

# **ACT Auditor-General's Office**

## **Audit Report**

**2008-09 Financial Audits**

**REPORT NO. 8 / 2009**





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## **ACKNOWLEDGEMENTS**

I greatly appreciate the assistance provided to the Audit Office by Chief Executives, Chief Finance Officers and other agency staff during the completion of the annual financial audit program. I also acknowledge the effort and commitment of my staff in completing this year's program.

Tu Pham  
Auditor-General  
18 December 2009

## Contracted Firms

### Financial Audit Services

Deloitte Touche Tohmatsu  
Ernst and Young  
KPMG  
PricewaterhouseCoopers  
WalterTurnbull

### Information Technology Audit Services

PricewaterhouseCoopers

### Actuarial Services

Cumpston Sarjeant Pty Limited  
PricewaterhouseCoopers

### Taxation Services

KPMG





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# 1. REPORT SUMMARY

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## INTRODUCTION AND BACKGROUND

- 1.1 The Audit Office issues independent audit reports containing opinions on the financial reports and statements of performance prepared by ACT Government agencies. These reports are addressed to the members of the ACT Legislative Assembly and are included in the annual reports of each agency.
- 1.2 This report provides a summary of the results of the audits of financial reports and reviews of statements of performance completed during 2008-09, covering the Territory and its agencies.
- 1.3 This report also provides an overview of the Audit Office's assessment of the quality and timeliness of reporting by agencies.
- 1.4 During the audit process, the Audit Office often identifies matters (audit findings) that are required by the Australian Auditing Standards to be reported to those charged with responsibility for the governance of these agencies.
- 1.5 To facilitate accountability to the Legislative Assembly and the community, this report includes a summary of the significant audit findings, along with information on the progress by agencies in addressing previously reported findings. Matters typically reported include weaknesses in governance arrangements, information technology and other control weaknesses or breakdowns, legislative breaches and errors and fraud.

## KEY AUDIT FINDINGS

- 1.6 This report includes the following key audit findings:

### Results of the audits of financial reports (Chapter 2)

- The Audit Office issued 70 unqualified reports and one qualified audit report.
- One financial report was qualified because the Audit Office was unable to independently verify information included in the financial report.

### Results of the review of statements of performance (Chapter 2)

- The Audit Office issued two qualified reports of factual findings from a total of 28 reports that were issued on the statements of performance of departments and authorities.
- The two statements of performance were qualified because some performance measures had not been measured.

### **Audit findings (Chapter 3)**

- Agencies resolved 65 percent of the previously reported audit findings in 2008-09; slightly down from the 68 percent resolved in 2007-08. The resolution of many audit findings provides an indication that several agencies improved aspects of their governance arrangements, internal controls and reporting practices.
- In 2008-09, a significant proportion of audit findings were not resolved or were only partially resolved (35 percent). This indicates that some agencies need to implement better processes for addressing audit findings in a timely manner.
- Many of the audit findings that were not fully addressed related to internal control weaknesses in major revenue applications reviewed during the audit process.
- The increase in new audit findings (25 percent) indicates that some agencies need to improve the internal controls and processes used to prepare their financial reports and statements of performance.

### **Financial and performance reporting (Chapter 3)**

#### *Quality of financial reports*

- In 2008-09, there was a marked improvement in the percentage of financial reports assessed as 'good' compared to the previous year. However, the combined percentage of financial reports rated 'satisfactory' or 'good' (70 percent) was largely unchanged from the previous year (69 percent).
- The combined percentage of financial reports rated as 'fair' or 'unsatisfactory' (30 percent) was similar to the previous year (31 percent) and indicates that some agencies need to improve their financial reporting processes.

#### *Quality of statements of performance*

- The overall quality of statements of performance declined in 2008-09. The combined percentage of statements rated as 'good' or 'satisfactory' fell from 74 percent in 2007-08 to 64 percent in 2008-09.
- The percentage of agencies that prepared unsatisfactory statements of performance remained significant, but fell slightly from 22 percent in 2007-08 to 18 percent in 2008-09.

#### *Usefulness and meaningfulness of performance measures*

- There continues to be many instances where the performance of agencies is not explained meaningfully in statements of performance.

#### *Timeliness of financial reports and statements of performance*

- Agencies' compliance with the Department of Treasury's reporting timetable for the provision of their financial reports and statements of performance to the Audit Office was generally satisfactory.

