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2016-17 FINANCIAL AUDITS
FINANCIAL RESULTS AND AUDIT FINDINGS

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ACT Audit Office

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ACT Audit Office

AUDITOR-GENERAL AN OFFICER OF THE ACT LEGISLATIVE ASSEMBLY

PA 17/08

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 '2016-17 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

M. Cooper.

Dr Maxine Cooper
Auditor-General
6 December 2017

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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 2017-18 to 2020-21 (the forward years). These provide an indication of the Territory's estimated financial performance and the state of its finances over the forward years.

This report contains a discussion of the Territory's and selected reporting agencies' financial results for the year ended 30 June 2017. It also includes details of the progress made by reporting agencies in resolving audit findings.

This is the second of the three audit reports on 2016-17 financial audits. The first audit report '2016-17 Financial Audits – Overview' (Report No. 10/2017) was tabled on 24 November 2017. The third report on 'Computer Information Systems' will be published in early 2018.

The key terms used in this report are in **Appendix A**.

Conclusions

THE TERRITORY'S FINANCIAL STATEMENTS

An **unqualified audit report** was issued on the Territory's 2016-17 financial statements, indicating that the financial statements present a true and fair view of the Territory's financial position and results of its operations.

The Territory's operating results for 2016-17 were better than forecast in the budget. The deficit in the net operating balance was less than budgeted and an operating surplus was achieved compared to the budgeted operating deficit. However, the Territory again incurred a net operating balance deficit, as it has done in each of the previous four years, as expenses exceeded revenue.

Small operating surpluses are forecasted from 2018-19 to 2020-21, after a budgeted operating deficit in 2017-18. Achieving the forecasted operating surpluses is contingent on the Territory generating its forecast gains from investments, as expenses are estimated to exceed revenue in the years from 2018-19 to 2020-21. As investment markets are volatile, the Territory's exposure to more deficits remains high.

As mentioned in the 2015-16 Financial Audits – Financial Results and Audit Findings (Report No. 11/2016):

> Past deficits and estimated future deficits in the Territory's operating balance 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 Australian Government grants, land sales and taxes) and/or reductions in costs (for example, through efficiencies or reducing public services).

At 30 June 2017, the Territory had the capacity to meet its liabilities. However, its net assets were lower than anticipated in the budget due to the higher than budgeted unfunded superannuation liability, which accounts for 44 percent of the Territory's total liabilities.

At 30 June 2017, the Territory had a strong capacity to pay its liabilities that were due within 12 months. The Territory estimates that net short-term assets of $1 142 million at 30 June 2017 to significantly weaken to a net short-term liability of $460 million by 30 June 2021.

AUDIT FINDINGS

Audit findings have progressively decreased in the last three financial years indicating that governance arrangements, internal controls and reporting practices of agencies are improving. However, agencies need to continue to give attention to addressing previously reported audit findings as only 49 percent were resolved in 2016-17.

1 THE TERRITORY'S FINANCIAL STATEMENTS

1.1 The Australian Capital Territory Government's (the Territory's) financial statements comprises the financial results of:

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

Entities whose financial results are combined to form the Territory's financial statements are listed in **Appendix B**.

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

- key operating results, namely the net operating balance and operating surplus/(deficit). These provide an indication of the financial sustainability of the ACT Government's strategies and policies, particularly when assessed over time;
- long-term financial position represented by the net assets and unfunded liabilities. This provides an indication of the Territory's capacity to meet its financial obligations over the long-term;
- short-term financial position represented by the net short-term assets. This provides an indication of the Territory's capacity to meet its financial obligations over the short-term; and
- estimated financial results over the period 2017-18 to 2020-21.

Conclusion

An **unqualified audit report** was issued on the Territory's 2016-17 financial statements, indicating that the financial statements present a true and fair view of the Territory's financial position and results of its operations.

The Territory's operating results for 2016-17 were better than forecast in the budget. The deficit in the net operating balance was less than budgeted and an operating surplus was achieved compared to the budgeted operating deficit. However, the Territory again incurred a net operating balance deficit, as it has done in each of the previous four years, as expenses exceeded revenue.

Small operating surpluses are forecasted from 2018-19 to 2020-21, after a budgeted operating deficit in 2017-18. Achieving the forecasted operating surpluses is contingent on the Territory generating its forecast gains from investments, as expenses are estimated to exceed revenue in the years from 2018-19 to 2020-21. As investment markets are volatile, the Territory's exposure to more deficits remains high.

As mentioned in the 2015-16 Financial Audits – Financial Results and Audit Findings (Report No. 11/2016):

> Past deficits and estimated future deficits in the Territory's operating balance 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 Australian Government grants, land sales and taxes) and/or reductions in costs (for example, through efficiencies or reducing public services).

At 30 June 2017, the Territory had the capacity to meet its liabilities. However, its net assets were lower than anticipated in the budget due to the higher than budgeted unfunded superannuation liability, which accounts for 44 percent of the Territory's total liabilities.

At 30 June 2017, the Territory had a strong capacity to pay its liabilities that were due within 12 months. The Territory estimates net short-term assets of $1 142 million at 30 June 2017 to significantly weaken to a net short-term liability of $460 million by 30 June 2021.

Summary

In 2016-17, the Territory incurred a deficit in its net operating balance of $237 million as the cost of services provided by the ACT Government ($5 673 million) exceeded revenue ($5 436 million).

The deficit in the net operating balance ($237 million) in 2016-17 was lower than the budgeted deficit ($371 million) by $134 million (36 percent) due largely to the lower than anticipated supplies and services expenses and higher than anticipated taxation revenue.

The Territory made an operating surplus ($95 million) compared to the budgeted operating deficit ($114 million) due mainly to the lower than expected deficit in the net operating balance and higher than estimated gains from investments.

The ACT Government estimates that net operating balance deficits will continue over the forward years from 2017-18 to 2020-21, and an operating deficit of $28 million to be incurred in 2017-18 before achieving small operating surpluses from 2018-19 to 2020-21.

The Territory's net assets ($16 087 million) at 30 June 2017 were less than budgeted ($17 452 million) by $1 365 million (8 percent) due mainly to the higher than budgeted unfunded superannuation liability.

The Territory's unfunded liabilities at 30 June 2017 ($8 697 million) exceeded the budgeted unfunded liabilities ($7 435 million) by $1 262 million (17 percent) mainly due to the higher than estimated unfunded superannuation liability.

The ACT Government estimates the Territory's unfunded liabilities will remain broadly consistent over the forward years from 30 June 2018 to 30 June 2021 with some minor fluctuation.

The Territory's net short-term assets at 30 June 2017 ($1 142 million) exceeded the budget estimate ($358 million) by $784 million (219 percent).

The ACT Government estimates that net short-term assets will significantly fluctuate in the forward years and will weaken significantly to a net short-term liability of $460 million by 30 June 2021.

Operating results

Table 1-1 Operating results

	Actual 2012-13 $m	Actual 2013-14 $m	Actual 2014-15 $m	Actual 2015-16 $m	Actual 2016-17 $m	Budget 2016-17 $m
Revenue	4 321	4 537	4 843	5 113	5 436	5 384
Expenses	(4 777)	(4 846)	(5 489)	(5 486)	(5 673)	(5 755)
Net operating balance (deficit)	**(456)**	**(309)**	**(646)**	**(373)**	**(237)**	**(371)**
Other economic inflows	334	283	230	2	332	257
Operating (deficit)/surplus	**(122)**	**(26)**	**(416)**	**(371)**	**95**	**(114)**

1.3 The Territory's main sources of revenue are:

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

1.4 The Territory's major expenses include employee related and operational expenditure, grants and purchased services, 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.

1.6 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 reflecting changes in market conditions that affect the value of investments;
- land revenue (market gains on land sales). This is an estimate of the profit from land sales due to market price increases; and
- net land revenue (undeveloped land value). This is an estimate of the value of the land to the Territory at the time a decision is made to progress a development.

2016-17 operating results

1.7 In 2016-17, the Territory incurred a deficit in its net operating balance of $237 million as the cost of services provided by the ACT Government ($5 673 million) exceeded revenue ($5 436 million).

1.8 The Territory's operating surplus was $95 million due to economic inflows resulting mainly from gains on investments and revenue from land sales.

2016-17 operating results compared to budget estimates

Net operating balance

1.9 The deficit in the net operating balance ($237 million) in 2016-17 was lower than the budgeted deficit ($371 million) by $134 million (36 percent) due largely to the combined effects of:

- lower than anticipated expenses ($82 million) as supplies and services expenditure was lower due to the deferral of some expenditure to future years, lower consultancy expenses and an overestimation of supplies and services expenditure in the budget; and
- higher than anticipated revenue ($52 million) mainly because higher taxation revenue was collected from conveyancing duties on sales of residential and commercial properties.

Operating surplus/(deficit)

1.10 The Territory recorded an operating surplus of $95 million compared to the budgeted operating deficit of $114 million. This was mainly due to:

- a lower than expected deficit in the net operating balance (previously discussed); and
- higher than estimated economic flows from gains on investments due to favourable conditions in investment markets.

2016-17 operating results compared to prior year results

1.11 The deficit in the net operating balance in 2016-17 ($237 million) reduced from the deficit incurred in 2015-16 ($373 million) by $136 million (36 percent) largely because the increase in revenue ($323 million) exceeded the increase in expenses ($187 million).

1.12 The increase in revenue of $323 million (6 percent) resulted mainly from higher:

- Commonwealth Government grants of $164 million (9 percent) as the Territory received:
  - a higher share of the national GST revenue pool due to population growth; and
  - Financial Assistance grants for the first quarter of 2017-18 in 2016-17; and
- taxation revenue of $118 million (8 percent) with increases in general rates ($28 million or 7 percent), payroll tax ($26 million or 6 percent) and conveyancing duties from property sales ($33 million or 12 percent);
- land revenue (value-add component) of $27 million (7 percent) due mainly to an increase in land settlements; and
- other revenue of $24 million (17 percent) due mainly to the Territory receiving a higher number of large-scale renewable energy certificates. The Territory recognises the value of these certificates as other revenue.

These were partially offset by a lower amount received for the share of profits from the ActewAGL Joint Venture of $19 million (18 percent).

1.13 The increase in expenses of $187 million (3 percent) is mainly due to higher:

- employee and superannuation expenses of $148 million (5 percent) from:
  - an increase in the discount rate used to estimate the present value of the superannuation liability from 2.69 percent at 30 June 2016 to 3.51 percent at 30 June 2017; and
  - higher staffing levels and increase in salary and wages provided under workplace agreements; and
- grants and purchased services of $51 million (6 percent) due to an increase in payments made to the Commonwealth Government under the National Disability Insurance Scheme;
- depreciation and amortisation expenses of $36 million (8 percent) due to an increase in the value of fixed assets of the Territory; and
- supplies and services expenses of $32 million (3 percent) mainly relating to higher staff development and recruitment costs, and consultant and contractor costs.

These were partially offset by a reduction in other expenses of $87 million (31 percent) resulting from lower cost of land sold mainly due to lower residential land sales.

1.14 The Territory had an operating surplus of $95 million in 2016-17 compared to the operating deficit incurred in 2015-16 ($371 million) due to:

- a lower deficit in the net operating balance, as previously discussed; and
- other economic inflows ($330 million) mainly from gains on investments due to favourable conditions in investment markets resulting in higher returns.

Projected operating results

Table 1-2 Projected operating results

	Actual 2016-17 $m	Budget 2017-18 $m	Estimate 2018-19 $m	Estimate 2019-20 $m	Estimate 2020-21 $m
Revenue	5 436	5 649	5 912	6 153	6 354
Expenses	(5 673)	(5 980)	(6 033)	(6 374)	(6 568)
Net operating balance (deficit)	**(237)**	**(331)**	**(121)**	**(221)**	**(214)**
Other economic inflows	332	303	181	224	245
Operating surplus/(deficit)	**95**	**(28)**	**60**	**3**	**31**

Source : Budget and forward estimates were obtained from the 2017-18 Budget Papers.

1.15 As presented in Table 1-1 on page 6, deficits in the net operating balance have been incurred since 2012-13. The ACT Government estimates that deficits will continue over the forward years from 2017-18 to 2020-21 ranging from $121 million to $331 million, as the costs of providing public services is estimated to exceed revenue. These past deficits and estimated future deficits cover a nine-year period.

1.16 The ACT Government estimates that an operating deficit of $28 million will be incurred in 2017-18 before returning to surpluses of $60 million in 2018-19, $3 million in 2019-20 and $31 million in 2020-21.

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

Financial position

Table 1-3 Net assets

At 30 June	Actual 2013 $m	Actual 2014 $m	Actual 2015 $m	Actual 2016 $m	Actual 2017 $m	Budget 2017 $m
Assets						
Financial assets - Note 1	2 257	2 034	2 253	2 430	2 450	2 002
Property, plant and equipment	20 084	20 381	20 894	21 464	22 225	21 938
Other non-financial assets - Note 2	1 715	1 893	2 410	2 632	2 559	2 949
Total assets	**24 056**	**24 308**	**25 557**	**26 526**	**27 234**	**26 889**
Liabilities						
Borrowings	2 744	3 085	3 148	3 511	3 555	3 607
Unfunded superannuation - Note 3	4 276	4 471	5 213	7 330	4 865	2 657
Payables and finance leases	773	765	1 445	1 714	1 708	1 632
Employee benefits and other provisions	702	784	1 055	1 080	971	1 536
Other	13	10	22	9	48	5
Total liabilities	**8 508**	**9 115**	**10 883**	**13 644**	**11 147**	**9 437**
Net assets	**15 548**	**15 193**	**14 674**	**12 882**	**16 087**	**17 452**
Ratio of assets to liabilities	**2.8:1**	**2.7:1**	**2.3:1**	**1.9:1**	**2.4:1**	**2.8:1**

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 2017 compared to budget estimate

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

The Territory's net assets ($16 087 million) at 30 June 2017 were lower than budgeted ($17 452 million) by $1 365 million (8 percent). This was due mainly to higher than budgeted unfunded superannuation liability resulting from the use of a lower discount rate to estimate the present value of the superannuation liability at 30 June 2017 compared to the rate used to prepare the budget estimate.

The use of a lower discount rate increases and a higher rate decreases the estimated superannuation liability respectively.

Net assets at 30 June 2017 compared to the prior years

1.18 The Territory's net asset position has significantly fluctuated in recent years. The net asset position declined from $15 548 million at 30 June 2013 to $12 882 million at 30 June 2016 before increasing to $16 087 million at 30 June 2017. This is mainly a representation of the fluctuation in unfunded liabilities which is discussed further in the 'Unfunded liabilities' section below.

