivalents expense.

3.188 The operating profit ($173.3 million) increased by $95.2 million (121.9 percent) from the previous year's operating profit ($78.1 million) due to higher profits being generated from residential land sales.

Audit findings

Table 3-40 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
3	2	1	-	2	3

3.189 The Land Development Agency resolved two of the three previously reported audit findings by:

- documenting arrangements for the transfer of land between the Territory and Municipal Services Directorate and the Land Development Agency in a formal agreement (memorandum of understanding); and
- developing a policy for the recording of land recorded as inventory that complies with Australian Accounting Standard AASB 102: 'Inventories'.

3.190 The Land Development Agency partially resolved one previously reported audit finding by updating its Chief Executive Financial Instructions and supporting guidelines to reflect its current financial management policies and procedures. However, the supporting procurement guide was out of date and is being updated based on the internal audit recommendations.

3.191 Two new audit findings were identified during the Audit Office's review of the statement of performance:

- The Land Development Agency did not have a method of calculating a result for performance indicator 'compliance with work health and safety policy'. This problem was addressed before the completion of the Audit Office's review of the statement of performance.
- The statement of performance includes seven non-financial performance indicators for which the 100 percent target has been consistently achieved since they were first reported. Ongoing achievement of 100 percent targets indicates these indicators may not be:
  - contributing to improved performance by the Land Development Agency against its strategic objectives; and
  - providing readers with an understanding of the issues the Land Development Agency has encountered in achieving, or not achieving, its targets.

The Land Development Agency has advised that it:

> … will review the appropriateness of the performance indicators included in the statement of intent and statement of performance.

3.192 The Land Development Agency has agreed to address all audit findings.

Superannuation Provision Account

3.193 The Superannuation Provision Account manages and records the superannuation investment assets and the defined benefit employer superannuation liabilities of the Territory. The defined benefit superannuation liabilities and expenses are for current and former ACT Government employees who are members of Commonwealth Government defined benefit superannuation schemes being the Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS), as well as eligible Members of the Legislative Assembly who are entitled to the Legislative Assembly Members' Superannuation Scheme.

3.194 The Commonwealth Superannuation Corporation (CSC) administers the ACT Government's employee membership in the CSS and the PSS. The Territory reimburses CSC for the employer-financed share of superannuation benefits paid for current and former ACT Government employees from 1 July 1989. The Commonwealth Government is liable for superannuation liabilities incurred before this date.

3.195 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 access to this scheme was closed to new members from 7 October 2006. Employees of the ACT Government are now offered superannuation accumulation schemes of their choice.

3.196 The ACT Government aims to extinguish the Territory's unfunded defined benefit superannuation liability through a combination of budget appropriation and investment earnings. The Budget Papers disclose that:

> Fully funding the defined benefit superannuation liability over time is a key financial objective of the Government. Unlike other jurisdictions, the Government does not operate a superannuation fund for employees. The Government has established a Superannuation Provision Account (SPA) for the purpose of recognising the defined benefit superannuation liabilities and holding and investing the financial assets set aside to meet the Government's ongoing employer superannuation benefit obligations (emerging cost payments) to the Commonwealth Government[9].

Key Issues

- The Audit Office issued an unqualified audit report on the Superannuation Provision Account's 2015-16 financial statements and an unqualified report of factual findings on its 2015-16 statement of performance.

[9] Page 293 of 2016-17 Budget Paper 3: Budget Outlook, Chapter 8 – Asset and Liability Management, 8.2 Unfunded Superannuation Liability.

- The Superannuation Provision Account did not achieve its budgeted operating result. Its operating deficit ($458.1 million) exceeded the budgeted deficit ($242.4 million) by $215.7 million (89.0 percent) due to the combined effects of higher than estimated superannuation costs of $56.2 million (11.4 percent) and a net loss being incurred in the fair value of investments of $10.6 million compared to the estimated gain of $131.4 million.

- The Superannuation Provision Account has a substantial unfunded superannuation liability. This unfunded superannuation liability means that the superannuation liability exceeds financial assets set aside to meet this liability.

- The unfunded superannuation liability at 30 June 2016 ($7 271.5 million) was substantially higher than the:

  - budgeted unfunded position ($2 485.3 million) by $4 786.2 million (192.6 percent); and

  - unfunded position at 30 June 2015 ($5 147.6 million) by $2 123.9 million (41.3 percent).

- The increase in the unfunded superannuation liability is mainly due to the use of a lower discount rate to estimate the present value of the superannuation liability at 30 June 2016 compared to the rate which was used to prepare the budget estimate and the estimate of the liability at 30 June 2015.

- In recent years, the unfunded superannuation liability position has significantly increased from an unfunded position of $4 165.6 million at 30 June 2013 to $7 271.5 million at 30 June 2016. This represents an increase in the unfunded position over this period of $3 105.9 million (an average annual increase of 24.9 percent).

- The unfunded superannuation liability position is estimated to decrease substantially over the forward years from the unfunded position at 30 June 2016 of $7 271.5 million to $2 666.1 million by 30 June 2020.

- For the large estimated decrease in the superannuation liability over the forward years to occur, there would need to be a significant increase in the Commonwealth Government bond (discount) rate used to estimate the superannuation liability.

- Annual cash payments to meet superannuation obligations are projected to significantly increase over the next three decades (2041), peaking at $672.3 million in 2043 and then reducing until fully paid. This mainly reflects the age profile of the Territory's employees who are members of the CSS and PSS. Most of these employees are expected to retire over the next two decades. The Territory will be required to pay the superannuation benefit accrued over these employees' years of service. For many members, the retirement benefits provided under the defined benefit schemes will be taken as indexed pensions and will continue throughout these employees' lives and that of their surviving spouses.