### *Annual reporting*

- Nearly all agencies submitted their annual reports to the Legislative Assembly and placed their annual reports on the relevant website in a timely manner as required by the *Annual Reports (Government Agencies) Act 2004*.

### *Budget management*

- In 2008-09, most agencies, with a few significant exceptions, met their budgets or did not significantly exceed their budgets.

### **Information systems (Chapter 4)**

#### *Controls implemented by the Shared Services Centre*

- The Audit Office assessed the adequacy of controls over key applications managed by the Shared Services Centre (Shared Services) and found that they were generally satisfactory.
- Shared Services has improved some aspects of its control environment over these applications by addressing most previously reported audit findings.
- The process of standardising the recording of data and controls in Oracle Financials was generally managed satisfactorily.
- Shared Services should improve internal controls by the regular and scheduled testing of the restoration of backed up data and systems, increased monitoring of audit logs of changes to data (Chris21), and retaining evidence of the review of user access reports (Oracle Financials).

#### *Controls for key revenue applications*

- Control weaknesses still exist in the key revenue systems. With the exception of the RAPS<sup>1</sup> application, little progress has been made in addressing previously reported control weaknesses.
- Several control weaknesses over the key revenue systems reviewed during the audit process are not expected to be resolved until these systems have been upgraded or replaced.
- These control weaknesses expose the relevant agencies to a higher risk of errors, irregularities and fraud. Areas in particular need of improvement include password controls, reviewing user access, monitoring of audit logs and the restoration of backed up data.

### **Territory's financial results (Chapter 5)**

#### *Audit report*

- The Audit Office issued an unqualified audit report on the Territory's 2008-09 financial report.

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<sup>1</sup> RAPS (the Receipting Accounting and Payments System) is used to record amounts received from ACT businesses and residents for ACT Government services such as motor vehicle registration, general rates and taxes, rental payments and parking and traffic fines.

- This year, the Territory's financial report was prepared in accordance with the requirements of the new accounting standard AASB 1049 'Whole of Government and General Government Sector Financial Reporting'.

### *Net operating balance*

- In 2008-09, the Territory incurred a small deficit of \$33 million for the net operating balance. This result was in line with budget expectations, but represented a much lower result than the surpluses generated in recent years of \$171 million in 2007-08 and \$53 million in 2006-07.
- This declining result was caused by an increase in expenses (\$270 million or 7.9 percent) which was not matched by the growth in revenues (\$66 million or 1.8 percent).
- The Territory is expected to incur significantly higher deficits in the net operating balance ranging from \$245 million to \$350 million over the period covered by the budget forward estimates.

### *Operating result*

- In 2008-09, the Territory incurred a significant operating deficit of \$283 million. This result was much lower than the budgeted surplus of \$400 million and the surpluses of recent years of \$131 million in 2007-08 and \$372 million in 2006-07.
- The Territory's significant operating deficit was due mainly to losses on superannuation investments caused by adverse conditions in financial markets (global financial crisis), and declining land revenue due to a weakening of the property market.
- The Territory is expected to generate small operating results over the period covered by the budget forward estimates.
- There is a continuing and significant risk that the Territory will incur large operating deficits over the next few years, particularly if unfavourable conditions persist in investment and property markets.

### *Revenue*

- In 2008-09, the Territory's revenue (\$3 652 million) was slightly higher than the budget forecast (\$3 544 million) and the prior year's result (\$3 586 million).

### *Expenses*

- Expenses exceeded the budgeted amount by \$108 million (3.0 percent).
- Expenses increased by \$270 million (7.9 percent) on the prior year with costs rising in all major categories of expenses.

### *Financial position*

- The Territory's net asset position has improved because the increases in the valuation of non-financial assets and amounts spent on capital works have

outweighed a significant increase in the estimated unfunded superannuation liability and borrowings.

### *Short-term financial position*

- The Territory's short-term financial position remains strong. However, it has weakened during 2008-09, and is much weaker than was anticipated in the budget, due mainly to significant losses in the value of superannuation investments.
- The Territory is expected to retain a sufficient capacity to meet its short-term obligations. However, its capacity to do so is expected to diminish significantly over the period covered by the budget forward estimates.
- The expected weakening in the Territory's short-term financial position is primarily due to the use of short-term borrowings to fund the planned increases to the capital works program in the General Government Sector.