The Territory's net assets ($16 087 million) at 30 June 2017 increased by $3 205 million (25 percent) from that at 30 June 2016 ($12 882 million) due mainly to:

- a decrease in the unfunded superannuation liability of $2 465 million (34 percent) from the use of a higher discount rate to estimate the present value of the superannuation liability at 30 June 2017 compared to the rate used at 30 June 2016; and
- an increase in property, plant and equipment of $761 million (4 percent) from an upward revaluation of the Territory's land and infrastructure assets, and capital expenditure on property, plant and equipment (in particular, land, buildings and infrastructure assets).

Unfunded liabilities

Table 1-4 Unfunded liabilities

At 30 June	Actual 2013 $m	Actual 2014 $m	Actual 2015 $m	Actual 2016 $m	Actual 2017 $m	Budget 2017 $m
Financial assets	**2 257**	**2 034**	**2 253**	**2 430**	**2 450**	**2 002**
Liabilities						
Unfunded superannuation – Note 1	4 276	4 471	5 213	7 330	4 865	2 657
Borrowings	2 744	3 085	3 148	3 511	3 555	3 607
Payables and finance leases	773	765	1 445	1 714	1 708	1 632
Other (including employee benefits)	715	794	1 077	1 089	1 019	1 541
Total liabilities	**8 508**	**9 115**	**10 883**	**13 644**	**11 147**	**9 437**
Unfunded liabilities	**6 251**	**7 081**	**8 630**	**11 214**	**8 697**	**7 435**

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

1.19 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 such as schools, hospitals and infrastructure assets are not generally readily available for sale to meet its liabilities.

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

Unfunded liabilities at 30 June 2017 compared to the budget estimate

1.20 The Territory's unfunded liabilities at 30 June 2017 ($8 697 million) exceeded the budgeted unfunded liabilities ($7 435 million) by $1 262 million (17 percent). This was mainly due to a higher than estimated unfunded superannuation liability resulting from the use of a lower discount rate to estimate the present value of the superannuation liability at 30 June 2017 compared to the rate used to prepare the budget estimate.

Unfunded liabilities at 30 June 2017 compared to the prior years

1.21 The Territory's unfunded liabilities at 30 June 2017 ($8 697 million) has decreased by $2 517 million (22 percent) compared to that at 30 June 2016 ($11 214 million) mainly due to the decrease in the unfunded superannuation liability.

The Territory's unfunded liabilities have significantly fluctuated in recent years. Unfunded liabilities increased from $6 251 million at 30 June 2013 to $11 214 million at 30 June 2016 before declining to $8 697 million at 30 June 2017. The increase in the unfunded liabilities over this period was $2 446 million (39 percent or an average annual increase of 10 percent). This mainly resulted from an increase in:

- payables and finance leases of $935 million (121 percent or an average annual increase of 30 percent);
- borrowings of $811 million (30 percent or an average annual increase of 7 percent); and
- the unfunded superannuation liability of $589 million (14 percent or an average annual increase 3 percent).

Projected unfunded liabilities

Table 1-5 Projected unfunded liabilities

At 30 June	Actual 2017 $m	Budget 2018 $m	Estimate 2019 $m	Estimate 2020 $m	Estimate 2021 $m
Financial assets	**2 450**	**1 814**	**1 717**	**1 587**	**1 487**
Liabilities					
Unfunded superannuation - Note 1	4 865	2 505	2 534	2 458	2 349
Borrowings	3 555	3 585	4 093	4 394	4 550
Payables and finance leases	1 708	1 731	2 065	2 015	1 921
Other (including employee benefits)	1 019	1 105	1 152	1 196	1 203
Total liabilities	**11 147**	**8 926**	**9 844**	**10 063**	**10 023**
Unfunded liabilities	**8 697**	**7 112**	**8 127**	**8 476**	**8 536**

Source: Budget and forward estimates were obtained from the 2017-18 Budget Papers.

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

1.22 The ACT Government estimates that the Territory's unfunded liabilities will remain broadly consistent over the forward years from 30 June 2018 to 30 June 2021 with some fluctuation. Unfunded liabilities at 30 June 2017 of $8 697 million is estimated to decrease by $161 million (2 percent) to $8 536 million at 30 June 2021 due largely to a decrease in the unfunded superannuation liability partially offset by an estimated increase in borrowings.

1.23 Unfunded superannuation liability at 30 June 2017 of $4 865 million is estimated to reduce by $2 516 million (52 percent or an average annual decrease of 13 percent) to $2 349 million at 30 June 2021. This is due mainly to the use of a higher discount rate to estimate this liability in the forward estimates compared to the rate used at 30 June 2017.

1.24 The estimated increase in borrowings of $995 million (28 percent or an average annual increase of 7 percent) from $3 555 million at 30 June 2017 to $4 550 million at 30 June 2021 is due mostly to an estimated increase in market borrowings to fund expected capital expenditure in the forward years.

Net short-term assets

Table 1-6 Net short-term assets

At 30 June	Actual 2013 $m	Actual 2014 $m	Actual 2015 $m	Actual 2016 $m	Actual 2017 $m	Budget 2017 $m
Short-term financial assets - Note 1	2 257	2 034	2 253	2 430	2 450	2 002
Short-term liabilities - Note 2	1 190	1 128	1 403	1 283	1 308	1 644
Net short-term financial assets	**1 067**	**906**	**850**	**1 147**	**1 142**	**358**
Ratio of short-term assets to short-term liabilities	**1.9:1**	**1.8:1**	**1.6:1**	**1.9:1**	**1.9:1**	**1.2:1**

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.

1.25 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 meet short-term liabilities. The Territory is in a net short-term asset position as it has sufficient short-term financial assets to meet its short-term liabilities.

Net short-term assets at 30 June 2017 compared to the budget estimate

1.26 The Territory's net short-term assets at 30 June 2017 ($1 142 million) exceeded the budget estimate ($358 million) by $784 million (219 percent). This was mainly due to higher than budgeted cash and deposits held by the Territory and lower than budgeted other provisions relating to the costs of remediation of properties under the Loose-fill Asbestos Insulation Eradication Scheme.

Net short-term assets at 30 June 2017 compared to prior years

1.27 The Territory's net short-term assets at 30 June 2017 ($1 142 million) is consistent with that at 30 June 2016 ($1 147 million).

The net short-term asset position has fluctuated in recent years. The Territory's net short-term assets has decreased from $1 067 million at 30 June 2013 to $850 million at 30 June 2015 before increasing to $1 142 million at 30 June 2017. The increase in net short-term asset position over this period was $75 million (7 percent or an average annual increase of 2 percent).

Projected net short-term assets/(liabilities)

Table 1-7 Projected net short-term assets/(liabilities)

At 30 June	Actual 2017 $m	Budget 2018 $m	Estimate 2019 $m	Estimate 2020 $m	Estimate 2021 $m
Short-term financial assets - Note 1	2 450	1 814	1 717	1 587	1 487
Short-term liabilities - Note 2	1 308	1 282	1 922	1 391	1 947
Net short-term assets/(liabilities)	**1 142**	**532**	**(205)**	**196**	**(460)**
Ratio of short-term assets to short-term liabilities	**1.9:1**	**1.4:1**	**0.9:1**	**1.1:1**	**0.8:1**

Source: Budget and forward estimates were obtained from the 2017-18 Budget Papers.

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 the current employee superannuation benefit liabilities from the current liabilities reported in the Territory's financial statements.

1.28 The ACT Government estimates that net short-term assets will significantly fluctuate in the forward years. The net short-term asset position is estimated to decrease from the net short-term assets position of $1 142 million at 30 June 2017 to a net short-term liabilities position of $460 million by 30 June 2021.

2 AUDIT FINDINGS

2.1 This chapter provides an overview of the audit findings for reporting agencies. These do not include findings from the reviews of controls over computer information systems[1].

2.2 Audit findings include weaknesses in governance arrangements, deficiencies in internal controls (including matters that could result in theft or other fraudulent activities) and areas where reporting practices could be improved.

2.3 Audit findings are reported in audit management reports that are provided to agency heads or chairs of governing boards and, where applicable, the relevant Minister, as required by Australian Auditing Standards[2]. Progress made by reporting agencies in addressing the previously reported audit findings is monitored and also reported in audit management reports.

Conclusion

Audit findings have progressively decreased in the last three financial years indicating that governance arrangements, internal controls and reporting practices of agencies are improving. However, agencies need to continue to give attention to addressing previously reported audit findings as only 49 percent were resolved in 2016-17.

Summary

Audit findings reported to agencies in 2016-17 (70) were fewer than those reported in 2014-15 (87) and 2015-16 (79). However, agencies only resolved 49 percent (39 of 79) of the previously reported audit findings in 2016-17.

In 2016-17, more than half of the reported audit findings (54 percent or 38 of 70) related to deficiencies in internal controls. Most (31) of these present a risk of theft or fraud.

Findings relating to weaknesses in governance arrangements and reporting practices decreased from 48 (55 percent) in 2014-15 to 32 (46 percent) in 2016-17. This indicates reporting agencies have improved their governance arrangements and financial reporting practices during this period.

[1] These findings will be separately reported in audit report titled '2016-17 Financial Audits – Computer Information Systems' in early 2018.

[2] 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

2.4 The status of audit findings reported to agencies in audit management reports from 2014-15 to 2016-17 is shown in Table 2-1.

Table 2-1 Status of audit findings

Year	Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
2014-15	101	(66)	16	19	52	87
2015-16	87	(49)	16	22	41	79
2016-17	79	(39)	17	23	30	70

Note: The table does not include findings from the reviews of controls over computer information systems. These findings will be separately reported in the audit report titled '2016-17 Financial Audits – Computer Information Systems' in early 2018.

2.5 In 2016-17, the Audit Office reported 70 audit findings to the agencies. The number of findings reported have decreased significantly by 17 (20 percent) over the period from 2014-15 (87) to 2016-17 (70) as the number of previously reported audit findings resolved exceeded the number of new audit findings identified.

2.6 The number of new audit findings identified declined from 52 in 2014-15 to 30 in 2016-17 indicating an improvement by agencies in their internal controls, governance arrangements and reporting practices.

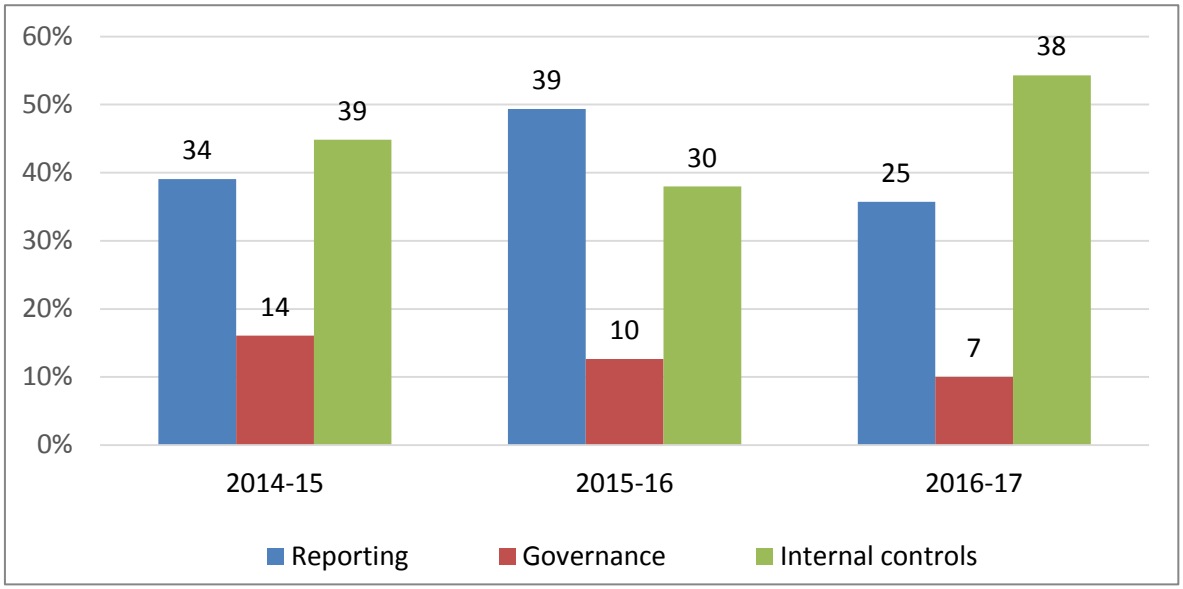
2.7 However, the performance of agencies in resolving previously reported audit findings has decreased from 65 percent (66 of 101) in 2014-15 to 49 percent (39 of 79) in 2016-17. In 2016-17, 40 audit findings reported remained partially resolved (17) or not resolved (23). In particular, there were:

- 20 audit findings (50 percent) relating to incorrect accounting for financial transactions and deficiencies in reporting practices;
- 18 audit findings (45 percent) relating to weaknesses in internal controls; and
- 2 audit findings related to weaknesses in governance arrangements.

Categories of audit findings

2.8 Figure 2-1 shows the breakdown of categories of audit findings reported to agencies in audit management reports from 2014-15 to 2016-17.

Figure 2-1 Categories of audit findings



2.9 In 2016-17, more than half of the reported audit findings (54 percent or 38 of 70) related to deficiencies in internal controls. This is higher than the 45 percent and 38 percent in 2014-15 and 2015-16 respectively. This indicates agencies continue to have deficiencies in their internal controls which includes exposure to the risks of fraud.

2.10 From the audit findings (38) relating to deficiencies in internal controls, most (31) present a risk of theft or fraud. These audit findings largely related to:

- reviews of salary reports. The reviews of salary reports is important as it reduces the risk of incorrect or fraudulent employee payments not being promptly identified and addressed;
- evidence of the satisfactory receipt of goods and services prior to payment of an invoice. The risk of payment errors or fraud is increased when invoices can be paid without evidence indicating that goods and services have been satisfactorily received;
- reviews of journals to record transactions in the financial accounting system (such as Oracle or MYOB). Reviews of journals by an independent officer prior to processing is important to reduce the risk of errors or fraudulent reporting or transactions; and
- authorisation of travel and hospitality expenditure. Unauthorised, or inappropriate travel or hospitality expenditure can be incurred when these transactions are not approved by an appropriate delegate prior to the expense being incurred.

Audit findings relating to weaknesses in governance arrangements and reporting practices have decreased from 48 (55 percent) in 2014-15 to 32 (46 percent) in 2016-17. This indicates reporting agencies have improved their governance arrangements and financial reporting practices during this period.

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, compares these results 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 their audit findings were considered to warrant public reporting.