Financial results

Table 3-41 Key results

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Income	129.6	112.9	129.7
Net gain/(loss) on the fair value of investments	182.5	(10.6)	131.4
Expenses	(546.6)	(560.5)	(503.5)
Operating deficit	**(234.5)**	**(458.1)**	**(242.4)**

3.197 Income consists mainly of distributions, dividends and interest from superannuation investments. Income ($112.9 million) was $16.8 million (13.0 percent) lower than the budget estimate ($129.7 million) as interest, dividends and distributions received on investments were less than anticipated.

3.198 The Superannuation Provision Account incurred a net loss in the fair value of investments ($10.6 million) compared to the budgeted net gain ($131.4 million) as conditions in investment markets resulted in a lower return than estimated in the budget.

3.199 Investments in Australian and global investment markets are subject to market risk and fluctuate according to global economic and financial conditions.

3.200 The Superannuation Provision Account has advised that:

> The budget estimates for investment earnings incorporate a long-term portfolio target investment return objective. The investment portfolio is targeting an average annual return that is five per cent above consumer price index (CPI) increases. The budget forward estimates do not attempt to forecast expected total portfolio investment returns. Due to the volatile nature of global investment markets, investment earnings recognised in any particular year by the Superannuation Provision Account will vary from the annual budget estimates.
>
> Over the past twenty years the Superannuation Provision Account investment portfolio has achieved an annualised investment return of CPI plus 5 percent which is in line with the long term target investment return objective.

3.201 Expenses largely consist of superannuation costs associated with the estimated growth in the superannuation liability.

3.202 Expenses ($560.5 million) exceeded the budget estimate ($503.5 million) by $57.0 million (11.3 percent) due mainly to the use of a lower discount rate to estimate the present value of the superannuation liability and expense (2.69 percent) compared to the rate used to prepare the budget estimate (6.0 percent). A lower discount rate increases the estimated present value of the superannuation liability and related expense.

3.203 The Superannuation Provision Account explained the significant impact of interest rates on the estimate of the superannuation liability and expense as follows:

> Australian Accounting Standards require the use of the yield (interest rate) on a suitable Commonwealth Government bond as the discount rate to estimate the present value of the future expected superannuation benefit payments ('the superannuation liability') at financial year end.
>
> The discount rate used to calculate the present value of the superannuation liability has a significant financial impact on the estimated value of the superannuation liability and related superannuation expense. A lower discount rate leads to a higher estimate of the superannuation liability and related superannuation expense.

3.204 The Superannuation Provision Account did not achieve its budgeted operating result. Its operating deficit ($458.1 million) exceeded the budgeted deficit ($242.4 million) by $215.7 million (89.0 percent) due to the combined effects of higher than estimated superannuation costs of $56.2 million (11.4 percent) and a net loss being incurred in the fair value of investments of $10.6 million compared to the estimated gain of $131.4 million.

Unfunded superannuation liability

Table 3-42 Unfunded superannuation liability

At 30 June	Actual 2013 $m	Actual 2014 $m	Actual 2015 $m	Actual 2016 $m	Budget 2016 $m
Financial assets	2 616.0	3 030.3	3 342.1	3 446.8	3 609.4
Superannuation liability	(6 781.6)	(7 475.1)	(8 489.7)	(10 718.3)	(6 094.7)
Unfunded superannuation liability	**(4 165.6)**	**(4 444.8)**	**(5 147.6)**	**(7 271.5)**	**(2 485.3)**
Investments to superannuation liability	**0.39 to 1**	**0.41 to 1**	**0.39 to 1**	**0.32 to 1**	**0.59 to 1**

Source: Actual figures were obtained from the audited financial statements of the Superannuation Provision Account. Budget figures were obtained from 2015-16 Budget Papers.

Financial assets consist of cash at bank, investment income receivable and investments.

3.205 The Superannuation Provision Account has a substantial unfunded superannuation liability. This unfunded superannuation liability means that the superannuation liability exceeds financial assets set aside to meet this liability.

3.206 The unfunded superannuation liability at 30 June 2016 ($7 271.5 million) was substantially higher than the:

- budgeted unfunded position ($2 485.3 million) by $4 786.2 million (192.6 percent); and
- unfunded position at 30 June 2015 ($5 147.6 million) by $2 123.9 million (41.3 percent).

The increase in the unfunded superannuation liability is mainly due to the use of a lower discount rate to estimate the present value of the superannuation liability at 30 June 2016 compared to the rate which was used to prepare the budget estimate and the estimate of the liability at 30 June 2015.

3.207 In recent years, the unfunded superannuation liability has significantly increased from an unfunded position of $4 165.6 million at 30 June 2013 to $7 271.5 million at 30 June 2016. This represents an increase in the unfunded position over this period of $3 105.9 million (an average annual increase of 24.9 percent).

3.208 The Superannuation Provision Account has advised that:

> The unfunded superannuation liability position has been increasing since 30 June 2013 due to domestic interest rates falling to historic lows with the required use of lower discount rates to estimate the superannuation liability at 30 June 2013 (4.29 percent), 30 June 2014 (4.08 percent), 30 June 2015 (3.66 percent) and 30 June 2016 (2.69 percent).
>
> The superannuation liability valuation is sensitive to changes in the discount rate. For example, if the relevant Commonwealth Government bond (discount) rate increases from 2.69 percent to 3.69 percent, this would result in a significant decrease in the superannuation liability valuation of $1.9 billion (17.9 percent), from $10.7 billion to $8.8 billion, and subsequently result in a decrease in the unfunded position.
>
> The level and volatility of domestic interest rates in the future will continue to significantly impact the estimated superannuation liability valuations and the funding position.