### *Long-term financial position*

- The Territory's long-term financial position has weakened significantly during 2008-09 and was considerably weaker than anticipated in the budget due mainly to the substantial growth in the unfunded superannuation liability.
- Over the period of the budget forward estimates, the Territory's long-term financial position is expected to continue to weaken significantly. The main contributing factors are the growing unfunded superannuation liability and planned increases in borrowings to fund major capitals work projects including ACTEW water projects.

### *Cash results*

- In 2008-09, the cash surplus from the Territory's operations (\$544 million) remained strong, but was considerably lower than the previous year's result (\$984 million) and less than was anticipated in the budget (\$695 million).
- Over the next few years, cash surpluses from the Territory's operations are generally expected to be maintained at similar levels to that generated in 2008-09.
- The Territory recorded a small cash surplus (\$32 million) after operating and capital activities.
- The Territory expects to incur significant cash flow deficits over the next two years due mainly to significant planned capital spending associated with the ACT Government's capital works program.

### *Capital assets*

- In 2008-09, the funding provided for capital works in the 2008-09 Budget increased by \$113 million or 23.8 percent compared to the 2007-08 Budget. This was due mainly to funding provided for major capital works including

the Kingsford Smith (West Belconnen) High School, schools infrastructure, health system infrastructure and upgrades of roads and paths.

- In 2008-09, the level of underspending (41.5 percent) for capital works increased significantly compared to the prior years.

### **Commentary on ACT Government agencies**

- 1.7 Commentary on individual ACT Government agencies is provided in Chapter 6 of this report.

### **AGENCY COMMENTS ON THE REPORT**

- 1.8 The Audit Office provided draft sections of this report to the relevant agencies for comment. These comments were considered in the preparation of the final report and included, as appropriate, in the relevant sections of the report.

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## 2. RESULTS OF THE FINANCIAL AUDIT PROGRAM

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### INTRODUCTION

- 2.1 Under the *Financial Management Act 1996*, the Audit Office is required to provide independent opinions on the financial reports and the statements of performance of the Territory and its departments and authorities. The Office also conducts audits of financial reports pursuant to other requirements, including those contained within the *Corporations Act 2001*, land joint venture agreements, trust fund deeds and agreements relating to funding provided by the Commonwealth.
- 2.2 This Chapter includes a summary of results of the 2008-09 financial audit program covering the financial years ended 31 December 2008 and 30 June 2009.

### HIGHLIGHTS

#### Results of the audits of financial reports

- The Audit Office issued 70 unqualified audit reports and one qualified audit report.
- One financial report was qualified because the Audit Office was unable to independently verify information included in the financial report.

#### Results of the review of statements of performance

- The Audit Office issued two qualified reports of factual findings from a total of 28 reports that were issued on the statements of performance of departments and authorities.
- The two statements of performance were qualified because some performance measures had not been measured.

### RESULTS OF THE AUDITS OF FINANCIAL REPORTS

**Table 2.1: 2008-09 audit reports**

	Unqualified	Qualified	Total
Territory	1	-	1
Departments	16	-	16
Authorities	15	-	15
Territory-owned corporations and other companies	11	-	11
Land joint ventures and partnerships	10	-	10
Other audits	17	1	18
<b>Total audit reports</b>	<b>70</b>	<b>1</b>	<b>71</b>