ACT Insurance Authority

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

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

Summary

- The Audit Office issued an **unqualified audit report** on the Authority's 2016-17 financial statements and an **unqualified report of factual findings** on its 2016-17 statement of performance.
- The Authority's operating surplus ($26 million) exceeded the budgeted operating surplus ($1 million) by $25 million mainly due to lower than expected insurance claims expense.
- In 2016-17, the Authority paid $50 million in capital distributions to the ACT Government, as anticipated in the budget.
- The Authority had sufficient assets to cover its estimated claims liabilities at 30 June 2017.
- In 2016-17, the Authority resolved the previously reported audit finding relating to the authorisation of invoices for payment.

Financial results

Table 3-1 Key results

	Actual 2016-17 $m	Budget 2016-17 $m	Actual 2015-16 $m
Gross premiums	51	51	57
Net returns from investments	12	9	16
Income	**63**	**60**	**73**
Reinsurance expenses	(7)	(8)	(8)
Other	(3)	(3)	(3)
Expenses	**(10)**	**(11)**	**(11)**
Claims expense	(23)	(49)	(14)
Other	(4)	1	1
Net insurance claims expenses	**(27)**	**(48)**	**(13)**
Operating surplus	**26**	**1**	**49**
Capital distributions	**50**	**50**	**60**

3.4 Income mostly comprises insurance premiums collected from ACT Government agencies and net returns from investments. Income ($63 million) exceeded the budgeted amount ($60 million) by $3 million (5 percent) due to higher than estimated net returns from investments as a result of better than anticipated market conditions.

3.5 Expenses mainly consist of reinsurance premiums paid to external insurance providers and administration costs. Expenses ($10 million) were lower than budgeted ($11 million) as amounts paid for reinsurance premiums were less than anticipated.

3.6 Net insurance claims expenses mainly consist of insurance claims settlement payments and changes in the estimated insurance claims liabilities (explained in the paragraph below).

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

The net insurance claims expense ($27 million) was much lower than the budget estimate ($48 million) by $21 million (44 percent) mainly as a result of payments occurring earlier than anticipated and higher than budgeted discount rate used to estimate the present value of future insurance claims payments.

3.7 The Authority's operating surplus ($26 million) exceeded the budgeted operating surplus ($1 million) by $25 million due to a lower than expected net insurance claims expense.

3.8 The Authority paid $50 million in capital distributions to the ACT Government in 2016-17 as anticipated in the budget.

Financial position

Table 3-2 Net assets

At 30 June	Actual 2017 $m	Budget 2017 $m
Total assets	345	342
Total liabilities	(250)	(280)
Net assets	**95**	**62**
Ratio of total assets to total liabilities	**1.4 to 1**	**1.2 to 1**

3.9 The Authority aims to hold sufficient assets to meet its estimated claims liabilities. The Authority continued to have sufficient assets to cover its liabilities at 30 June 2017. Its net asset position at 30 June 2017 ($95 million) exceeded the budgeted position at 30 June 2017 ($62 million) by $33 million (53 percent).

Audit findings

Table 3-3 Status of audit finding

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

3.10 The Authority resolved the previously reported audit finding by officers acting within the limits of their approved financial delegation when authorising invoices for payment. This reduces the risk of payment errors and fraud.

ACT Local Hospital Network Directorate

3.11 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 later in this chapter.

3.12 Public hospital services are funded under arrangements between Australian states and territories and the Commonwealth Government in accordance with the National Health Reform Agreement. Under these arrangements, public hospital services are funded through the National Health Funding Pool.

3.13 In the ACT, activity-based and block funding is paid from the National Health Funding Pool to the Directorate. Using these funds 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).

Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2016-17 financial statements and an **unqualified report of factual findings** on its 2016-17 statement of performance.
- The net cost of the Directorate's services ($970 million) was consistent with the budgeted cost ($975 million) and exceeded the prior year's cost ($929 million) by $41 million (4 percent) due to higher public hospital services purchased by the Directorate.
- The Directorate resolved the one previously reported audit finding in 2016-17 relating to the clarity of variance explanations.

Financial results

Table 3-4 Key results

	Actual 2016-17 $m	Budget 2016-17 $m	Actual 2015-16 $m
Expenses	(1 071)	(1 065)	(1 026)
Cross-border health revenue	101	90	97
Net cost of services	**(970)**	**(975)**	**(929)**
Amounts received from the Commonwealth Government to fund public hospital services	344	341	325
Amounts received from the ACT Government to fund public hospital services	630	634	602
Operating surplus/(deficit)	**4**	**-**	**(2)**

3.14 Expenses mainly comprise 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.

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

3.16 The net cost of the Directorate's services ($970 million) was consistent with the budgeted cost ($975 million) and exceeded the prior year's cost ($929 million) by $41 million (4 percent) due to higher public hospital services purchased by the Directorate.

Audit findings

Table 3-5 Status of audit finding

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

3.17 The Directorate resolved one previously reported audit finding in 2016-17 by including informative explanations for all major variances between current year amounts and budgeted amounts, and current year amounts and prior year amounts, and adequately disclosing accounting policies used to prepare the financial statements. This reduces the risk that the readers of the financial statements will not understand the Directorate's financial results.

ActewAGL Joint Venture

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

3.19 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 later in this chapter.

Summary

- The Audit Office issued **unqualified audit reports** on the 2016-17 financial statements of the ActewAGL Joint Venture, ActewAGL Retail Partnership and ActewAGL Distribution Partnership.
- In 2016-17, ActewAGL's profit ($174 million) was lower than the profit generated in 2015-16 ($199 million) by $25 million (13 percent) mainly due to an increase in the cost of energy purchased by ActewAGL to supply its customers.
- ActewAGL had sufficient short-term assets to cover its short-term liabilities at 30 June 2017, and sufficient total assets to cover its total liabilities at 30 June 2017.
- ActewAGL resolved all previously reported audit findings relating to user access to the ActewAGL Distribution's billing system, password settings of the financial accounting system, access to the electronic funds transfer files, and documentation of changes to IT systems.
- Two audit findings were identified during the 2016-17 audit relating to ActewAGL Retail's new billing system, and bank and debtor reconciliations.

Financial results

Table 3-6 Key results

	Actual 2016-17 $m	Actual 2015-16 $m
Income	847	785
Expenses	(673)	(586)
Profit	**174**	**199**
Distributions paid to partners	**126**	**137**
Distributions paid to Icon Water (50 percent)	**63**	**69**

3.20 Income largely comes from the sale and distribution of energy.

3.21 Expenses are mainly energy purchases and network distribution costs, employment costs, payments to subcontractors and depreciation and amortisation.

3.22 ActewAGL's profit in 2016-17 ($174 million) was lower than the profit generated in 2015-16 ($199 million) by $25 million (13 percent) mainly due to an increase in the cost of energy purchased by ActewAGL to supply its customers.

3.23 Distributions paid by ActewAGL to Icon Water in 2016-17 ($63 million) were less than distributions paid in 2015-16 ($69 million) by $6 million (9 percent) due to the lower profit generated in 2016-17.

Financial position

Table 3-7 Net short-term assets

At 30 June	Actual 2017 $m	Actual 2016 $m
Short-term assets	301	258
Short-term liabilities	(231)	(179)
Net short-term assets	**70**	**79**
Ratio of short-term assets to short-term liabilities	**1.3 to 1**	**1.4 to 1**

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

3.24 ActewAGL had sufficient short-term assets to cover its short-term liabilities at 30 June 2017.

Table 3-8 Net assets

At 30 June	Actual 2017 $m	Actual 2016 $m
Total assets	1 636	1 538
Total liabilities	(249)	(199)
Net assets	**1 387**	**1 339**
Ratio of total assets to total liabilities	**6.6 to 1**	**7.7 to 1**

3.25 Total assets consist mainly of the electricity and gas network assets. ActewAGL had sufficient total assets to cover its total liabilities at 30 June 2017.

Audit findings

Table 3-9 Status of audit findings

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

3.26 ActewAGL resolved the five previously reported audit findings by:

- promptly removing the user accounts of former employees from the ActewAGL Distribution's billing system. This reduces the risk of inappropriate or fraudulent access;
- improving password complexity settings for user accounts that provide access to the financial accounting system (Oracle) so they complied with ActewAGL's 'Information Technology Security Policy'. This reduces the risk of unauthorised or fraudulent access;
- limiting the number of users with privileged access to the ActewAGL Distribution's billing system. This reduces the risk of inappropriate or fraudulent access;
- restricting network access to the electronic funds transfer files generated from the financial accounting system (Oracle) and payroll system (Aurion), prior to import into ActewAGL's electronic banking platform (Commbiz), to process supplier and payroll payments. This reduces the risk of fraudulent payments; and
- consistently documenting testing of IT system changes, improving the Change Management Policy to provide further guidance on testing requirements for IT system changes and training key staff on the importance of testing these changes. This

reduces the risk of transactions not being completely and accurately processed following the implementation of changes to IT systems.

3.27 Two audit findings were identified during 2016-17. They are:

- between 31 January 2017 and 4 April 2017 users of ActewAGL Retail's new billing system had the ability to cancel a billing exception (e.g. unusual consumption identified by the billing system) that was assigned to them without it being followed up and investigated. This increases the risk of inaccurate customer billings.

  Management commenced a review of the cancelled billing exceptions after this weakness was brought to their attention and removed the ability to cancel a billing exception from all user accounts.

  Following the review of all cancelled billing exceptions, management confirmed that customer billing was accurate for the 2016-17 reporting period. The work undertaken by management was reviewed during the audit and assessed as complete and accurate; and

- the February 2017 and March 2017 bank and debtor reconciliations for ActewAGL Retail were not performed in a timely manner. This increases the risk of errors in the accounting records or fraudulent transactions not being detected in a timely manner.

  Management advised these delays resulted from the implementation of the new ActewAGL Retail's billing system and that future reconciliations will be completed in a timely manner.

ACTION

3.28 ACTION operates a public bus network including school, special needs transport, community transport, management of the ACT rural schools bus contract and charter hire buses in the ACT. ACTION is part of the Transport Canberra and City Services Directorate but is a separate entity for financial reporting purposes.

Summary

- The Audit Office issued an **unqualified audit report** on ACTION's 2016-17 financial statements and an **unqualified report of factual findings** on its 2016-17 statement of performance.
- The net cost of ACTION's services ($119 million) was consistent with the budgeted cost ($118 million).
- In 2016-17, ACTION resolved two of the three previously reported audit findings relating to ticket inspections and its human resources system. ACTION partially resolved one previously reported finding relating to reconciliations of cash fares collected by bus drivers.
- Two additional audit findings were identified in 2016-17 relating to authorisation of hospitality expenditure and journal entries processed in its accounting system.

Financial results

Table 3-10 Key results

	Actual 2016-17 $m	Budget 2016-17 $m	Actual 2015-16 $m
Expenses	(150)	(151)	(145)
Income	31	33	26
Net cost of services	**(119)**	**(118)**	**(119)**
Government contributions	109	105	104
Loss on revaluation of buses	(5)	-	-
Operating deficit	**(15)**	**(13)**	**(15)**
Capital injections	12	15	19

3.29 ACTION's expenses are mainly employee and bus operating costs, including fuel, maintenance and insurance costs.

3.30 ACTION's income is mostly from fares charged to people travelling on the bus network.

3.31 The net cost of ACTION's services ($119 million) aligned with the budgeted cost ($118 million) and prior year cost ($119 million).

3.32 Government contributions of $109 million and capital injections of $12 million were largely consistent with the budgeted amounts of $105 million and $15 million respectively.

Audit findings

Table 3-11 Status of audit findings

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

3.33 ACTION resolved two of the three previously reported audit findings by:

- recommencing ticket and compliance inspections on the use of MyWay concession cards on buses. This reduces the risk of concession cards being inappropriately or fraudulently used by people who are not eligible concession card holders; and
- transferring its employee records and salary details from Aurion human resource system, which lacked key automated controls, to the CHRIS21 human resource system, which has automated key controls. This reduces the risk of errors and fraudulent salary payments to staff.

3.34 ACTION partially resolved one previously reported audit finding by having the reconciliations between the cash fares collected by bus drivers and the cash fares recorded in ACTION's ticketing system (MyWay) signed by the preparing and reviewing officers. However, some reconciliations were not reviewed in a timely manner or were not dated by the preparing and reviewing officers.

3.35 Two audit findings were identified in 2016-17. ACTION did not always have the:

- hospitality expenditure authorised by an appropriate delegate prior to the expense being incurred as required by its guidelines. This increases the risk of unauthorised or inappropriate hospitality expenditure. ACTION advised that all transactions were properly related to its operations; and
- journal entries used to record transactions in the accounting system reviewed by an independent ACTION officer before being processed. This increases the risk of errors or fraudulent financial reporting.

3.36 ACTION has agreed to address all audit findings.

Canberra Institute of Technology

3.37 The Canberra Institute of Technology provides vocational education services to students and training services to government and private sector organisations.

Summary

- The Audit Office issued an **unqualified audit report** on the 2016 financial statements of the Canberra Institute of Technology and an **unqualified report of factual findings** on its 2016 statement of performance.
- The net cost of the Canberra Institute of Technology's services ($71 million) was lower than the budgeted cost ($78 million) by $7 million (9 percent) due to higher than anticipated grants being received from the ACT Government ($6 million) for several large projects to improve and modernise the education and training services.
- The Canberra Institute of Technology partially resolved the two previously reported audit findings relating to Chief Executive Financial Instructions and workpapers supporting its statement of performance.

Financial results

Table 3-12 Key results (calendar years)

	Actual 2016 $m	Budget 2016 $m	Actual 2015 $m
Expenses	(112)	(113)	(113)
Income	41	35	36
Net cost of services	**(71)**	**(78)**	**(77)**
Government contributions	70	70	66
Operating deficit	**(1)**	**(8)**	**(11)**

3.38 Expenses largely consist of employee costs and operational costs such as information technology and consultants and contractors expenses. The Canberra Institute of Technology's expenses ($112 million) aligned with the budgeted cost ($113 million).

3.39 Income is mainly earned from providing education services to students and training services to government agencies and private sector organisations. Income ($41 million) exceeded the budgeted amount ($35 million) by $6 million (17 percent) as higher than anticipated grants were received from the ACT Government ($6 million) for several large projects to improve and modernise the education and training services.

3.40 The Canberra Institute of Technology's net cost of services ($71 million) was lower than the budgeted cost ($78 million) by $7 million (9 percent). This is the result of previously mentioned higher than anticipated grants being received from the ACT Government.