3.209 It would take a significant increase in the Commonwealth Government bond (discount) rate to bring the superannuation liability down from $10.7 billion (discount rate of 2.69 percent) to the budget estimate of $6.1 billion (based on a discount rate of six percent).

Projected unfunded superannuation liability

Table 3-43 Projected unfunded superannuation liability

At 30 June	Actual 2016 $m	Budget 2017 $m	Budget 2018 $m	Budget 2019 $m	Budget 2020 $m
Financial assets	3 446.8	3 627.9	3 820.3	4 027.5	4 329.2
Superannuation liability	(10 718.3)	(6 247.8)	(6 506.3)	(6 756.3)	(6 995.3)
Unfunded superannuation liability	**(7 271.5)**	**(2 619.9)**	**(2 686.0)**	**(2 728.8)**	**(2 666.1)**
Investments to superannuation liability	**0.32 to 1**	**0.58 to 1**	**0.59 to 1**	**0.60 to 1**	**0.62 to 1**

Source: Actual figures were obtained from the audited financial statements of the Superannuation Provision Account. Budget figures were obtained from the 2016-17 Budget Papers.

Financial assets consist of cash at bank, investment distributions receivable and investments.

3.210 The unfunded superannuation liability position is estimated to decrease substantially over the forward years from the unfunded position at 30 June 2016 of $7 271.5 million to $2 666.1 million by 30 June 2020.

3.211 The Superannuation Provision Account advised that:

> A long-term average discount rate assumption of six percent is currently used to estimate the superannuation liability valuation and superannuation expense projections over the Budget and forward years.
>
> The superannuation liability is a long-term liability and the use of an expected long-term discount rate assumption to estimate the liability valuation is appropriate. The 10-year Commonwealth Government bond interest rate has averaged approximately six percent over the past 25 years.
>
> If current interest rates on Commonwealth Government bonds remain below this estimated long-term average assumption, then the estimated superannuation liability (and the unfunded superannuation liability) will be higher than the budget estimate.

3.212 For the large estimated decrease in the superannuation liability over the forward years to occur, there would need to be a significant increase in the Commonwealth Government bond (discount) rate used to estimate the superannuation liability.

Table 3-44 Future superannuation payments schedule

Year ended 30 June	Nominal terms $m
2017	230.5
2023	351.0
2029	481.2
2035	597.8
2041	666.1
2043 (peak)	672.3
2047	657.8
2053	573.0
2055	535.9

Source: Information on future superannuation payments in nominal terms was obtained from the 'Report on the Actuarial Investigation as at 30 June 2015' prepared by the Territory's consulting actuary, Russell Investments.

The amounts shown above are actuarially assessed and are represented in nominal terms. The nominal value of the projected payments is not adjusted for inflation.

3.213 Annual cash payments to meet superannuation obligations are projected to significantly increase over the next three decades (2041), peaking at $672.3 million in 2043 and then reducing until fully paid. This mainly reflects the age profile of the Territory's employees who are members of the CSS and PSS. Most of these employees are expected to retire over the next two decades. The Territory will be required to pay the superannuation benefit accrued over these employees' years of service. For many members, the retirement

benefits provided under the defined benefit schemes will be taken as indexed pensions and will continue throughout these employees' lives and that of their surviving spouses.

Territory and Municipal Services Directorate

3.214 The Territory and Municipal Services Directorate (the Directorate) administers Canberra's municipal and public transport services. This includes recycling and household waste collection, management of parks and nature reserves and building and maintenance of infrastructure assets, including stormwater assets, bridges, roads, streetlights, car parks, foot paths and cycle paths. The Directorate also operates public libraries, linen cleaning services and Yarralumla Nursery.

3.215 Under changed administrative arrangements, the:

- National Arboretum Canberra was transferred to the Chief Minister, Treasury and Economic Development Directorate on 22 January 2016;
- Directorate merged with the Capital Metro Agency to form the new Transport Canberra and City Services Directorate effective from 1 July 2016; and
- Parks and Conservation functions of the Directorate were transferred to the Environment and Planning Directorate effective from 1 July 2016.

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2015-16 financial statements and an unqualified report of factual findings on its 2015-16 statement of performance.
- The net cost of the Directorate's services ($480.6 million) was slightly higher than the budgeted cost ($475.9 million). While expenses exceeded the budgeted cost by $18.4 million (3.6 percent), this was mostly offset by higher than expected income of $13.7 million (45.2 percent).
- Capital injections received by the Directorate ($128.3 million) were less than planned ($146.2 million). The Directorate did not draw down $17.9 million (12.2 percent) of the planned capital injections due mainly to delays in the planning of capital projects.
- The Directorate resolved two of the four previously reported audit findings, partially resolved one audit finding and did not resolve one audit finding.
- The Directorate resolved two audit findings by:
  - performing quality assurance reviews of the work of internal audit contractors. This should provide assurance that the internal audit function will be effective and value for money obtained from these contractors; and
  - performing monthly reconciliations between the waste management system (Newcastle Weighbridge System) and the finance system (Oracle) and investigating variances

identified in the reconciliations. This reduces the risk of errors in the Directorate's accounting records and financial statements.

- The Directorate partially resolved one audit finding. The capacity of an internal audit function to be independent and report impartially depends, in part, on the extent to which this function is free from the influences of operational management and responsibility.