**Table 2.2: 2008-09 qualified audit opinion**

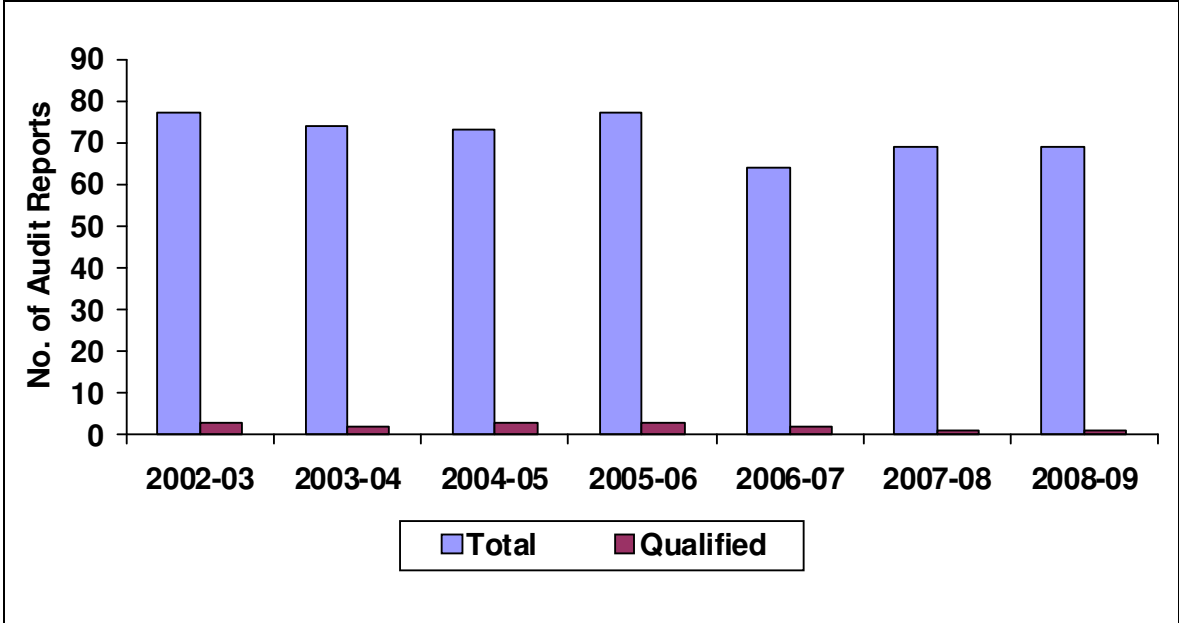
Agency	Qualification
Nominal Defendant	<p>The ACT Insurance Authority became the Nominal Defendant of the ACT on 17 December 2008. On 1 January 2009, the assets and liabilities from the previous Nominal Defendant (Insurance Australia Limited) were transferred to the Nominal Defendant of the ACT.</p> <p>The Audit Office was unable to verify the accuracy of the claims liability transferred to the Nominal Defendant from Insurance Australia Limited on 1 January 2009 or the reported decrease in that liability over the period from 1 January 2009 to 30 June 2009.</p>

2.3 The Audit Office concluded that all other financial reports materially complied the relevant accounting standards and presented a true and fair view of the financial position and performance of the reporting agencies as required by those standards.

2.4 A detailed listing of the audit reports issued by the Audit Office is provided on pages 13 to 15 of this report.

**AUDIT REPORTS**

**Figure 2.1: Audit reports**



2.5 The number of qualified audit reports continues to represent a very small proportion of the audit reports issued.



## RESULTS OF THE REVIEW OF STATEMENTS OF PERFORMANCE

- 2.6 Under the *Financial Management Act 1996*, the Audit Office is required to provide a report of factual findings on statements of performance prepared by departments and authorities. This report includes the expression of an opinion on whether any matters were identified during the review which indicated that the reported performance measures are not fairly presented.
- 2.7 The Audit Office's review of statements of performance provides reasonable (but not absolute) assurance that the reported information is materially accurate. As part of this review, the Office considers whether the reported information is consistent with documentary evidence maintained by the reporting agency.
- 2.8 The usefulness or appropriateness of the reported performance measures is not part of the scope of the review. However, should the Audit Office identify significant concerns about the usefulness of performance measures during the review, it reports them in audit management reports issued to agencies and the relevant Ministers. These concerns are also highlighted in the commentary provided in Chapter 3 of this report (pages 22 and 23) and the commentary on some individual agencies provided in Chapter 6 of this report.
- 2.9 Under the *Financial Management (Statement of Performance Scrutiny) Guidelines 2008*, the Audit Office does not review measures listed as 'strategic measures' in the Budget.

**Table 2.3: Summary of 2008-09 reports of factual findings**

	Unqualified	Qualified	Total
Departments	12	2	14
Authorities	14	-	14
<b>Total reports of factual findings</b>	<b>26</b>	<b>2</b>	<b>28</b>