Audit findings

Table 3-13 Status of audit findings

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

3.41 The Canberra Institute of Technology partially resolved the two previously reported audit findings by:

- reviewing and updating its financial management policies and procedures to replace its outdated Chief Executive Financial Instructions. However, not all of these policies and procedures have been approved by the Chief Executive; and
- including sufficient information in the workpapers to support its statement of performance. However, there was no evidence these workpapers were reviewed by someone independent of their preparer. This increases the risk of erroneous or fraudulent reporting.

3.42 The Canberra Institute of Technology has agreed to address all audit findings.

Chief Minister, Treasury and Economic Development Directorate

3.43 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 the 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; and
- overseeing the program involving the overhaul of public housing (Public Housing Renewal Program).

3.44 Under changes to the Administrative Arrangements of 1 November 2016, the Directorate transferred the Asbestos Response Taskforce, responsible for implementing the Loose-fill Asbestos Insulation Eradication Scheme, to the Environment, Planning and Sustainable Development Directorate.

Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2016-17 financial statements and an **unqualified report of factual findings** on its 2016-17 statement of performance.
- The net cost of the Directorate's services ($398 million) was $80 million (17 percent) below the budgeted cost ($478 million) mainly due to the overestimation of supplies and services expenditure in the budget.
- Government contributions ($323 million) were $71 million (18 percent) below the budgeted amount ($394 million), mainly reflecting undrawn appropriation associated with the Public Housing Renewal Program and the transfer of the Loose-fill Asbestos Insulation Eradication Scheme to the Environment, Planning and Sustainable Development Directorate.
- The Directorate resolved two of the five previously reported audit findings. The two resolved related to the Strategic Asset Management Plan, and the quality and timing of the financial statements. One finding relating to quality and timeliness of the statement of performance was partially resolved, and two relating to the clarity of accountability indicators in the budget papers and the review of salary reports were not resolved.

Financial results

Table 3-14 Key results

	Actual 2016-17 $m	Budget 2016-17 $m	Actual 2015-16 $m
Expenses excluding assets transferred to other ACT Government agencies – Note 1	(688)	(785)	(698)
Income – Note 1	290	307	279
Net cost of services	**(398)**	**(478)**	**(419)**
Government contributions	323	394	411
Other gains (mostly relating to Scheme land) – Note 1	11	41	20
Assets transferred to other ACT Government agencies	(64)	-	(96)
Operating deficit	**(128)**	**(43)**	**(84)**

Note 1: For comparability purposes, the 2016-17 Budget for the Loose-fill Asbestos Insulation Eradication Scheme (the Scheme) land revenue and the cost of Scheme land sold has been netted off and included in other gains, consistent with the accounting treatment used for the 2015-16 and 2016-17 actual reporting periods.

3.45 Expenses excluding assets transferred to other ACT Government agencies largely consists of costs associated with employees, contractors and consultants, office accommodation, information and communication technology, repairs and maintenance, depreciation, and grants for major sporting, business, industry, tourism and event organisations.

Expenses ($688 million) were lower than the budget estimate ($785 million) by $97 million (12 percent) mainly due to the overestimation of supplies and services expenditure in the budget.

3.46 Income mainly consists of amounts received from other ACT Government agencies for providing services relating to property management, information and communication technology, procurement, human resources, finance, publishing and records management and sporting and tourism events. Income ($290 million) was slightly lower than the budgeted amount ($307 million).

3.47 The Directorate's net cost of services ($398 million) was $80 million (17 percent) below the budgeted amount ($478 million) mainly due to the overestimation of supplies and services expenditure in the budget.

3.48 Government contributions ($323 million) were $71 million (18 percent) below the budgeted amount ($394 million), mainly reflecting undrawn appropriation due to revised release schedules for the sale of public housing sites associated with the Public Housing Renewal program, and the transfer of the Loose-fill Asbestos Insulation Eradication Scheme to the Environment, Planning and Sustainable Development Directorate on 1 November 2016, following the Administrative Arrangements of that date.

3.49 Other gains are mainly revenue from Scheme land sales offset by the cost of Scheme land sold. Other gains ($11 million) were lower than the budgeted amount ($41 million) mainly due to the transfer of the Loose-fill Asbestos Insulation Eradication Scheme to the Environment, Planning and Sustainable Development Directorate.

3.50 Assets transferred to other ACT Government agencies ($64 million) are mainly completed infrastructure assets (including roads) transferred to the Transport Canberra and City Services Directorate.

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

Audit findings

Table 3-15 Status of audit findings

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

3.52 Two of the five previously reported audit findings were resolved, one was partially resolved and two were not resolved. No new audit findings were identified during the 2016-17 audit.

3.53 The Directorate resolved two audit findings by:

- approving a Strategic Asset Management Plan encompassing strategic asset management plans for the Directorate's key business units. This reduces the risk that the planning, acquisition, disposal and maintenance of assets will not be effectively managed; and
- submitting its draft 2016-17 financial statements for audit in accordance with the whole-of-government reporting timetable and improving the quality of it by clearly and concisely explaining material variances between the current year's results, budget estimates and prior year's results. This reduces the risk of delays in completing the audit and readers not understanding the financial results of the Directorate.

3.54 The Directorate partially resolved one audit finding by providing its draft 2016-17 statement of performance to the Audit Office for review in accordance with the whole-of-government reporting timetable. However, the explanatory information included in the draft statement of performance was not always sufficient to inform readers about the performance of the Directorate.

3.55 The Directorate did not resolve two audit findings, as:

- some accountability indicators and related targets were not clearly defined and 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; and
- there was not always evidence that reviews of salary reports were being performed or those that were performed were not always conducted in a timely manner. This increases the risk that incorrect or fraudulent employee payments will not be promptly detected and addressed.

3.56 The Directorate has agreed to address these audit findings.

Community Services Directorate

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

Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2016-17 financial statements.
- The **unqualified report of factual findings** issued by the Audit Office on the Directorate's 2016-17 statement of performance contained a 'negative finding' as accountability indicators were not established and reported against for Output Class 1: 'Disability and Therapy Services' as required by the *Financial Management Act 1996*. This was due to Disability ACT and Therapy ACT ceasing as service providers in 2016-17 as part of transitioning into the National Disability Insurance Scheme (NDIS). The Directorate has advised the accountability for service provision under the NDIS now rests with the Commonwealth.
- Expenses ($286 million) exceeded the budgeted amount ($274 million) by $12 million (4 percent) due mainly to higher than estimated payments made to the Commonwealth Government for the NDIS and to non-government organisations for children in out-of-home care. The Directorate received $15 million more in Government contributions mainly to cover the higher costs relating to the NDIS and children in out-of-home care.
- The Directorate resolved the one previously reported audit finding relating to variance explanations in the financial statements.
- Two new audit findings were identified in 2016-17 relating to the Directorate's business continuity framework and the review of salary reports.

Financial results

Table 3-16 Key results

	Actual 2016-17 $m	Budget 2016-17 $m	Actual 2015-16 $m
Expenses	(286)	(274)	(271)
Income	15	10	25
Net cost of services	**(271)**	**(264)**	**(246)**
Government contributions	277	262	252
Asset transfers to other agencies	(1)	-	(2)
Operating surplus/(deficit)	**5**	**(2)**	**4**

3.58 Expenses mainly comprise employee expenses, administrative costs and payments to the Commonwealth Government for the NDIS and to non-government organisations for services such as out-of-home care for children and child protection programs.

Expenses ($286 million) exceeded the budgeted amount ($274 million) by $12 million (4 percent). This was mainly due to higher than estimated payments to the Commonwealth Government for the NDIS and to non-government organisations relating to a higher number of children in out-of-home care. This was partially offset by lower employee expenses due to a lower than expected workers' compensation insurance premium.

3.59 Income includes reimbursements received from:

- non-government organisations for unspent grant funding; and
- the ACT Government's Restructure Fund to assist in meeting the cost of voluntary employee redundancies associated with the transition of therapy and disability services to non-government organisations under the NDIS.

Income ($15 million) exceeded the budgeted amount ($10 million) by $5 million (50 percent) mainly due to higher than expected amounts received from the ACT Government's Restructure Fund.

3.60 The net cost of the Directorate's services ($271 million) was $7 million (3 percent) higher than the budgeted net cost of services ($264 million) as higher expenses exceeded the higher income.

3.61 Government contributions ($277 million) exceeded the budgeted amount ($262 million) by $15 million (6 percent). This resulted from the Directorate receiving Treasurer's advances mainly to cover the higher than expected cost of transitioning disability and therapy services to non-government organisations under the NDIS, and higher than expected number of children in out-of-home care.

Audit findings

Table 3-17 Status of audit findings

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

3.62 The Directorate resolved the one previously reported audit finding by submitting financial statements for audit that contained variance explanations between current year results, budget results and prior year results that were informative and could be easily understood by readers external to the Directorate.

3.63 Two new audit findings were identified in 2016-17. The Directorate:

- has not reviewed its 'Business Continuity Framework' since 2014 or has not updated it to reflect the recent changes to the Directorate's organisational structure. This provides less assurance that the business continuity plans used by business units will operate effectively and enable operations to resume promptly in the event of a major disruption or disaster; and
- did not review some salary reports in a timely manner. Salary reports should be reviewed in a timely manner to promptly identify and correct erroneous or possible fraudulent salary payments.

3.64 The Directorate has agreed to address the audit findings.

Education Directorate

3.65 The Education Directorate (the Directorate) provides public school education services, regulates education and childcare services, and registers non-government schools and home educators.

3.66 Responsibility for special needs transport was transferred from the Directorate to the Transport Canberra and City Services Directorate on 1 July 2016.

Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2016-17 financial statements and an **unqualified report of factual findings** on its 2016-17 statement of performance.
- The net cost of the Directorate's services ($687 million) was $11 million (2 percent) below the budgeted cost ($698 million) mainly due to lower expenses resulting from the unanticipated transfer of special needs transport to the Transport Canberra and City Services Directorate under changed administrative arrangements.
- Government contributions ($628 million) were $9 million (1 percent) below the budgeted amount ($637 million) as appropriation for special needs transport was transferred to the Transport Canberra and City Services Directorate.
- The Directorate did not draw down $32 million (55 percent) of the budgeted capital injections ($58 million) due mainly to delays in the tender and design process for the refurbishment of Belconnen High School and minor delays for the construction of a new school in the North Gungahlin area.
- Grants to non-government schools ($272 million) were $5 million (2 percent) lower than the budgeted amount ($277 million) mainly due to lower than estimated student enrolments in non-government schools.
- The Directorate resolved two of the four previously reported audit findings relating to its Fraud and Corruption, Prevention and Response Plan, and an accountability indicator. Two previously reported audit findings, relating to the review of salary reports and audit logs for the schools administration system, were not resolved.

Financial results

Table 3-18 Key results - controlled

	Actual 2016-17 $m	Budget 2016-17 $m	Actual 2015-16 $m
Expenses	(729)	(740)	(729)
Income	42	42	42
Net cost of services	**(687)**	**(698)**	**(687)**
Government contributions	628	637	627
Operating deficit	**(59)**	**(61)**	**(60)**
Capital injections	**26**	**58**	**48**

3.67 Expenses mainly consist of employee expenses, school operating costs, depreciation costs, and supplies and services expenses including school repairs and maintenance costs.

3.68 Income consists mainly of international student tuition fees, voluntary contributions by parents to schools and funding received from the Commonwealth Government for various school programs.

3.69 The net cost of the Directorate's services ($687 million) was $11 million (2 percent) below the budgeted cost ($698 million) mainly due to lower expenses resulting from the unanticipated transfer of special needs transport to the Transport Canberra and City Services Directorate under changed administrative arrangements.

3.70 Government contributions ($628 million) were $9 million (1 percent) below the budgeted amount ($637 million) as appropriation for special needs transport was transferred to the Transport Canberra and City Services Directorate.

3.71 The Directorate did not draw down $32 million (55 percent) of the budgeted capital injections ($58 million). This was due mainly to delays in the tender and design process for the refurbishment of Belconnen High School and minor delays for the construction of a new school in the North Gungahlin area.

Table 3-19 Key results - Territorial expenses

	Actual 2016-17 $m	Budget 2016-17 $m	Actual 2015-16 $m
Grants to non-government schools	272	277	259
Other grants	1	1	1
Total expenses	**273**	**278**	**260**

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

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

3.73 Grants paid to non-government schools ($272 million) were $5 million (2 percent) lower than the budgeted amount ($277 million) mainly due to lower than estimated student enrolments in non-government schools.

Audit findings

Table 3-20 Status of audit findings

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

3.74 The Directorate resolved two of the four previously reported audit findings by:

- reviewing and approving its Fraud and Corruption, Prevention and Response Plan. This provides the Directorate with more assurance that its planned processes for addressing fraud and corruption will be effective; and
- deleting the accountability indicator 'Investigations and complaints commenced within the stated policy timeframes' (Output Class 1: 'Public School Education') from its 2016-17 budget papers. In 2015-16, the method used to measure the result of this accountability indicator was corrected during the review of the statement of performance to measure the timeliness of action taken.

3.75 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 the capability to generate audit logs showing the activities of users accessing the system and its data. The Directorate also does not have a documented policy for the review of audit logs.

This control weakness increases the risk that that erroneous or fraudulent changes to the system or data will not be promptly detected and rectified.

The Directorate advised that:

> … it will address this control weakness as part of the replacement of the student administration system. The replacement student administration system is expected to be fully operational by 2019-20.

3.76 No new audit findings were identified in 2016-17.

Environment, Planning and Sustainable Development Directorate

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

3.78 Under changes to administrative arrangements in 2016-17, the Directorate became responsible for:

- management of parks and reserves, and sale of land to the Land Development Agency on behalf of the Territory, from the Transport Canberra and City Services Directorate on 1 July 2016; and
- Asbestos Response Taskforce implementing the Loose-fill Asbestos Insulation Eradication Scheme from the Chief Minister, Treasury and Economic Development Directorate on 1 November 2016.

Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2016-17 financial statements and an **unqualified report of factual findings** on its 2016-17 statement of performance.
- The net cost of the Directorate's services ($61 million) was $26 million (30 percent) below the budgeted amount ($87 million) due to higher than budgeted income exceeding higher than budgeted expenses.
- Government contributions ($101 million) exceeded the budgeted amount ($85 million) by $16 million (19 percent) mainly due to the unbudgeted transfer of appropriation to the Directorate from the Chief Minister, Treasury and Economic Development Directorate for Asbestos Response Taskforce.
- The Directorate did not draw down $23 million (25 percent) of budgeted capital injections mainly due to the later than anticipated timing of activities for the Loose-fill Asbestos Insulation Eradication Scheme and fewer than anticipated loan applications were received from ACT Government agencies for Carbon Neutral Loans.
- The Directorate resolved the one previously reported audit finding in 2016-17 relating to accounting for grant revenue.
- Two new audit findings were identified in 2016-17 relating to the review of salary reports and arrangements for the sale of land to the Land Development Agency.