- In 2015-16, the Audit Office considered changes made to internal audit arrangements and assessed that these do not provide a safeguard that operational areas which come under the responsibility of the Chief Audit Executive are reviewed objectively.

- The Directorate did not resolve one audit finding as errors were again found in the valuations of infrastructure assets. While these errors were corrected during the audit, there is a higher risk of material reporting errors when the infrastructure asset valuations contain errors.

- Three new audit findings were identified in 2015-16:

  - Weekly reconciliations of fees recorded in the waste management system (Newcastle Weighbridge System) to the cash collected at the resource management centres and banked were not always dated by the preparer and the reviewer. There is a higher risk that errors or fraud will not be promptly identified, investigated and resolved when there is no evidence that the reconciliations were prepared and reviewed in a timely manner.

  - Some explanations of major variances between the current year amounts and budgeted amounts and current year amounts and prior year amounts included in the draft financial statements submitted for audit were not informative and did not disclose the main reasons for major variances. While these explanations were improved during the audit, there is a higher risk that the readers of the financial statements will not understand the financial results if explanations are not informative.

  - The statement of performance includes several accountability indicators which measure customer satisfaction with various services provided by the Directorate. No information was included in the statement of performance submitted to the Audit Office for review on how customer satisfaction was measured. Information such as the method used to measure 'customer satisfaction', number of customers surveyed, sampling methodology, satisfaction rating scale, period over which results were measured, results against the rating scale should have been provided to show how results were measured.

    Furthermore, several explanations for variations from the planned (targeted) level of performance included in the statement of performance submitted to the Audit Office for review were not informative and did not disclose the main reasons for variances from the planned (targeted) levels of performance.

There is a higher risk that the readers of the statement of performance will not understand the results of the Directorate's performance if explanations of major variances are not informative and do not disclose the main reasons for variances from the planned (targeted) levels of performance.

Financial results

Table 3-45 Key results

	Actual 2014-15 $m	Actual 2015-16 $m	Budget 2015-16 $m
Expenses	(527.5)	(524.6)	(506.2)
Income	38.7	44.0	30.3
Net cost of services	**(488.8)**	**(480.6)**	**(475.9)**
Government contributions	318.7	328.7	328.2
Other gains (including gains from infrastructure asset transfers)	115.5	130.3	107.7
Operating deficit	**(54.6)**	**(21.6)**	**(40.0)**
Capital injections	**175.2**	**128.3**	**146.2**

3.216 Expenses mainly consist of repairs and maintenance costs for infrastructure assets, contractors and consultant expenses, depreciation and amortisation, employee expenses and payments to ACTION for bus services.

3.217 Expenses ($524.6 million) exceeded the budgeted cost ($506.2 million) by $18.4 million (3.6 percent). This was due mainly to the unbudgeted expensing of the costs of utility diversions and landscaping for the new Majura Parkway because these costs did not meet the definition of an asset.

3.218 Income is mainly generated from providing laundry and linen cleaning services, collecting fees and fines for disposing waste at the Territory's landfill sites and the sale of plants at the Yarralumla Nursery.

3.219 Income ($44.0 million) exceeded the budget estimate ($30.3 million) by $13.7 million (45.2 percent) as the Directorate earned:

- higher than anticipated fees from the disposal of asbestos-contaminated demolition waste from 'Mr Fluffy' properties; and

- unbudgeted revenue for constructing a stormwater system on behalf of the Land Development Agency.

3.220 The net cost of the Directorate's services ($480.6 million) was slightly higher than the budgeted cost ($475.9 million). While expenses exceeded the budgeted cost by $18.4 million (3.6 percent), this was mostly offset by higher than expected income of $13.7 million (45.2 percent).

3.221 Infrastructure assets transferred to the Directorate from other ACT Government agencies and private land developers largely relate to roads, stormwater systems, footpaths and cycle paths.

3.222 Other gains ($130.3 million), which mainly include gains from infrastructure and asset transfers, exceeded the budget estimate ($107.7 million) by $22.6 million (21.0 percent) due to the unexpected transfer of several roads and a water quality control pond from the Chief Minister, Treasury and Economic Development Directorate.

3.223 Capital injections received by the Directorate ($128.3 million) were less than planned ($146.2 million). The Directorate did not draw down $17.9 million (12.2 percent) of the planned capital injections due mainly to delays in planning capital projects.

Audit findings

Table 3-46 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
4	2	1	1	3	5

3.224 The Directorate resolved two of the four previously reported audit findings, partially resolved one audit finding and did not resolve one audit finding.

3.225 The Directorate resolved two audit findings by:

- performing quality assurance reviews of the work of internal audit contractors. This should provide assurance that the internal audit function will be effective and value for money obtained from these contractors; and
- performing monthly reconciliations between the waste management system (Newcastle Weighbridge System) and the finance system (Oracle) and investigating variances identified in the reconciliations. This reduces the risk of errors in the Directorate's accounting records and financial statements.

3.226 The Directorate partially resolved one audit finding. The capacity of an internal audit function to be independent and report impartially depends, in part, on the extent to which this function is free from the influences of operational management and responsibility.

3.227 Since 2009-10, the Audit Office has reported that the Directorate has implemented measures which support the independence of the internal audit function. However, these are not sufficient to provide assurance that the internal audit function is independent because the Chief Audit Executive has significant areas of operational responsibility that are subject to internal audits.

3.228 The Directorate previously advised that it disagreed with this audit finding and the related audit recommendations.