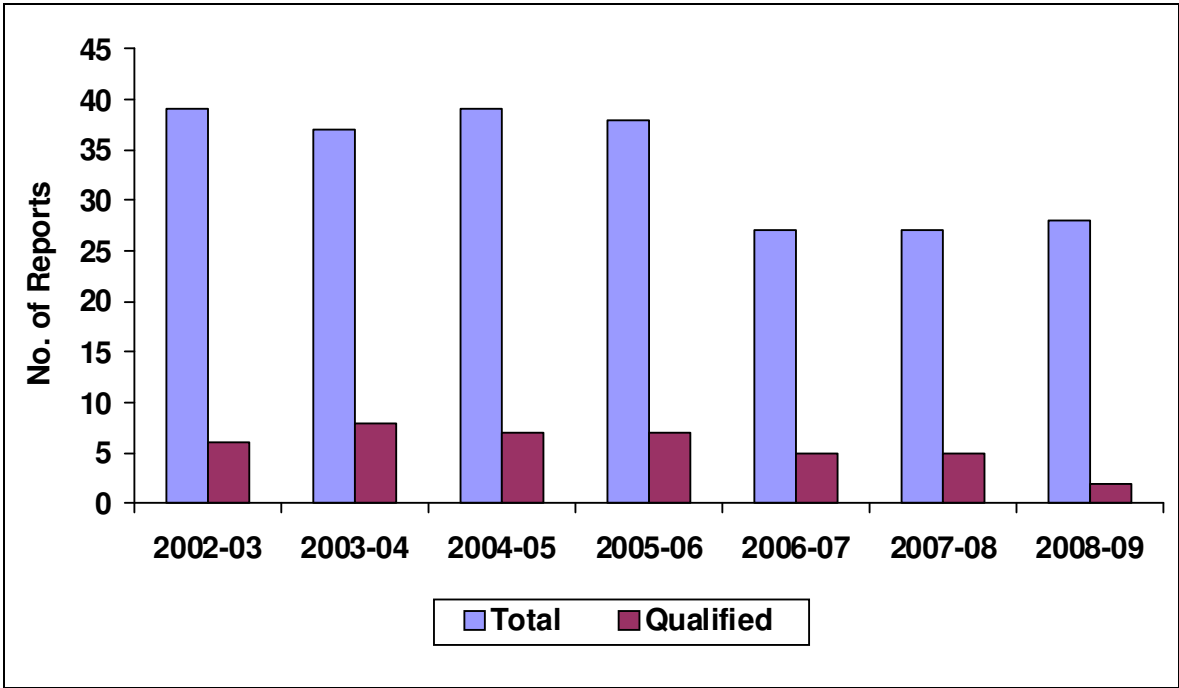
- 2.10 Two of 28 reports of factual findings were qualified in 2008-09 because two departments did not measure a few of their performance measures as required by the *Financial Management Act 1996*. The number of performance measures referred to in these reports of factual findings represent a very small proportion (less than one percent) of the total number of reported measures.
- 2.11 Although few reports of factual findings were qualified, the Audit Office often finds that performance measures included in statements of performance have not been accurately reported, clearly and concisely defined, supported by sufficient evidence and/or accompanied by sufficient explanatory information to enable the performance of the agency to be understood.
- 2.12 In most cases, agencies responded positively to the Audit Office's concerns and addressed these deficiencies before the report of factual findings was issued.

2.13 Further commentary on the main deficiencies identified from the Audit Office’s review of performance measures is provided in Chapter 3 of this report (pages 21 to 23) and the commentary on some of the individual agencies provided in Chapter 6 of this report.

**Table 2.4: Qualified reports of factual findings**

Agency	Qualification
Territory and Municipal Services	One performance measure was not measured.
Housing ACT	Two performance measures were not measured.

**Figure 2.2: Reporting on statements of performance**



2.14 The number of reports of factual findings issued in 2008-09 (28) was similar to the number issued in 2007-08. The number of qualified audit reports fell from five to two reports.

Table 2.5: Summary of 2008-09 audit reports and reports of factual findings

	Audit Report on the Financial Report	Report of Factual Findings on the Statement of Performance
<b>Territory</b>		
Consolidated annual financial report for the Territory	Unqualified	Not applicable
<b>Departments</b>		
ACT Health	Unqualified	Unqualified
ACT Planning and Land Authority	Unqualified	Unqualified
Chief Minister's Department	Unqualified	Unqualified
Disability, Housing and Community Services	Unqualified	Unqualified
Education and Training	Unqualified	Unqualified
Environment, Climate Change, Energy and Water	Unqualified	Unqualified
Executive	Unqualified	Not applicable
Home Loan Portfolio	Unqualified	Unqualified
Housing ACT	Unqualified	Qualified
Justice and Community Safety	Unqualified	Unqualified
Legislative Assembly Secretariat	Unqualified	Not applicable
Shared Services Centre	Unqualified	Unqualified
Superannuation Provision Account	Unqualified	Unqualified
Territory and Municipal Services	Unqualified	Qualified
Territory Banking Account	Unqualified	Unqualified
Treasury	Unqualified	Unqualified
<b>Authorities</b>		
ACTION	Unqualified	Unqualified
Building and Construction Industry Training Fund Authority	Unqualified	Unqualified
Canberra Institute of Technology	Unqualified	Unqualified
Canberra Public Cemeteries Authority	Unqualified	Unqualified
Cleaning Industry Long Service Leave Authority	Unqualified	Unqualified
Construction Industry Long Service Leave Authority	Unqualified	Unqualified
Cultural Facilities Corporation	Unqualified	Unqualified
Exhibition Park Corporation	Unqualified	Unqualified