Financial results

Table 3-21 Key results

	Actual 2016-17 $m	Budget 2016-17 $m
Expenses	(120)	(105)
Income	59	18
Net cost of services excluding transfers to Government	**(61)**	**(87)**
Transfers to Government	(44)	-
Government contributions	101	85
Other gains	51	-
Operating surplus/(deficit)	**47**	**(2)**
Capital injections – **Note 1**	**69**	**92**

Note 1: Budgeted capital injections of $92 million consist of $27 million provided in the 2016-17 budget and $65 million provided during 2016-17.

3.79 Expenses mainly consist of employee costs, costs of consultants and contractors used on feasibility studies and planning projects, repairs and maintenance, information technology and office equipment costs, and office accommodation costs.

Expenses ($120 million) exceeded the budgeted cost ($105 million) by $15 million (14 percent) mainly due to higher than budgeted:

- employee and superannuation expenses mainly due to the unanticipated transfer of Asbestos Response Taskforce staff to the Directorate from the Chief Minister, Treasury and Economic Development Directorate; and
- consultant and contractor costs for renewable energy innovation studies.

3.80 Income largely consists of funding received for developing renewable energy and energy storage, sale of timber, and fees charged for conveyancing of land and public notification of development applications. Income also includes revenue relating to renewable energy certificates. 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.

Income ($59 million) exceeded the budgeted amount ($18 million) by $41 million (228 percent) due to higher than budgeted:

- income from renewable energy certificates as a higher than anticipated number of certificates were received;
- amounts received from external parties to develop renewable energy and energy storage; and
- income from sale of timber.

3.81 The net cost of the Directorate's services ($61 million) was $26 million (30 percent) below the budgeted amount ($87 million) due to the higher than budgeted income exceeding the higher than budgeted expenses.

3.82 Government contributions ($101 million) exceeded the budgeted amount ($85 million) by $16 million (19 percent) mainly due to the unbudgeted transfer of appropriation to the Directorate from the Chief Minister, Treasury and Economic Development Directorate for the Asbestos Response Taskforce.

3.83 Gains of $51 million and Transfers to Government expenses of $44 million were not included in the budget due to changes in administrative arrangements. The balances mostly consist of the net proceeds received from Loose-fill Asbestos Insulation Eradication Scheme land sales and associated transfer of these amounts to Government.

3.84 The Directorate did not draw down $23 million (25 percent) of budgeted capital injections mainly due to:

- later than anticipated timing of activities for the Loose-fill Asbestos Insulation Eradication Scheme; and
- lower than expected capital injections required as fewer than anticipated loan applications were received from ACT Government agencies for Carbon Neutral Loans.

Table 3-22 Key results – Territorial income

	Actual 2016-17 $m	Budget 2016-17 $m
Fees and fines	33	23
Land revenue	39	4
Total income	**72**	**27**

3.85 The Directorate collects fees and fines, and land revenue on behalf of the Territory. Fees and fines mostly consists of amounts charged for development applications and lease variations. Land revenue is received from leasing Territorial Land and selling land to the former Land Development Agency.

Fees and fines revenue ($33 million) was $10 million (43 percent) higher than the budgeted amount ($23 million) mostly due to higher lease variation charges as more than expected applications were received for lease variations.

Land revenue ($39 million) exceeded the budgeted amount ($4 million) by $35 million (875 percent) as revenue from the sale of land inventory was not anticipated in the budget.

Audit findings

Table 3-23 Status of audit findings

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

3.86 The Directorate resolved the previously reported audit finding by recording grant funding as revenue when it controls revenue, rather than when it was spent, as required by Australian Accounting Standard, AASB 1004: 'Contributions'.

3.87 Two audit findings were identified in 2016-17:

- the Directorate did not always review salary reports in a timely manner. This increases the risk that incorrect salary payments or irregularities (including fraud) will not be promptly identified and corrected; and
- two significant corrections were made to the Directorate's financial statements during the audit relating to the sale of land to the Land Development Agency occurring under a memorandum of understanding agreement. The errors indicated that improvements need to be made to the agreement to clearly articulate the arrangements relating to the sale of land and to correctly record sale transactions in the financial statements.

  Representatives of the Directorate have advised the Audit Office that a new memorandum of understanding agreement will be developed for the sale of land between the Directorate and the Suburban Land Agency in 2017-18.

3.88 The Directorate has agreed to address all audit findings.

Health Directorate

3.89 The Health Directorate (the Directorate) provides public health services such as hospital and extended care services, managing public health risks and promotes health and early care interventions in the ACT.

3.90 Public hospital services provided by the Directorate are mostly funded by amounts received from the ACT Local Hospital Network Directorate. Information on funding provided by the ACT Local Hospital Network Directorate is discussed earlier in this chapter.

Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2016-17 financial statements and an **unqualified report of factual findings** on its 2016-17 statement of performance.
- The net cost of Directorate's services ($330 million) was consistent with the budgeted cost ($332 million) and prior year's cost ($335 million).
- The Directorate did not draw down $57 million (28 percent) of its budgeted capital injections ($203 million) due mainly to delays in planned capital projects.
- The Directorate resolved three of the five previously reported audit findings relating to expenditure payment controls, explanation of significant variances in its financial statements and the clarity of variance explanations. The Directorate did not resolve the remaining two previously reported audit findings relating to credit card acquittals and authorisation of expenditure by a financial delegate.
- Four additional audit findings were identified in 2016-17 relating to the reviews of salary reports, monthly financial reports, business continuity plans and authorisation of travel and hospitality expenditure.

Financial results

Table 3-24 Key results

	Actual 2016-17 $m	Budget 2016-17 $m	Actual 2015-16 $m
Expenses	(1 328)	(1 320)	(1 295)
Income	998	988	960
Net cost of services	**(330)**	**(332)**	**(335)**
Government contributions	291	286	273
Operating deficit	**(39)**	**(46)**	**(62)**
Capital injections	**146**	**203**	**138**

3.91 The Directorate's income largely consists of funds received from the ACT Local Hospital Network Directorate for providing public hospital services in the ACT. The Directorate also earns revenue from providing other health related services and selling medical and pharmaceutical supplies.

3.92 The Directorate's expenses mainly consist of employee expenses, cost of purchasing medical and pharmaceutical supplies and grants to non-government health service providers.

3.93 The net cost of Directorate's services ($330 million) was consistent with the budgeted cost ($332 million) and prior year's cost ($335 million).

3.94 Government contributions ($291 million) were consistent with the budget ($286 million).

3.95 The Directorate did not draw down $57 million (28 percent) of its budgeted capital injections ($203 million) due mainly to delays in planned capital projects. In particular:

- the construction of the University of Canberra Public Hospital was delayed due to adverse weather conditions;
- additional work required for recently constructed buildings (e.g. Dhulwa Secure Mental Health Unit, Ngunnawal Bush Healing Farm) were delayed; and
- computer software projects were delayed due to data migration issues and difficulties in finding suitable hardware to operate these systems.

Audit findings

Table 3-25 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
5	(3)	-	2	4	6

3.96 The Directorate resolved three of the five previously reported audit findings by:

- documenting the evidence of goods or services having been satisfactorily received prior to payment;
- providing clear, relevant and concise explanations for significant variances in its financial statements; and
- explaining all major variances between current year and budgeted amounts in its financial statements.

3.97 The Directorate did not resolve the two remaining previously reported audit findings as:

- the credit card acquittals were not consistently performed in a timely manner to reduce the risk of erroneous or fraudulent use of credit cards; and
- expenditure payments were not always evidenced as having been approved by a financial delegate prior to payment to reduce the risk of erroneous or fraudulent payments.

3.98 Four audit findings were identified in 2016-17. The Directorate did not:

- always perform the reviews of salary reports in a timely manner or retain the evidence of these reviews. This increases the risk of incorrect or fraudulent employee payments;
- document the reviews of monthly financial reports by senior management. When reviews of the monthly finance reports are not performed on a regular basis and evidenced as such, there is a higher risk that the Directorate's financial operations are not effectively monitored and errors or other matters of concern will not be identified. The Directorate advised that while the financial reports were reviewed on a monthly basis, evidence of these reviews was not documented;
- review its business continuity plans for major IT applications that impact its financial statements as required by these plans. Furthermore, the effectiveness of these plans was not tested. This increases the risk the Directorate will not be able to resume operations in a timely manner, without loss of information, in the event of a major disruption or disaster; and
- always have travel and hospitality expenditure authorised by an appropriate delegate prior to the expense being incurred as required by its procedures. This increases the risk of unauthorised or inappropriate travel or hospitality expenditure. The Directorate advised that all transactions were properly related to its operations.

3.99 The Directorate has agreed to address all audit findings.

Housing ACT

3.100 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.

Summary

- The Audit Office issued an **unqualified audit report** on Housing ACT's 2016-17 financial statements and an **unqualified report of factual findings** on its 2016-17 statement of performance.
- The net cost of Housing ACT's services ($78 million) was $11 million (12 percent) below budgeted cost ($89 million) due mainly to higher than anticipated income.
- The value of Housing ACT's property portfolio at 30 June 2017 ($4 975 million) exceeded the value at 30 June 2016 ($4 680 million) by $295 million (6 percent) due largely to an upwards revaluation of land in 2016-17 and the addition of new properties.
- Housing ACT resolved the two previously reported audit findings relating to impairment assessment of public housing properties and variance explanations in the management discussion and analysis.
- Three new audit findings were identified during 2016-17 relating to the use of Cabcharge taxi e-tickets, the review of salary reports, and accounting workpapers supporting some financial statement balances.

Financial results

Table 3-26 Key results

	Actual 2016-17 $m	Budget 2016-17 $m	Actual 2015-16 $m
Expenses	(180)	(182)	(162)
Income	98	92	95
Gain from the sale of properties	4	1	2
Net cost of services	**(78)**	**(89)**	**(65)**
Government contributions	44	44	44
Other gains	2	-	2
Losses from transferring assets to other entities	(8)	(2)	(3)
Operating deficit	**(40)**	**(47)**	**(22)**

3.101 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.

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

3.103 The net cost of Housing ACT's services ($78 million) was $11 million (12 percent) below budgeted cost ($89 million). This was due mainly to higher than anticipated income from:

- insurance claim recoveries for property damage;
- goods and services tax credits received from the Australian Taxation Office; and
- gain from sale of properties as a result of higher than expected sale prices.

3.104 Losses from transferring assets to other entities ($8 million) exceeded the budget amount ($2 million) by $6 million. This was due to the unanticipated transfer of eight properties to a community organisation to provide social housing for people with disability.

Property Portfolio

Table 3-27 Number and value of land and dwellings

At 30 June	Actual 2015	Actual 2016	Actual 2017
Number of land parcels – Note 1	6 777	6 771	6 880
Land value ($m)	**$3 182**	**$3 343**	**$3 530**
Number of dwellings – Note 1	11 585	11 658	11 821
Dwellings value ($m)	**$1 313**	**$1 337**	**$1 445**
Total value of land and dwellings ($m)	**$4 495**	**$4 680**	**$4 975**

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.

3.105 The value of Housing ACT's property portfolio at 30 June 2017 ($4 975 million) exceeded the value at 30 June 2016 ($4 680 million) by $295 million (6 percent) due largely to an upward revaluation of land in 2016-17 and the addition of new properties through construction, purchase or transfers from the Public Housing Renewal Program.

Audit findings

Table 3-28 Status of audit findings

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

3.106 Housing ACT resolved the two previously reported audit findings by:

- improving the documentation of its impairment assessment of public housing properties that are identified for demolition as part of the Public Housing Renewal Program; and
- providing clear and complete variance explanations between current year, prior year and budgeted results in the management discussion and analysis of the financial statements.

3.107 Three new audit findings were identified in 2016-17. Housing ACT:

- had insufficient documentation supporting the use of Cabcharge taxi e-tickets as the destination and purpose of travel were not documented and staff were not always required to sign documentation to verify that they had received the Cabcharge taxi e-tickets. These weaknesses increase the risk of the misuse or fraudulent use of Cabcharge taxi e-tickets.

  Housing ACT agreed to address this audit finding.

- did not always have evidence of review of salary reports. Evidence of review and follow-up action was only retained when an error or anomaly was identified. This increases the risk of incorrect or fraudulent payments not being promptly identified and investigated.

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

  > Interviews with the relevant senior managers indicated that the salary reports had mostly been reviewed in a timely manner although they have only filed the reports in their personal e-mail archive when no follow up was required.
  >
  > Housing ACT will implement a system to document reviews of salary reports.

- provided the Audit Office with accounting workpapers supporting some financial statement balances that were incomplete or did not include sufficient information to enable someone other than the preparer to understand. This increases the risk of errors in the financial statements and additional time required to complete the audit.

  Housing ACT agreed to address this audit finding.

Icon Water Limited

3.108 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 earlier in this chapter.

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

Summary

- The Audit Office issued **unqualified audit reports** on the 2016-17 financial statements of Icon Water Limited, Icon Distribution Investments Limited and Icon Retail Investments Limited.
- The operating profit ($97 million) of Icon Water is lower than the previous year's profit ($122 million) by $25 million (20 percent) mainly due to a decrease in water revenue and profits received from ActewAGL.
- Icon Water's share of profit from ActewAGL in 2016-17 ($88 million) decreased by $12 million (12 percent) from 2015-16 ($100 million).
- Dividends paid to the ACT Government in 2016-17 decreased slightly by $2 million from $80 million in 2015-16 to $78 million in 2016-17.
- Icon Water has net short-term liabilities of $374 million mainly due to borrowings maturing within 12 months. Icon Water plans to refinance these borrowings with long-term borrowings during 2017-18.
- One audit finding was identified during the 2016-17 audit relating to the incorrect billing of some large commercial customers. Management of Icon Water has confirmed that all billing errors have been identified and corrected.

Financial results

Table 3-29 Key results

	Actual 2016-17 $m	Actual 2015-16 $m
Revenue excluding share of profit from ActewAGL	342	350
Share of profit from ActewAGL	88	100
Revenue	**430**	**450**
Expenses	(290)	(277)
Operating profit before income tax expense	**140**	**173**
Income tax expense	(43)	(51)
Operating profit	**97**	**122**
Dividends paid to the ACT Government	**78**	**80**

Note: The financial results shown above are the consolidated results of Icon Water Limited and Controlled Entities (Icon Distribution Investments Limited and Icon Retail Investments Limited).