3.229 In 2015-16, the Audit Office considered changes made to internal audit arrangements and assessed that these do not provide a safeguard that operational areas which come under the responsibility of the Chief Audit Executive are reviewed objectively.

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

> The Directorate acknowledges that the Chief Audit Executive also having operational responsibilities has the potential for some conflict within the audit function. The Directorate will revise its Internal Audit Charter to provide additional assurance that is acceptable to the ACT Audit Office.

3.231 The Directorate did not resolve one audit finding as errors were again found in the valuations of infrastructure assets. While these errors were corrected during the audit, there is a higher risk of material reporting errors when the infrastructure asset valuations contain errors.

3.232 Three new audit findings were identified in 2015-16:

- Weekly reconciliations of fees recorded in the waste management system (Newcastle Weighbridge System) to the cash collected at the resource management centres and banked were not always dated by the preparer and the reviewer. There is a higher risk that errors or fraud will not be promptly identified, investigated and resolved when there is no evidence that the reconciliations were prepared and reviewed in a timely manner.
- Some explanations of major variances between the current year amounts and budgeted amounts and current year amounts and prior year amounts included in the draft financial statements submitted for audit were not informative and did not disclose the main reasons for major variances. While these explanations were improved during the audit, there is a higher risk that the readers of the financial statements will not understand the financial results if explanations are not informative.
- The statement of performance includes several accountability indicators which measure customer satisfaction with various services provided by the Directorate. No information was included in the statement of performance submitted to the Audit Office for review on how customer satisfaction was measured. Information such as the method used to measure 'customer satisfaction', number of customers surveyed, sampling methodology, satisfaction rating scale, period over which results were measured, results against the rating scale should have been provided to show how results were measured.

Furthermore, several explanations for variations from the planned (targeted) level of performance included in the statement of performance submitted to the Audit Office for review were not informative and did not disclose the main reasons for variances from the planned (targeted) levels of performance.

There is a higher risk that the readers of the statement of performance will not understand the results of the Directorate's performance if explanations of major variances are not informative and do not disclose the main reasons for variances from the planned (targeted) levels of performance.

3.233 The Directorate has agreed to address all audit findings.

University of Canberra

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

3.235 In 2015, the University controlled:

- UCU 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.

3.236 The University also controlled the University of Canberra College Pty Limited (the College) until 51 percent of the University's shareholding in the College was sold to a listed company on 29 May 2015. The Audit Office ceased being the statutory auditor of the College when the University of Canberra sold 51 percent of its shareholding in the College in 2015.

3.237 The Audit Office audited the 2015 financial statements of:

- the University under the *Financial Management Act 1996* and *University of Canberra Act 1989*; and
- UCU Ltd under the *Corporations Act 2001*.

Key Issues

- The Audit Office issued unqualified audit reports on the 2015 financial statements of the University and UCU Ltd.
- The University's 2015 operating surplus, excluding non-recurring income, capital grants received and expenses on activities funded from the Structural Adjustment Fund ($5.7 million) exceeded the 2014 operating surplus ($4.9 million) by $0.8 million (16.3 percent).
- The University's short-term liabilities ($63.3 million) exceeded its short-term assets ($47.5 million) by $15.8 million (33.3 percent) at 31 December 2015.

- The University's short-term financial position has strengthened in recent years. The amount by which short-term liabilities exceeded short-term assets significantly decreased from $33.6 million at 31 December 2013 to $15.8 million at 31 December 2015. While its short-term financial position has strengthened, the University will need to carefully manage its finances to continue meeting its short-term liabilities.

- Four of the 13 previously reported audit findings were resolved, five were partially resolved and four were not resolved. No further action is expected to be taken on eight of the nine remaining audit findings as the University has advised that it disagrees with them.

- No new audit findings were identified during the audit of the 2015 financial statements.

- Four previously reported audit findings were resolved by the University:

  - reviewing its internal audit function and making improvements to its internal audit charter and quality assurance processes;

  - assigning responsibility for its internal audit function to someone who did not have significant operational responsibilities;

  - performing reviews of audit logs for key corporate systems (i.e. the accounting system (Finance One), student fee management system (Callista) and payroll system (Alesco) and retaining evidence of these reviews; and

  - improving disclosures in the financial statements on the remuneration of key management personnel which fully comply with Australian Accounting Standard AASB 124: 'Related Party Disclosures'.

- The five previously reported audit findings that were partially resolved consist of two relating to control weaknesses over key corporate systems, two referring to the quality of financial reporting and one weakness in payment controls. The University has advised that no further action will be taken in relation to these findings.

- Of the four reported audit findings not resolved, three relate to non-compliance with Australian Accounting Standards and one to a weakness in payroll controls. The University advised that it disagrees that it has not complied with the Australian Accounting Standards. However, it has agreed to address the weakness in payroll controls.

Financial Results

Table 3-47 Key results (calendar years)

	Actual 2014 $m Note 1	Actual 2015 $m Note 1
Income excluding non-recurring income and capital grants received	270.8	276.4
Expenses excluding expenses on activities funded from the Structural Adjustment Fund	(265.9)	(270.7)
Operating surplus excluding non-recurring income, capital grants received and expenses on activities funded from the Structural Adjustment Fund – Note 2	**4.9**	**5.7**
Non-recurring income		
Dividends received from the College	-	8.8
Gain from the sale of 51 percent of the College	-	4.8
Gain from a remeasurement of the University's remaining 49% shareholding in the College	-	4.7
Total non-recurring income	**-**	**18.3**
Capital grants received for the construction of buildings	2.8	2.4
Total non-recurring income and capital grants received	**2.8**	**20.7**
Expenses on activities funded from the Structural Adjustment Fund – Note 3	(9.7)	-
Reported operating (deficit)/surplus	**(2.0)**	**26.4**

Note 1: The financial information is for the University and does not include the financial results of other entities that it controlled. These other entities are UCU Ltd, UC Global Pty Limited, University of Canberra College Pty Limited up to 29 May 2015, University of Canberra Royal Institute of Public Administration Research Fund and WJ Weeden Post-Graduate Scholarship Trust Fund.