## Results of the financial audit program

	Audit Report on the Financial Report	Report of Factual Findings on the Statement of Performance
<b>Authorities - continued</b>		
Gambling and Racing Commission	Unqualified	Unqualified
Independent Competition and Regulatory Commission	Unqualified	Unqualified
Insurance Authority	Unqualified	Unqualified
Land Development Agency	Unqualified	Unqualified
Legal Aid Commission	Unqualified	Unqualified
Public Trustee for the ACT - Office Account	Unqualified	Unqualified
University of Canberra	Unqualified	Not applicable
<b>Territory-owned corporations and other companies</b>		
ACTEW Corporation Limited	Unqualified	Not applicable
ACTEW Distribution Limited	Unqualified	Not applicable
ACTEW Retail Limited	Unqualified	Not applicable
ACTTAB Limited	Unqualified	Not applicable
CIT Solutions Pty Limited	Unqualified	Not applicable
Community Housing Canberra Limited	Unqualified	Not applicable
ECOWISE Environmental Pty Limited	Unqualified	Not applicable
Rhodium Asset Solutions Limited	Unqualified	Not applicable
Totalcare Industries Limited	Unqualified	Not applicable
University of Canberra College Pty Limited	Unqualified	Not applicable
UCU Ltd	Unqualified	Not applicable
<b>Land joint ventures and partnerships</b>		
ActewAGL Joint Venture Summary Financial Report	Unqualified	Not applicable
ActewAGL Joint Venture Special Purpose Financial Report	Unqualified	Not applicable
ActewAGL Distribution Partnership	Unqualified	Not applicable
ActewAGL Retail Partnership	Unqualified	Not applicable
Forde Joint Venture – December 2008	Unqualified	Not applicable
Forde Joint Venture – June 2009	Unqualified	Not applicable
Crace Joint Venture – December 2008	Unqualified	Not applicable
Crace Joint Venture – June 2009	Unqualified	Not applicable

	<b>Audit Report on the Financial Report</b>	<b>Report of Factual Findings on the Statement of Performance</b>
<b>Land joint ventures and partnerships - continued</b>		
Kingston Stage 1A Joint Venture	Unqualified	Not applicable
Woden East Joint Venture	Unqualified	Not applicable
<b>Other audits</b>		
Canberra Business Development Fund	Unqualified	Not applicable
Capital Region Community Foundation Open Fund	Unqualified	Not applicable
Capital Region Community Foundation Gift Fund	Unqualified	Not applicable
Commonwealth Funding under the <i>Interstate Road Transport Act 1985</i> - Expenditure statement	Unqualified	Not applicable
Commonwealth Funding under the <i>Interstate Road Transport Act 1985</i> - Revenue statement	Unqualified	Not applicable
Commonwealth Funding under the <i>Auslink National Land Transport Act 2005</i> – Roads to Recovery Supplementary Funding	Unqualified	Not applicable
Commonwealth Funding under the <i>Auslink National Land Transport Act 2005</i> – Auslink Black Spot Projects	Unqualified	Not applicable
Commonwealth Funding under the <i>Auslink National Land Transport Act 2005</i> – Auslink National Projects	Unqualified	Not applicable
Default Insurance Fund	Unqualified	Not applicable
Final Certification for NSW Thoroughbred Race Field Information Use (ACTTAB Limited)	Unqualified	Not applicable
Gungahlin Cemetery Perpetual Care Trust	Unqualified	Not applicable
Hall Cemetery Perpetual Care Trust	Unqualified	Not applicable
Nominal Defendant	Qualified	Not applicable
Commonwealth Annual Revenue and Expenditure Statement of the Legal Aid Commission	Unqualified	Not applicable
Nicholls Primary School Joint Facilities	Unqualified	Not applicable
Public Trustee for the ACT - Trust Account	Unqualified	Not applicable
University of Canberra Research Income Return	Unqualified	Not applicable
Woden Cemetery Perpetual Care Trust	Unqualified	Not applicable