3.110 Revenue mostly consists of charges for water supply, sewerage services and Icon Water's share of profit from ActewAGL. Revenue excluding Icon Water's share of profit from ActewAGL ($342 million) was slightly lower than the previous year's amount ($350 million) by $8 million (2 percent). This was mainly due to a decrease in:

- water revenue from a decline in water consumption; and
- water and sewerage assets constructed by developers and contributed to Icon Water.

3.111 Icon Water's share of profit from ActewAGL in 2016-17 ($88 million) decreased by $12 million (12 percent) from 2015-16 ($100 million).

3.112 Expenses largely consist of operating costs for the business, interest costs incurred on borrowings, employee expenses, and depreciation. Total expenses ($290 million) were slightly higher than the prior year's amount ($277 million) by $13 million (5 percent).

3.113 Income tax expense ($43 million) was lower than the prior year's expense ($51 million) by $8 million (16 percent) due to lower taxable profits.

3.114 Icon Water's operating profit ($97 million) is lower than the previous year's profit ($122 million) by $25 million (20 percent) mainly due to a decrease in water revenue and profits received from ActewAGL.

3.115 Dividends paid to the ACT Government decreased slightly by $2 million (3 percent) from $80 million in 2015-16 to $78 million in 2016-17.

Financial position

Table 3-30 Net short-term liabilities

At 30 June	Actual 2017 $m	Actual 2016 $m
Short-term assets	133	122
Short-term liabilities including dividend payable to the ACT Government	(507)	(135)
Net short-term liabilities	**(374)**	**(13)**
Ratio of short-term assets to short-term liabilities including dividend payable to the ACT Government	**0.3 to 1**	**0.9 to 1**

3.116 Icon Water's short-term financial position at 30 June 2017 (net short-term liabilities of $374 million) is much weaker than the position that existed at 30 June 2016 (net short-term liabilities of $13 million). This is mainly due to a medium-term borrowing and a short-term borrowing maturing within 12 months (i.e. before 30 June 2018). Icon Water plans to refinance these borrowings with a new long-term borrowing from the Territory Banking Account during 2017-18.

Table 3-31 Net assets

At 30 June	Actual 2017 $m	Actual 2016 $m
Total assets	3 379	3 309
Total liabilities	(2 078)	(2 032)
Net assets	**1 301**	**1 277**
Ratio of total assets to total liabilities	**1.6 to 1**	**1.6 to 1**

3.117 Icon Water had sufficient total assets to cover its total liabilities at 30 June 2017.

Audit findings

Table 3-32 Status of audit finding

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

3.118 There were no previously reported audit findings. However, an audit finding was identified during the 2016-17 audit. Icon Water identified that it had incorrectly billed some large commercial customers as a result of not updating its billing system with the correct type of water meter when they were replaced. Management of Icon Water has confirmed that all billing errors have been identified and corrected. These adjustments were accurately reflected in the financial statements for the year ended 30 June 2017.

Justice and Community Safety Directorate

3.119 The Justice and Community Safety Directorate (the Directorate) provides courts, corrections, justice, legal, emergency and policing services.

3.120 The Directorate is comprised of the Legislation and Policy Branch, ACT 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.

3.121 The Directorate's operations also include services provided by the Director of Public Prosecutions and ACT Human Rights Commission.

3.122 ACT Policing services provided by the Australian Federal Police are paid through the Directorate's territorial operations.

Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2016-17 financial statements and an **unqualified report of factual findings** on its 2016-17 statement of performance.
- The net cost of the Directorate's services ($285 million) was slightly below the budgeted cost ($289 million).
- Payments to the Australian Federal Police for policing services ($156 million) largely aligned with the budgeted payments ($155 million).
- At 30 June 2017, the Directorate had $703 million in commitments relating to the public-private partnership with a private sector consortium (Juris Partnership) for construction of the new ACT Courts and Tribunal facilities.
- The Directorate resolved two of the four previously reported audit findings. The two findings resolved related to business continuity planning and information technology strategic planning. One finding relating to the financial reporting requirements for the public-private partnership was partially resolved and one relating to the review of salary reports was not resolved.
- Two new audit findings were identified, one relating to errors in the statement of performance which resulted in non-compliance with the whole-of-government reporting timetable, and one relating to the reconciliation of daily takings of court fees and fines.

Financial results

Table 3-33 Key results

	Actual 2016-17 $m	Budget 2016-17 $m	Actual 2015-16 $m
Expenses	(321)	(324)	(308)
Income excluding gains from assets received	36	35	31
Net cost of services	**(285)**	**(289)**	**(277)**
Government contributions	254	261	250
Gain from assets received	4	-	28
Operating (deficit)/surplus	**(27)**	**(28)**	**1**
Capital injections	30	46	49

3.123 Expenses mostly consist of employee expenses and the cost of supplies and services associated with the provision of justice services, corrective services, courts and tribunal, and emergency services. Expenses ($321 million) were largely consistent with the budgeted amount ($324 million).

3.124 Income is mainly comprised of fees received for services provided by the ACT Government Solicitor's Office, ACT Courts and Tribunal, and the Emergency Services Agency (e.g. for providing ambulance transport and fire protection services). Income ($36 million) was slightly higher than the budgeted amount ($35 million).

3.125 The net cost of the Directorate's services ($285 million) was slightly below the budgeted cost ($289 million).

3.126 Capital injections ($30 million) were lower than the budgeted amount ($46 million) by $16 million (35 percent). The Directorate advised that not all of its capital injections were drawn down largely due to the cashflow requirements for several projects not being required until 2017-18. These mainly related to ICT and capital work projects, including Emergency Services Agency information and communication technology (e.g. Territory Radio Network) and station upgrade projects, and the ACT Courts and Tribunal's Public Private Partnership (PPP) project and new case management system.

Table 3-34 Key results – Territorial expenses

	Actual 2016-17 $m	Budget 2016-17 $m	Actual 2015-16 $m
Payments to the Australian Federal Police	156	155	154
Other expenses	16	11	11
Total expenses	**172**	**166**	**165**

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

3.127 Territorial expenses consist mainly of payments to the Australian Federal Police to provide policing services. Payments for policing services ($156 million) largely aligned with the budget ($155 million).

Table 3-35 ACT Courts and Tribunal Project - Public Private Partnership Commitments

	Finance Lease Commitments $m	Capital Commitments $m	Operating Commitments $m	Total (excluding GST) $m
Within one year	3	-	1	4
Later than one year but not later than five years	59	2	25	86
Later than five years	315	117	181	613
Total Public Private Partnership Commitments	**377**	**119**	**207**	**703**

Source: Note 36: 'Commitments' to the Directorate's 2016-17 financial statements.

3.128 At 30 June 2017, the Directorate had $703 million in commitments relating to the Directorate's public-private partnership with a private sector consortium (Juris Partnership) to design, construct, operate, maintain and finance the new ACT Courts and Tribunal facilities.

3.129 The Directorate will record the assets and corresponding liabilities relating to this project from the commencement date of each stage of the project (Stage 1 in 2017-18, Stage 2 in 2018-19).

Audit findings

Table 3-36 Status of findings

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

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

3.131 The Directorate resolved two audit findings by:

- testing and documenting the effectiveness of its business continuity plans for the ACT Courts and Tribunal, ACT Corrective Services, and the Emergency Service Agency. This increases assurance that critical systems will be promptly recovered and key operations resumed, without the loss of data, in the event of a disaster or other major disruption; and
- documenting and approving an information technology strategic plan ('JACS ICT Strategy 2017-2019') which includes actions to achieve the planned objectives. This reduces the risk that information technology systems may not meet emerging priorities and needs of the Directorate.

3.132 The Directorate partially resolved one audit finding by obtaining accounting advice on the refinancing gain relating to the public-private partnership for the new ACT Courts and Tribunal. However, the Directorate will need to continue to monitor financial reporting requirements relating to public-private partnerships, in particular, those resulting from the new Australian Accounting Standard AASB 1059: 'Service Concession Arrangements: Grantor' that will be applicable in future reporting periods.

The Directorate noted this audit finding and advised:

> The Directorate will continue to ensure that the ACT Courts Project is accounted for in accordance with relevant accounting standards. The impact from the new accounting standard in this area will be closely monitored and complied with. The Directorate will continue to engage proactively with the Chief Minister, Treasury and Economic Development Directorate and the Audit Office on any accounting issues and treatments relating to Public Private Partnerships and will seek expert accounting advice where appropriate.

3.133 The Directorate did not resolve an audit finding relating to the review of salary reports as there was often no evidence that reviews of salary reports were being performed or those that were performed were not always conducted in a timely manner. This increases the risk that incorrect or fraudulent employee payments will not be promptly detected and addressed.

The Directorate agreed with this audit finding and advised that:

> All Business Unit Managers will be reminded of their obligations in relation to timely payroll reporting review. Relevant business units for which salary reports did not have documented evidence of review, or were often not reviewed in a timely manner will also put measures in place to address the audit recommendation.

3.134 Two new audit findings were identified in 2016-17. The Directorate:

- had errors in the reported results for some accountability indicators in its statement of performance relating to Output Class 3: 'Courts and Tribunal' and as a result did not comply with the Chief Minister, Treasury and Economic Development Directorate's whole-of-government reporting timetable. This indicates the Directorate's processes for preparing its statement of performance, where systems relied on for accountability indicators have been changed or updated, do not provide reasonable assurance that the results will always be correctly reported. The Directorate corrected its statement of performance for these errors; and
- did not always document the review by an independent officer of reconciliations of daily takings of court fees and fines to the record of takings. This increases the risk of errors and fraud not being detected in a timely manner.

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

> In relation to the reported results for accountability indicators, the Directorate has already instigated a number of measures to ensure that these types of issues with the data reports do not occur again. These measures include:
>
> a) reviewing the accuracy of the data that has been and, in the case of the criminal jurisdiction, will be migrated to the ICT Case Management System (ICMS) and correcting it where necessary;
> b) seeking programming changes to the ICMS to resolve issues as to how it has classified some migrated data in terms of case types or status;
> c) introducing monthly checks and other quality assurance measures to verify the accuracy of data in the ICMS on an ongoing basis so that any issues are identified and resolved early;
> d) arranging for an expert from the Western Australia courts to audit the ACT Courts and Tribunal reporting tools in late 2017 to ensure they are consistent with the relevant counting rules in the Courts Data Collection Manual published by the Productivity Commission that are used for the Statement of Performance; and
> e) undertaking an internal audit review of the first quarter reporting and requesting the Audit Office to review the mid-year statement of performance for the Output class.
>
> In relation to the reconciliation of daily takings of courts fees and fines, relevant staff have been reminded of the need to consistently maintain the documentation for the daily reconciliation of receipts and takings, particularly while we are relying on MAX (for fines and other criminal related payments) and ICMS (for fees and other civil related payments) pending the full roll out of the ICMS in mid-2018.
>
> A third layer of review occurs when the banking process is conducted the following day as further system reports are reconciled against the daily takings.

Former Land Development Agency

3.135 The Land Development Agency was established under the *Planning and Development Act 2007* and ceased operations effective 1 July 2017. Its functions were transferred to the Suburban Land Agency, the City Renewal Authority and the Environment, Planning and Sustainable Development Directorate.

3.136 In 2016-17, the Land Development Agency developed and sold residential, commercial and industrial land on behalf of the ACT Government.

Summary

- The Audit Office issued an **unqualified audit report** on the Land Development Agency's 2016-17 financial statements and an **unqualified report of factual findings** on its 2016-17 statement of performance.
- Operating profit ($259 million) exceeded the budgeted amount ($211 million) by $48 million (23 percent) as the lower than budgeted gross profit on land sales was more than offset by lower expenses.
- Operating profit ($259 million) increased by $86 million (50 percent) from the previous year's operating profit ($173 million) mainly due to the increase in gross profit on land sales.
- The Land Development Agency resolved one of the three previously reported audit findings relating to its Chief Executive Financial Instructions. Two previously reported audit findings on the statement of performance were not resolved.

Financial results

Table 3-37 Key results

	Actual 2016-17 $m	Budget 2016-17 $m	Actual 2015-16 $m
Land sales revenue	534	630	594
Cost of acquiring and developing land	(116)	(189)	(308)
Gross profit on land sales	**418**	**441**	**286**
Other income including share of operating profit from land joint ventures	11	7	24
Other expenses excluding inventory write-down	(43)	(68)	(40)
Inventory write-down	(69)	(78)	(21)
Asset transferred to other agencies	-	-	(2)
Operating profit before income tax equivalents expense	**317**	**302**	**247**
Income tax equivalents expense	(58)	(91)	(74)
Operating profit	**259**	**211**	**173**

Source: The breakdown of budget information was provided by the Land Development Agency.

3.137 Gross profit on land sales ($418 million) was $23 million (5 percent) lower than the budgeted gross profit ($441 million) due to lower than budgeted land sales revenue ($96 million) partially offset by lower than budgeted cost of acquiring and developing land ($73 million).

3.138 Land sales revenue ($534 million) was lower than the budgeted amount ($630 million) by $96 million (15 percent) mainly due to lower than expected sales for:

- ACT Government land (formerly used for public housing and office buildings) for the Asset Recycling Initiative. The expected sale of public housing blocks in Red Hill and Dickson did not occur in 2016-17 due to unanticipated delays in settlement; and
- residential blocks in Throsby and Greenway.

These were partially offset by higher commercial land sales in Canberra City for the ACT Government office building that was not anticipated in the budget.

3.139 Cost of acquiring and developing land ($116 million) was lower than the budgeted amount ($189 million) by $73 million (39 percent) due mainly to lower than expected residential land sales.

3.140 Other expenses excluding inventory write-down ($43 million) largely consist of employee costs, costs of engaging consultants and contractors and operating costs. This was lower than the budgeted amount ($68 million) by $25 million (37 percent) mainly due to:

- an overestimation of other expenses in the budget;
- lower supplies and services mainly due to lower than expected pre-development activity costs for future estate developments; and
- lower than budgeted employee costs as a result of delays in recruiting new staff.

3.141 The Land Development Agency writes down the value of land inventories received free of charge from other ACT Government agencies to zero as Australian Accounting Standard AASB 102: 'Inventories' requires inventories to be measured at the lower of their cost and net realisable value. Inventory write-down ($69 million) was lower than the budgeted amount ($78 million) by $9 million (12 percent) due to unanticipated delays in the transfer of land from ACT Government agencies for the Asset Recycling Initiative.

3.142 Income tax equivalents expense ($58 million) was $33 million (36 percent) lower than the budgeted amount ($91 million) as deferred tax liabilities of $32 million were de-recognised due to the Land Development Agency ceasing operations effective 1 July 2017.

3.143 Operating profit ($259 million) exceeded the budgeted amount ($211 million) by $48 million (23 percent) as the lower than budgeted gross profit on land sales was more than offset by lower income tax equivalents expenses, other expenses and inventory write-down expenses.