Note 2: Once the financial effects of non-recurring income and capital grants received for the construction of buildings and expenses on activities funded from the Structural Adjustment Fund are removed the University's underlying operating surplus is $4.9 million in 2014 and $5.7 million in 2015.

Note 3: In 2014, the University spent $9.7 million of Structural Adjustment Fund grants which were received from the Commonwealth Government in previous years. This funding was mainly spent on activities aimed at increasing student numbers. For example, additional staff and consultants were employed to provide courses in regional south-eastern New South Wales.

3.238 Income excluding non-recurring income and capital grants received is mostly comprised of financial assistance received from the Commonwealth Government, course fees from domestic and international students, and revenue from providing student accommodation services.

3.239 Financial assistance from the Commonwealth Government mainly comes from Commonwealth Grants Scheme funding for student places, higher education loan programs and funds to undertake research activities.

3.240 Income excluding non-recurring income and capital grants received ($276.4 million) exceeded the prior year amount ($270.8 million) by $5.6 million (2.1 percent) due mainly to an increase in student fees as a result of higher international student enrolments.

3.241 Expenses excluding those on activities funded from the Structural Adjustment Fund consisted mainly of employee costs; administration expenses, depreciation and amortisation.

3.242 Expenses excluding those on activities funded from the Structural Adjustment Fund ($270.7 million) exceeded the prior year amount ($265.9 million) by $4.8 million (1.8 percent). This was mainly due to higher:

- employee-related expenses mostly resulting from a staff pay rise under the University's Enterprise Agreement and an increase in staff bonus payments; and
- depreciation and amortisation expenses, for building upgrades and information technology assets.

3.243 The University's 2015 operating surplus, excluding non-recurring income, capital grants received and expenses on activities funded from the Structural Adjustment Fund ($5.7 million) exceeded the 2014 operating surplus ($4.9 million) by $0.8 million (16.3 percent).

Table 3-48 Net short-term liabilities

At 31 December	Actual 2013 $m Note 1	Actual 2014 $m Note 1	Actual 2015 $m Note 1
Short-term assets	32.1	28.6	47.5
Short-term liabilities - Note 2	(65.7)	(63.0)	(63.3)
Net short-term liabilities	**(33.6)**	**(34.4)**	**(15.8)**
Ratio of short-term assets to short-term liabilities	**0.49 to 1**	**0.45 to 1**	**0.75 to 1**

Note 1: The financial information is for the University and does not include the financial results of other entities that it controlled. These other entities are UCU Ltd, UC Global Pty Limited, University of Canberra College Pty Limited up to 29 May 2015, University of Canberra Royal Institute of Public Administration Research Fund and WJ Weeden Post-Graduate Scholarship Trust Fund.

Note 2: Short-term liabilities do not equal the current liabilities presented in the Statement of Financial Position. For the purpose of this analysis, the estimated amount of liabilities expected to be settled within 12 months has been used.

3.244 The University's short-term asset coverage is measured by comparing the amount of short-term assets available to cover short-term liabilities.

3.245 The University's short-term liabilities ($63.3 million) exceeded its short-term assets ($47.5 million) by $15.8 million (33.3 percent) at 31 December 2015. The financial statements of the University disclose that the short-term liabilities can be met because the University:

- receives fortnightly funding from the Commonwealth Government; and
- has borrowing facilities with banks which can be used to meet short-term liabilities if required.

3.246 The University's short-term financial position has strengthened in recent years. The amount by which short-term liabilities exceeded short-term assets significantly decreased from $33.6 million at 31 December 2013 to $15.8 million at 31 December 2015. While its short-term financial position has strengthened, the University will need to carefully manage its finances to continue meeting its short-term liabilities.

Audit findings

Table 3-49 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
13	4	5	4	-	9

Note 1: The information presented is for the University of Canberra and does not include audit findings reported to UCU Ltd.

3.247 Four of the 13 previously reported audit findings were resolved, five were partially resolved and four were not resolved. No further action is expected to be taken on eight of the nine remaining audit findings as the University has advised that it disagrees with them. Further information on these is provided in the following paragraphs.

3.248 No new audit findings were identified during the audit of the 2015 financial statements.

3.249 Four previously reported audit findings were resolved by the University:

- reviewing its internal audit function and making improvements to its internal audit charter and quality assurance processes;
- assigning responsibility for its internal audit function to someone who did not have significant operational responsibilities;
- performing reviews of audit logs for key corporate systems (i.e. the accounting system (Finance One), student fee management system (Callista) and payroll system (Alesco) and retaining evidence of these reviews; and
- improving disclosures in the financial statements on the remuneration of key management personnel which fully comply with the Australian Accounting Standard AASB 124: 'Related Party Disclosures'.

3.250 The five previously reported audit findings that were partially resolved consist of two relating to control weaknesses over key corporate systems, two referring to the quality of financial reporting and one weakness in payment controls. The University has advised that no further action will be taken in relation to these findings.

3.251 The changes made to address the control weaknesses over key corporate systems included:

- restricting the system administrators from installing changes to their desktop computers. However, users other than these administrators can install changes to their desktop computers where the University has assessed that this is consistent with their roles and responsibilities. This presents a risk that other users could make unauthorised and unintended changes.

  The University has advised that it does not intend to make further changes as it considers that the systems are not at any appreciable risk from allowing other users to install changes to their desktop computers.

- implementing automated system controls which 'force' system administrators to regularly change their passwords. However, these automated system controls only apply to administrators and not all users. Furthermore, the University has not implemented a system for checking whether users other than administrators are changing their passwords every eight weeks as required by the University's policy for passwords. The risk of unauthorised (including fraudulent) access increases if users do not regularly change their passwords.

  The University has advised that it does not intend to make further changes as it will continue to rely on the use of strong passwords that are automatically enforced by the computer system. This is not considered sufficient as the longer a password remains unchanged, the greater the risk of it being discovered.

3.252 The changes made to address the quality of financial reporting included:

- clearly disclosing material restrictions imposed by the ACT Treasurer on the use of debt facilities to meet its short-term liability obligations. However, the University did not disclose the amount of its net short-term liability position and net short-term financial liability position. While these figures can be derived from information provided in the financial statements and Council Report, these amounts should be readily evident in the financial statements.

  The University has advised that it does not intend to disclose this information in the financial statements.

- providing information in the Council Report on the University's financial performance, financial position, cash flows, liquidity and other matters that would assist readers to gain an understanding of the financial and operating results of the University. However, this information could be further improved by providing more information on 'challenges' faced by the University in addition to its 'achievements'.

  The University has indicated that it does not intend to provide more information on 'challenges' in the Council Report.

3.253 The University does not require documented evidence of the certification of the satisfactory receipt of goods and services to be provided by someone other than the financial delegate who approved the payment for amounts below $5 000. This does not sufficiently address the risk of payment irregularities occurring through error or fraud.

The University advised that it does not agree and has assessed the risk of errors and fraud to be low where payments below $5 000 have been authorised by a financial delegate.

3.254 Of the four reported audit findings not resolved, three relate to non-compliance with Australian Accounting Standards and one to a weakness in payroll controls. The University advised that it disagrees that it has not complied with the Australian Accounting Standards. However, it has agreed to address the weakness in payroll controls.

3.255 The Audit Office assessed that the University did not comply with the Australian Accounting Standards in relation to the accounting for:

- fees receivable from domestic and continuing international students.

  The University obtained advice on the accounting treatment and accounted for fees receivable from domestic and continuing international students in accordance with this advice. The Audit Office reviewed this accounting treatment and the related advice and concluded that the University's accounting treatment is incorrect;

- income relating to the transfer of the National Rental Affordability Scheme (NRAS) entitlements to a third party.

  The University is eligible to receive financial assistance from the Commonwealth Government for participating in NRAS by providing affordable rental dwellings to eligible low-to-moderate income tenants.

  In 2014, the University entered into an arrangement with a third party to transfer its utilised NRAS entitlements (i.e. an income stream) from the Commonwealth Government to a third party, in exchange for an upfront payment (a financial liability).

  Under the University's accounting policy, which is supported by external accounting advice, the University reduces the financial liability and progressively recognises income under Australian Accounting Standard AASB 118: 'Revenue'.

  The Audit Office considers that the extinguishment of a financial liability and recognition of associated income should be accounted for under the Australian Accounting Standard which applies to financial instruments (AASB 139: 'Financial Instruments: Recognition and Measurement') and not that which applies to revenue (AASB 118: Revenue);

- a grant receivable from the Commonwealth Government for the establishment and operation of the Centre for Quality Teaching and Learning and related allowance for impairment.

  The Audit Office considers that the University's treatment does not comply with Australian Accounting Standard AASB 1004: 'Contributions'.

The audit report on the financial statements was not qualified for these areas of non-compliance as they are not material.

3.256 Documented evidence of the review of fortnightly payroll reports was not retained when no errors or anomalies were identified. This presents a risk of undetected irregular payments to employees which may be due to errors or fraud. The University agreed to address this audit finding.

APPENDIX A: KEY TERMS

This report contains terms which the reader may not be familiar with. These terms are explained in the following extract from audit report '2015-16 Financial Audits – Audit Reports' (Report No. 10/2016).

Each year, the Audit Office provides independent:

- audit reports on financial statements prepared by ACT Government directorates, authorities and companies, and other entities in which the ACT Government has a financial interest. (These entities are referred to as 'reporting agencies' in this report); and
- reports of factual findings on statements of performance prepared by ACT Government directorates and authorities.

Audit reports on 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 reporting and disclosure requirements (Australian Accounting Standards) set by the Australian Accounting Standards Board.

Audit reports are issued on a reporting agency's financial statements after the completion of an audit.

Reports of factual findings on statements of performance

Statements of performance show 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. Statements of performance also include explanations for material variances between actual and planned performance for each accountability indicator.

Accountability indicators are set by the reporting agency during the budget process and provide information on the number, quality and timeliness of services provided.

Reports of factual findings are issued on a reporting agency's statement of performance after the Audit Office has completed a review of the reported results. These reports inform the ACT Legislative Assembly and community members as to whether the Audit Office has identified any matters which indicate that the reported results of these accountability indicators have not been accurately reported.

'Not fairly presented'

Where the Auditor-General concludes that the financial statements or statement of performance are 'not fairly presented', the Auditor-General's reasons for this conclusion and, where possible, the correct information will be disclosed in the audit report on the financial statements or report of factual findings on the statement of performance.