3.144 Operating profit ($259 million) increased by $86 million (50 percent) from the previous year's operating profit ($173 million) mainly due to:

- an increase in gross profit on land sales. Costs of acquiring and developing land were lower as there were more commercial and industrial land sales which have lower development costs, and lower amounts were paid to other ACT Government agencies for land; and
- lower income tax equivalent expenses as discussed above.

This was partially offset by an increase in inventory write-down mainly due to a higher number of assets received at no cost.

Audit findings

Table 3-38 Status of audit findings

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

3.145 The Land Development Agency resolved one of the three previously reported audit findings by updating and approving the procurement guide supporting its Chief Executive Financial Instructions.

3.146 The Land Development Agency did not resolve two previously reported audit findings relating to its statement of performance as:

- the Land Development Agency did not have a documented method for calculating a result for the new performance indicator 'Active Travel' when it was included in the statement of intent and statement of performance. The performance indicator was also omitted from the draft statement of performance provided to the Audit Office. However, this problem was addressed before the completion of the Audit Office's review of the statement of performance.

  The Land Development Agency 'noted' this audit finding and advised that:

  > It is acknowledged that the Statement of Performance initially provided to the Audit Office on 18 August 2017 had omitted the Active Travel performance indicator. However, the Land Development Agency had an established method for assessing performance against the indicator from 1 July 2015. Active Travel initiatives are considered in the Business Plans of all new Greenfield suburbs. These initiatives are required to form part of Estate Development Plans (EDPs) that are subject to whole of Government consultation processes before being approved by the Environment, Planning and Sustainable Development Directorate. The Land Development Agency made an assessment of performance against this indicator based on approved EDPs and Business Plans which were documented and available to the Audit Office upon request.
  >
  > It is acknowledged that the Audit Office was not initially provided with a summary document collating this information, however upon request, the Land Development Agency provided a summary document.

- the statement of performance includes eight non-financial performance indicators for which the 100 percent target has been consistently achieved since they were first reported. As these measures only measure an activity performed rather than the outcome of the activity they may not:
  - contribute to improving performance against the strategic objectives; and
  - provide readers with an understanding of the issues encountered in achieving, or not achieving, targets.

  The Land Development Agency 'noted' this audit finding and advised that it:

  > … did not address this finding for the 2016-17 statement of performance as the performance indicators were set in the 2016-17 Budget, which was released prior to the 2015-16 final audit management report being issued.

Superannuation Provision Account

3.147 The Superannuation Provision Account administers investments set aside to meet the defined benefit employer superannuation liabilities of the Territory. These defined benefit superannuation liabilities relate to:

- current and former ACT Government employees who are members of Commonwealth Government defined benefit superannuation schemes; and
- Members of the Legislative Assembly who are eligible to the Legislative Assembly Members' Defined Benefit Superannuation entitlement.

The Commonwealth Superannuation Corporation (CSC) administers the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS) and makes superannuation benefits payments to the eligible ACT Government employees. The Territory reimburses CSC for the employer-financed share of the superannuation benefits paid for current and former ACT Government employees from 1 July 1989. The superannuation liabilities incurred before this date are covered by the Commonwealth Government.

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

Summary

- The Audit Office issued an **unqualified audit report** on the Superannuation Provision Account's 2016-17 financial statements and an **unqualified report of factual findings** on its 2016-17 statement of performance.
- The Superannuation Provision Account's net gain in the fair value of investments ($237 million) exceeded the budgeted net gain ($163 million) by $74 million (45 percent) due to favourable conditions in the investment market. This also resulted in the operating deficit ($263 million) being lower than budgeted deficit ($331 million) by $68 million (21 percent).
- The unfunded superannuation liability at 30 June 2017 ($4 854 million) was higher than the budgeted unfunded position ($2 620 million) by $2 234 million (85 percent) mostly due to a lower discount rate (4 percent) used to estimate the present value of the superannuation liability than the rate used to prepare the budget estimate (6 percent).
- The annual cash payments required to meet superannuation obligations are projected to significantly increase over the next two decades, peaking at $638 million in 2043 and then reducing until fully paid. The Superannuation Provision Account will continue to rely on budget funding to meet annual cash payments for the Territory's superannuation obligations until the liability is fully funded.

Financial Results

Table 3-39 Key results

	Actual 2016-17 $m	Budget 2016-17 $m	Actual 2015-16 $m
Income	114	101	113
Net gain/(loss) on the fair value of investments	237	163	(11)
Expenses	(614)	(595)	(560)
Operating deficit	**(263)**	**(331)**	**(458)**

3.148 The Superannuation Provision Account's income mostly consists of distributions, dividends and interest from superannuation investments. Income ($114 million) was $13 million (13 percent) higher than the budget estimate ($101 million) as interest, dividends and distributions received on investments were higher than anticipated.

3.149 The net gain in the fair value of investments ($237 million) exceeded the budgeted net gain ($163 million) by $74 million (45 percent), as favourable conditions in investment markets resulted in a higher return than estimated in the budget.

3.150 The Superannuation Provision Account's expenses mainly consist of superannuation costs associated with the estimated growth in the superannuation liability. Expenses ($614 million) were in line with the budget estimate ($595 million).

3.151 The Superannuation Provision Account's operating deficit ($263 million) was lower than the budgeted deficit ($331 million) by $68 million (21 percent) due mainly to the previously mentioned higher than expected gains on investments.

Actual unfunded superannuation liability

Table 3-40 Actual financial position

At 30 June	Actual 2014 $m	Actual 2015 $m	Actual 2016 $m	Actual 2017 $m	Budget 2017 $m
Financial assets – Note 1	3 030	3 342	3 447	**3 720**	3 628
Superannuation liability	(7 475)	(8 490)	(10 718)	**(8 574)**	(6 248)
Unfunded superannuation liability	**(4 445)**	**(5 148)**	**(7 271)**	**(4 854)**	**(2 620)**
Investments to superannuation liability	**0.4 to 1**	**0.4 to 1**	**0.3 to 1**	**0.4 to 1**	**0.6 to 1**

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

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

3.152 The Superannuation Provision Account's financial assets consist of cash at bank, investments and investment income receivable. As these are not sufficient to cover the superannuation liability, a substantial component of the liability is unfunded.

3.153 The superannuation liability is valued to present value using a relevant Commonwealth Government bond (discount) rate. This valuation is sensitive to changes in the discount rate due to the long-term settlement period of the liability. Therefore, the rate used to calculate the present value of the superannuation liability has a significant impact on its estimated value. The use of a lower discount rate increases and a higher rate decreases the estimated superannuation liabilities respectively.

3.154 The Superannuation Provision Account's unfunded superannuation liability at 30 June 2017 ($4 854 million) was higher than the budgeted unfunded position ($2 620 million) by $2 234 million (85 percent) mostly due to the use of a lower discount rate (4 percent) to estimate the present value of the superannuation liability than the rate used to prepare the budget estimate (6 percent).

The unfunded superannuation liability at 30 June 2017 ($4 854 million) was lower than unfunded position at 30 June 2016 ($7 271 million) by $2 417 million (33 percent) mainly due to the use of a higher discount rate (4 percent) to estimate the present value of the superannuation liability compared to the rate used at 30 June 2016 (3 percent).

The unfunded superannuation liability position has experienced significant fluctuations in recent years. The unfunded position increased significantly from $4 445 million at 30 June 2014 to $7 271 million at 30 June 2016 before declining to $4 854 million in the current year. The increase in the unfunded position over this period was $409 million or an average annual increase of 3 percent.

3.155 The Superannuation Provision Account advised that:

> The unfunded superannuation liability position has been volatile since 30 June 2014 due to historic low domestic interest rates with the required use of lower discount rates than the long-term budget interest rate assumption (6 percent) to estimate the superannuation liability, 30 June 2014 (4.08 percent), 30 June 2015 (3.66 percent), 30 June 2016 (2.69 percent) and 30 June 2017 (3.51 percent).
>
> The superannuation liability valuation is sensitive to changes in the discount rate. This is demonstrated by the material decrease in the estimated valuation as at 30 June 2017 compared with 30 June 2016 due to an increase in domestic bond rates over the course of 2016-17.
>
> The level and volatility of domestic interest rates in the future will continue to significantly impact the estimated superannuation liability valuations.

Projected unfunded superannuation liability

Table 3-41 Budgeted financial position

At 30 June	Actual 2017 $m	Budget 2018 $m	Budget 2019 $m	Budget 2020 $m	Budget 2021 $m
Financial assets – Note 1	3 720	3 878	4 079	4 374	4 691
Superannuation liability	(8 574)	(6 369)	(6 598)	(6 817)	(7 024)
Unfunded superannuation liability	**(4 854)**	**(2 491)**	**(2 519)**	**(2 443)**	**(2 333)**
Investments to superannuation liability	**0.4 to 1**	**0.6 to 1**	**0.6 to 1**	**0.6 to 1**	**0.7 to 1**

Source: Actual figures were obtained from Superannuation Provision Account's audited financial statements. Budget figures were obtained from the 2017-18 Budget Papers.

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

3.156 The unfunded superannuation liability position is estimated to decrease substantially over the forward years from the unfunded position of $4 854 million at 30 June 2017 to $2 333 million by 30 June 2021. This decrease is attributable to a gradual increase in the financial assets of $971 million over the forward years from the current balance of $3 720 million to $4 691 million by 30 June 2021. On the other hand, the superannuation liability is projected to decrease by $1 550 million from $8 574 million in the current year to $7 024 by 30 June 2021.

3.157 Assuming other factors remain unchanged, for the large estimated decrease in the superannuation liability to occur over the forward years, there would need to be a significant increase in the discount rate used to estimate the superannuation liability.

3.158 The Superannuation Provision Account advised that:

> A long-term average discount rate assumption of 6 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 estimated long-term average discount rate assumption is appropriate.

Table 3-42 Future superannuation cash payments schedule

Year ended 30 June	Nominal terms $m
2018	251
2024	370
2030	492
2036	593
2041	635
2043 (peak)	638
2048	608
2054	514
2056	476

Source: Information above was obtained from the 'Report on the Actuarial Investigation as at 30 June 2016' prepared by the Territory's consulting actuary, Willis Tower Watson. The actuarially assessed amounts are represented in nominal terms (i.e. not adjusted for inflation).

3.159 Annual cash payments to meet superannuation obligations are projected to significantly increase over the next two decades, peaking at $638 million in 2043 and then reducing over the next few decades until fully paid. The payments schedule reflects mainly 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 by these employees' while in 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.

3.160 The Superannuation Provision Account will continue to rely on budget funding to meet the projected significant increase in annual cash payments for the Territory's superannuation obligations until the liability is fully funded. The timing of when the superannuation liability becomes fully funded is subject to the Territory receiving the anticipated investment returns and the projected cash payments not significantly increasing beyond the estimated amounts in the future years.

Transport Canberra and City Services Directorate

3.161 The Transport Canberra and City Services Directorate (the Directorate) was formed on 1 July 2016 from the amalgamation of the Capital Metro Agency and the Territory and Municipal Services Directorate.

3.162 The Directorate is responsible for Canberra's public transport and municipal services, as well as overseeing the construction and operation of the light rail project. The Directorate also operates laundry services and the Yarralumla Nursery.

Summary

- The Audit Office issued an **unqualified audit report** on the Directorate's 2016-17 financial statements and an **unqualified report of factual findings** on its 2016-17 statement of performance.
- The net cost of the Directorate's services ($511 million) was higher than the budgeted cost ($439 million) by $72 million (16 percent) mainly due to the unbudgeted transfer of the Constitution Avenue upgrade works to the National Capital Authority and expensing of capital costs for roads projects.
- The Directorate did not draw down $78 million (36 percent) of the budgeted capital injections as a result of delays in planning and commencing work on new infrastructure projects.
- At 30 June 2017, the Directorate had $1 649 million in commitments relating to the public-private partnership for the light rail project.
- In 2016-17, the Directorate partially resolved four of six previously reported audit findings relating to its internal audit function, explanatory information in both its financial statements and statement of performance and accounting for the light rail project. The Directorate did not resolve two audit findings relating to the valuation of assets and the review of weekly waste management fee reconciliations.
- Two audit findings were identified in 2016-17 relating to the authorisation of travel and hospitality expenditure and monthly reconciliations between the waste management fee system and the finance system.

Financial results

Table 3-43 Key results

	Actual 2016-17 $m	Budget 2016-17 $m	Actual 2015-16 $m
Expenses	(554)	(467)	(525)
Income	43	28	44
Net cost of services	**(511)**	**(439)**	**(481)**
Government contributions	299	292	329
Other gains including infrastructure asset transfers	136	154	130
Operating (deficit)/surplus	**(76)**	**7**	**(22)**
Capital injections	**139**	**217**	**128**

3.163 The Directorate's expenses mainly consist of depreciation of infrastructure assets, contractors and consultant's expenses, repairs and maintenance costs for infrastructure assets, employee expenses and payments to ACTION for bus services.

Expenses ($554 million) exceeded the budgeted cost ($467 million) by $87 million (19 percent) mainly due to the unbudgeted:

- transfer of the Constitution Avenue upgrade to the National Capital Authority during the year;
- expensing of capital costs for roads projects (including Constitution Avenue) that did not meet the definition of an asset under Australian Accounting Standards; and
- increase in depreciation expenses due to a reduction in the estimated useful life of waste landfill sites at the Mugga Lane Tip during the year.

3.164 Income is mostly derived from providing laundry and linen cleaning services, collecting fees and fines for the disposal of waste at the Territory's landfill sites and the sale of plants from the Yarralumla Nursery.

Income ($43 million) exceeded the budgeted amount ($28 million) by $15 million (54 percent) as the Directorate earned higher than anticipated fees from the disposal of asbestos contaminated waste from "Mr Fluffy" properties and household waste at the Territory's landfill sites.

Other gains including infrastructure asset transfers mainly relate to roads, stormwater systems, footpaths and cycle paths from the development of new suburbs transferred to the Directorate from other ACT Government agencies and private land developers. In 2016-17, infrastructure assets transferred to the Directorate by the private developers was $18 million (12 percent) less than anticipated in the budget due to delays in completing projects.

3.165 The net cost of the Directorate's services ($511 million) was higher than the budgeted cost ($439 million) by $72 million (16 percent) mainly due to the unbudgeted transfer of the Constitution Avenue upgrade works to the National Capital Authority and expensing of capital costs for roads projects that did not meet the definition of an asset under Australian Accounting Standards.