In practice, very few audit reports or reports of factual findings are qualified (negative) as reporting agencies usually agree to amend their financial statements or statements of performance before the audit report or report of factual findings is issued.

Where required, the financial statements and audit reports, and statements of performance and reports of factual findings, are included in the annual reports of reporting agencies.

Types of opinion

Audit reports on financial statements

An audit report with an unqualified (positive) audit opinion is issued where the Auditor-General concludes that 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 audit report with a qualified (negative) 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 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.

An example of an unqualified (positive) audit opinion included in an audit report is presented below:

Unqualified audit opinion

In my opinion, the financial statements of the [reporting agency] for the year ended [reporting date]:

(i) are presented in accordance with the *Financial Management Act 1996*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia; and

(ii) present fairly the financial position of the [reporting agency] at [reporting date] and the results of its operations and cash flows for the year then ended.

Few qualified (negative) audit opinions are issued because reporting agencies agree to amend their financial statements before the audit is completed.

Reports of factual findings on statements of performance

An unqualified (positive) report of factual findings is issued where no matters have come to the Audit Office's attention which indicate that the results of the accountability indicators reported in the statement of performance are not fairly presented.

An example of an unqualified (positive) review opinion included in a report of factual findings is presented below:

Unqualified review opinion

Based on the review procedures, no matters have come to my attention which indicate that the results of the accountability indicators, reported in the statement of performance of the [reporting agency] for the year ended [reporting date], are not fairly presented in accordance with the *Financial Management Act 1996*.

A qualified (negative) report of factual findings will be issued where a reported result of an accountability indicator is not accurate, has not been measured, or cannot be independently verified.

Materiality

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

Where misstatements are identified but their combined effect is not material, the Auditor-General is required to provide an unqualified (positive) audit report or unqualified (positive) report of factual findings.

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

In addition to the terms used audit report '2015-16 Financial Audits – Audit Reports' (Report No. 10/2016), the following terms are explained.

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[10]. These gains/losses mostly reflect changes in market conditions that affect the value of investments and land.

[10] Land revenue included in other economic flows is the combination of market gains on land sales and the undeveloped land value.

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

The following agencies are included in the Territory's financial statements[11].

ACT Compulsory Third Party Insurance Regulator

ACT Executive

ACT Gambling and Racing Commission

ACT Insurance Authority

ACT Local Hospital Network Directorate

ACT Public Cemeteries Authority

ACTION

Auditor-General

Canberra Institute of Technology

Capital Metro Agency

Chief Minister, Treasury and Economic Development Directorate

CIT Solutions Pty Limited

Community Services Directorate

Cultural Facilities Corporation

Education Directorate

Electoral Commissioner

Environment and Planning Directorate

Health Directorate

Housing ACT

Icon Water Limited

Independent Competition and Regulatory Commission

Justice and Community Safety Directorate

Land Development Agency

Legal Aid Commission (ACT)

Lifetime Care and Support Fund

Office of the Legislative Assembly

Public Trustee and Guardian

Superannuation Provision Account

Territory and Municipal Services Directorate

Territory Banking Account

[11] Note 6 on pages 48 and 49 of the 2015-16 Australian Capital Territory Government Consolidated Annual Financial Statements.

Audit reports

Reports Published in 2016-17	
Report No. 10 – 2016	2015-16 Financial Audits – Audit Reports
Report No. 09 – 2016	Commissioner for International Engagement – Position Creation and Appointment Process
Report No. 08 – 2016	Annual Report 2015-16
Report No. 07 – 2016	Certain Land Development Agency Acquisitions
Reports Published in 2015-16	
Report No. 06 – 2016	Management and Administration of Credit Cards by ACT Government Entities
Report No. 05 – 2016	Initiation of the Light Rail Project
Report No. 04 – 2016	The Management of the Financial Arrangements for the Delivery of the Loose-fill Asbestos (Mr Fluffy) Insulation Eradication Scheme
Report No. 03 – 2016	ACT Policing Arrangement
Report No. 02 – 2016	Maintenance of Public Housing
Report No. 01 – 2016	Calvary Public Hospital Financial and Performance Reporting and Management
Report No. 10 – 2015	2014-15 Financial Audits
Report No. 09 – 2015	Public Transport: The Frequent Network
Report No. 08 – 2015	Annual Report 2014-15
Reports Published in 2014-15	
Report No. 07 – 2015	Sale of ACTTAB
Report No. 06 – 2015	Bulk Water Alliance
Report No. 05 – 2015	Integrity of Data in the Health Directorate
Report No. 04 – 2015	ACT Government Support to the University of Canberra for Affordable Student Accommodation
Report No. 03 – 2015	Restoration of the Lower Cotter Catchment
Report No. 02 – 2015	The Rehabilitation of Male Detainees at the Alexander Maconochie Centre
Report No. 01 – 2015	Debt Management
Report No. 07 – 2014	2013-14 Financial Audits
Report No. 06 – 2014	Annual Report 2013-14
Reports Published in 2013-14	
Report No. 05 – 2014	Capital Works Reporting
Report No. 04 – 2014	Gastroenterology & Hepatology Unit, Canberra Hospital
Report No. 03 – 2014	Single Dwelling Development Assessments
Report No. 02 – 2014	The Water and Sewerage Pricing Process
Report No. 01 – 2014	Speed Cameras in the ACT
Report No. 08 – 2013	Management of Funding for Community Services
Report No. 07 – 2013	2012-13 Financial Audits
Report No. 06 – 2013	ACT Auditor-General's Office Annual Report 2012-13
Report No. 05 – 2013	Bushfire Preparedness

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