3.166 Government contributions ($299 million) were consistent with the budgeted amount ($292 million).

3.167 Capital injections received by the Directorate ($139 million) were less than the budgeted amount ($217 million) by $78 million (36 percent). This was mainly due to lower than budgeted capital injections drawn down due to delays in planning and commencing work on new infrastructure projects.

Table 3-44 Light Rail Project - Public Private Partnership Commitments

	Finance Lease Commitments $m	Operating Commitments $m	Total (excluding GST) $m
Later than one year but not later than five years	475	100	575
Later than five years	462	612	1 074
Total commitments	**937**	**712**	**1 649**

Source: Note 36: 'Commitments' to the Directorate's audited 2016-17 financial statements.

3.168 At 30 June 2017, the Directorate had commitments of $1 649 million for the design, construction, operation, maintenance and financing of the first stage of the light rail network. The Directorate will record the assets and corresponding liabilities in its financial statements relating to this project from its commencement date (expected to be late 2018).

Audit findings

Table 3-45 Status of audit findings

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
6	-	4	2	2	8

3.169 The Directorate partially resolved four of the six previously reported audit findings by:

- updating its internal audit charter to require internal audits of areas that the Chief Audit Executive has operational responsibility for to be overseen and managed by an independent Executive in the Directorate. While this provides an adequate safeguard for conducting internal audits, it does not explain how the Directorate plans to ensure that operational areas that come under the responsibility of the Chief Audit Executive will receive sufficient internal audit coverage;
- not including explanations for immaterial variances between the current year, budget and prior year results in its financial statements. However, some of the explanations for the major variances were not clear and did not explain the main reasons for the variance;
- providing explanations for the major variances between the planned targets and the reported results for accountability indicators in its statement of performance. However, no information was included to explain how several accountability indicators that report results for customer satisfaction with services were measured; and
- obtaining accounting advice to record several transactions for the light rail project in its 2016-17 financial statements. However, the Directorate will need to continue to monitor the reporting requirements for the light rail project to comply with the Australian Accounting Standards in future financial statements.

3.170 Two audit findings were not resolved this year as:

- errors were again found in the valuation of assets. While these errors were corrected during the audit this increases the risk of material errors in the financial statements when asset valuations contain errors; and
- weekly reconciliations of revenue recorded in the waste management fee system to the money collected were not always reviewed in a timely manner or dated by the reviewing officer. This increases the risk that errors or irregularities (including fraud) in the reconciliations will not be promptly identified, investigated and resolved.

3.171 Two additional audit findings were identified in 2016-17 as the Directorate did not:

- perform monthly reconciliations between the waste management fee system and the finance system for the revenue collected at landfill sites in a timely manner. Additionally, these reconciliations were not reviewed by an independent officer. This increases the risk that unexplained variances in the reconciliation will not be detected and resolved; and
- always have hospitality and travel expenditure authorised by an appropriate delegate prior to the expense being incurred. This increases the risk of unauthorised or inappropriate hospitality or travel expenditure. The Directorate advised that these transactions were properly related to its operations.

3.172 The Directorate has agreed to address all audit findings.

University of Canberra

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

3.174 In 2016, 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;
- the WJ Weeden Post-Graduate Scholarship Trust Fund which provides scholarships to students enrolled at the University for post-graduate studies; and
- the University of Canberra Royal Institute of Public Administration Research Fund which provides funds to conduct research projects and produce publications relating to studies on public administration.

3.175 The Audit Office audited the 2016 financial statements of:

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

Summary

- The Audit Office issued an **unqualified audit report** on the 2016 financial statements of the University.
- The 2016 operating surplus excluding non-recurring income and capital grants received ($4 million) was less than the 2015 operating surplus ($6 million) by $2 million (33 percent). This was mainly due to higher payments to academic partners for teaching courses to undergraduate students.
- The University had net short-term liabilities of $19 million at 31 December 2016. It disclosed in its financial statements that it can meet these short-term liabilities using funding provided by the Commonwealth Government and undrawn borrowing facilities with banks. While this is the case, it will need to carefully manage its finances to continue meeting these short-term liabilities.
- Five of the nine previously reported audit findings were partially resolved and four were not resolved. Of those that were partially resolved, two relate to control weaknesses over key corporate computer systems, two to the quality of financial reporting and one to a weakness in payment controls. Of those that were not resolved, three relate to non-compliance with Australian Accounting Standards and one to a weakness in payroll controls.

Financial results

Table 3-46 Key results (calendar years)

University of Canberra Group – Note 1	Actual 2016 $m	Actual 2015 $m
Income excluding non-recurring income and capital grants received	280	277
Expenses	(276)	(271)
Operating surplus excluding non-recurring income and capital grants received – Note 2	**4**	**6**
Non-recurring income		
Gain from the sale of 51 percent of the University of Canberra College	-	4
Gain from a remeasurement of the University's remaining 49% shareholding in the University of Canberra College	-	5
Total non-recurring income	**-**	**9**
Capital grants received		
Capital grants received for the construction of buildings	3	2
Total non-recurring income and capital grants received	**3**	**11**
Operating surplus	**7**	**17**

Note 1: The financial information presented in Table 3-46 is a consolidation of the financial results of the University and entities it controlled. These entities are UCU Ltd, UC Global Pty Limited, 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 are removed, the University's underlying operating surplus is $4 million in 2016 and $6 million in 2015.

3.176 Income excluding non-recurring income and capital grants received mainly consisted of Commonwealth Government financial assistance for student places, higher education loan programs, research activities, domestic and international student fees, and revenue from providing accommodation services to students. Income excluding non-recurring income and capital grants received ($280 million) was slightly higher than the prior year amount ($277 million).

3.177 Expenses consisted mainly of employee costs, administration expenses, other expenses, and depreciation and amortisation. Other expenses include payments made to academic partners for teaching courses to undergraduate students that lead to degrees awarded by the University. Expenses ($276 million) exceeded the prior year amount ($271 million) by $5 million (2 percent) mainly due to higher payments to academic partners for teaching courses to undergraduate students that lead to degrees awarded by the University.

3.178 The University's 2016 operating surplus excluding non-recurring income and capital grants received ($4 million) is less than the 2015 operating surplus ($6 million) by $2 million (33 percent) mainly due to higher payments to academic partners for teaching courses to undergraduate students that lead to degrees awarded by the University.

Financial position

Table 3-47 Net short-term liabilities (calendar years)

University of Canberra Group – Note 1 **At 31 December**	**Actual 2016 $m**	**Actual 2015 $m**
Short-term assets – Note 2	40	48
Short-term liabilities – Note 3	59	65
Net short-term liabilities	**(19)**	**(17)**
Ratio of short-term assets to short-term liabilities	**0.7 to 1**	**0.7 to 1**

Note 1: The financial information presented in Table 3-47 is a consolidation of the financial results of the University and entities it controlled. These other entities are UCU Ltd, UC Global Pty Limited, University of Canberra Royal Institute of Public Administration Research Fund and WJ Weeden Post-Graduate Scholarship Trust Fund.

Note 2: Short-term assets ($40 million) consist of current assets ($44 million) as presented in the Statement of Financial Position minus restricted cash ($4 million) held in the University of Canberra Royal Institute of Public Administration Research Fund and WJ Weeden Post-Graduate Scholarship Trust Fund. Restricted cash was subtracted from current assets as this cash cannot be used to pay liabilities.

Note 3: Short-term liabilities ($59 million) are less than current liabilities ($70 million) presented in the Statement of Financial Position. Short-term liabilities only include liabilities expected to be paid within 12 months as this provides a better indication of the short-term asset coverage.

3.179 At 31 December 2016, the University's short-term liabilities ($59 million) exceeded its short-term assets ($40 million) by $19 million (48 percent). The amount by which short-term liabilities exceeded short-term assets increased from $17 million at 31 December 2015 to $19 million at 31 December 2016.

The University's financial statements disclose that the University can meet its short-term liabilities using funding provided by the Commonwealth Government and undrawn borrowing facilities with banks. While this is the case, the net short-term liability position means that the University will need to carefully manage its finances to continue meeting its short-term liabilities.

Audit findings

Table 3-48 Status of audit findings

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

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

3.180 Five of the nine previously reported audit findings are partially resolved and four are not resolved. No new audit findings were identified during the audit of the 2016 financial statements.

3.181 In previous years, the University partially resolved five audit findings by:

- restricting system administrators from installing changes to their desktop computers. However, other users can install changes to their desktop computers where the University has assessed that this is consistent with their roles and responsibilities and an 'acknowledgement of responsibility' form is submitted by the relevant user. This presents a risk that these other users could make unauthorised and unintended changes to key corporate computer systems.

  This has been reported to the University since 2006. However, the University has previously advised that it does not intend to impose further restrictions on other users as it considers its systems are not at any appreciable risk from permitting other users to install changes to their desktop computers;

- implementing automated computer system controls that force system administrators to regularly change their passwords. However, these controls only apply to administrators and not to all users. Furthermore, the University does not have a system for checking whether these users are changing their passwords every eight weeks as required by the University's policy for passwords (ITM Policy Manual). This increases the risk of unauthorised and possibly fraudulent access to systems.

  This has been reported to the University since 2006. However, the University has previously advised that it will continue to rely on computer-enforced strong passwords to restrict access. The Audit Office considers that better management of changes to passwords is needed to prevent passwords from being discovered and safeguard computer systems from unauthorised and possibly fraudulent access;

- clearly disclosing in its financial statements material restrictions imposed by the ACT Treasurer on the use of debt facilities to meet its short-term liability obligations. However, the University does not disclose the amount of its net short-term liability position and net short-term financial liability position in its financial statements. While these amounts can be calculated from information provided in the financial statements and the Council Report, the Audit Office considers a better practice would be for the amounts to be disclosed in the financial statements.

This has been reported to the University since 2012. However, the University has previously advised that it does not intend to disclose this information in its financial statements;

- including more information in the Council Report on the financial performance, financial position, cash flows, liquidity position of the University along with other matters that would assist readers to understand the financial and operating results of the University. However, the Audit Office considers this information should be further improved by providing more information on challenges faced by the University especially that of meeting liabilities.

  This has been reported to the University since 2013. However, the University has previously advised that it does not intend to provide more information on challenges in the Council Report; and

- updated its Accounts Payable Policy to require the satisfactory receipt of goods to be evidenced on invoices from suppliers before payments are made. However, the University advised that:

  > … if an invoice has been duly authorised by the financial delegate it is not sent back by Finance and Business Services to the relevant Faculty or Business Unit if it has not also been signed off as goods receipted where the amount is less than $5 000.

  This does not sufficiently address the risk of payment errors or fraud for amounts below $5 000 as financial delegates could, for example, fraudulently certify the satisfactory receipt of goods and services and approve invoices for payment. Payments could also be made for goods and services that have not been provided or were not satisfactory.

  This has been reported to the University since 2009. However, the University has previously advised that it has assessed the risk of payment errors or fraud to be low for payments under $5 000.

3.182 The University did not resolve four previously reported audit findings relating to:

- the review of fortnightly salary reports.

  Since 2012, the reviews of these reports were not always documented or those that were documented were not always performed in a timely manner. This presents a risk of undetected erroneous or fraudulent payments to employees. The University has agreed to address this audit finding.

- fees receivable from domestic and continuing international students.

  In 2013, 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. The University disagrees with this audit finding as it considers that its accounting treatment is appropriate.

- 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 the extinguishment of a financial liability and recognition of associated income should be accounted for under the Australian Accounting Standard that applies to financial instruments (AASB 139: 'Financial Instruments: Recognition and Measurement') and not that which applies to revenue (AASB 118). After reviewing the accounting treatment and the related accounting advice, the Audit Office concluded that the University's accounting treatment does not comply with AASB 139. The University disagrees as it considers the accounting policy adopted is appropriate.

- 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 the University's recording of a grant receivable from the Commonwealth Government does not comply with Australian Accounting Standard AASB 1004: 'Contributions'. The University disagrees with this audit finding as it considers the recognition of the receivable and full impairment of the receivable is the appropriate accounting treatment.

3.183 The audit report on the financial statements was not qualified for the areas of non-compliance with Australian Accounting Standards as they did not cause the financial statements to be materially misstated.

APPENDIX A: KEY TERMS

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

Financial statements

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

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

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

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

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 may 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 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 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.

Types of opinion

Audit reports on financial statements

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

An 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 other disclosures; or
- has been unable to gain sufficient evidence, or perform sufficient work, to form an opinion in relation to the information (amounts and disclosures) reported in the financial statements.

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 the results of the accountability indicators reported in the statement of performance are not fairly presented.

An unqualified report of factual findings may include a 'negative finding' where the reporting agency has not complied with the requirements of the *Financial Management Act 1996* to establish accountability indicators and targets, or measure a result, for one or more of its accountability indicators.

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

Materiality

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. Material information is information that affects decisions made by readers of the financial statements or statements of performance.

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.

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

[3] 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[4].

ACT Audit Office

ACT Compulsory Third Party Insurance Regulator

ACT Electoral Commission

ACT Executive

ACT Gambling and Racing Commission

ACT Insurance Authority

ACT Local Hospital Network Directorate

ACT Public Cemeteries Authority

ACTION

Canberra Institute of Technology

Chief Minister, Treasury and Economic Development Directorate

CIT Solutions Pty Limited

Community Services Directorate

Cultural Facilities Corporation

Education Directorate

Environment, Planning and Sustainable Development Directorate

Health Directorate

Housing ACT

Icon Water Limited

Independent Competition and Regulatory Commission

Justice and Community Safety Directorate

Former Land Development Agency

Legal Aid Commission (ACT)

Lifetime Care and Support Fund

Office of the Legislative Assembly

Public Trustee and Guardian

Superannuation Provision Account

Transport Canberra and City Services Directorate

Territory Banking Account

[4] Note 3 on page 18 of the 2016-17 Australian Capital Territory Government Consolidated Annual Financial Statements.

Audit reports

Reports Published in 2017-18	
Report No. 10 – 2017	2016-17 Financial Audits – Overview
Report No. 09 – 2017	Annual Report 2016-17
Report No. 08 – 2017	Selected ACT Government agencies' management of Public Art
Reports Published in 2016-17	
Report No. 07 – 2017	Public Housing Renewal Program
Report No. 06 – 2017	Mental Health Services – Transition from Acute Care
Report No. 05 – 2017	Maintenance of Selected Road Infrastructure Assets
Report No. 04 – 2017	Performance information in ACT public schools
Report No. 03 – 2017	2015-16 Financial Audits – Computer Information Systems
Report No. 02 – 2017	2016 ACT Election
Report No. 01 – 2017	WorkSafe ACT's management of its regulatory responsibilities for the demolition of loose-fill asbestos contaminated houses
Report No. 11 – 2016	2015-16 Financial Audits – Financial Results and Audit Findings
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

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