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## 3. AUDIT FINDINGS

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### INTRODUCTION

- 3.1 Each year, the Audit Office provides reports which include independent opinions on the financial reports and statements of performance prepared by ACT Government agencies. In forming these opinions, the Office assesses whether the financial reports and the statements of performance fairly represent the performance of the reporting agencies.
- 3.2 During each audit, the Audit Office also considers the adequacy of agencies' systems of governance, risk and fraud management, internal controls, information technology, accounting and reporting because these systems significantly affect the reliability of the information included in agencies' financial reports and statements of performance.
- 3.3 The Australian Auditing Standard ASA 260: 'Communication of Audit Matters with Those Charged with Governance' requires matters of governance interest identified during each audit (i.e. 'audit findings') to be communicated to those charged with the governance of the reporting agencies. Consistent with this requirement, the Audit Office reports audit findings in audit management reports provided to agency heads, governing boards and relevant ministers.
- 3.4 This Chapter provides a summary of the audit findings identified during the audits of financial reports and reviews of statement of performance.

### HIGHLIGHTS

#### Audit findings

- Agencies resolved 65 percent of the previously reported audit findings in 2008-09; slightly down from the 68 percent resolved in 2007-08. The resolution of audit findings provides an indication that several agencies improved aspects of their governance arrangements, internal controls and reporting practices.
- In 2008-09, a significant proportion of audit findings were not resolved or were only partially resolved (35 percent). This indicates that some agencies need to implement better processes for addressing audit findings in a timely manner.
- Many of the audit findings that were not fully addressed related to internal control weaknesses in major revenue applications reviewed during the audit process.
- The increase in new audit findings (25 percent) indicates that some agencies need to improve the internal controls and processes used to prepare their financial reports and statements of performance.

**HIGHLIGHTS - continued****Financial and performance reporting*****Quality of financial reports***

- In 2008-09, there was a marked improvement in the percentage of financial reports assessed as 'good' compared to the previous year. However, the combined percentage of financial reports rated as 'satisfactory' or 'good' (70 percent) was largely unchanged from the previous year (69 percent).
- The combined percentage of financial reports rated as 'fair' or 'unsatisfactory' (30 percent) was similar to the previous year (31 percent) and indicates that some agencies need to improve their financial reporting processes.

***Quality of statements of performance***

- The overall quality of statements of performance declined in 2008-09. The combined percentage of statements rated as 'good' or 'satisfactory' fell from 74 percent in 2007-08 to 64 percent in 2008-09.
- The percentage of agencies that prepared unsatisfactory statements of performance remained significant, but fell slightly from 22 percent in 2007-08 to 18 percent in 2008-09.

***Usefulness and meaningfulness of performance measures***

- There continues to be many instances where the performance of agencies is not explained meaningfully in their statements of performance.

***Timeliness of financial reports and statements of performance***

- Agencies' compliance with the Department of Treasury's reporting timetable for the provision of their financial reports and statements of performance to the Audit Office was generally satisfactory.

***Annual reporting***

- Nearly all agencies submitted their annual reports to the Legislative Assembly and placed their annual reports on the relevant website in a timely manner as required by the *Annual Reports (Government Agencies) Act 2004*.

***Budget management***

- In 2008-09, most agencies, with a few significant exceptions, met their budgets or did not significantly exceed their budgets.

**STATUS OF AUDIT FINDINGS**

3.5 Each year, the Audit Office reviews whether agencies satisfactorily address the audit findings reported to them in previous years and alerts agencies to any areas where audit findings have not been resolved. The Office also advises agencies of any new audit findings which were identified during the audit.

3.6 A summary of the status of these audit findings is provided in the following table.

**Table 3.1: Status of audit findings (number of findings)**

	<b>Previously Reported</b>	<b>Resolved</b>	<b>Not Resolved</b>	<b>Partially Resolved</b>	<b>New</b>	<b>Balance</b>
2007-08	360	(244)	79	37	144	260
2008-09	260	(168)	59	33	180	272

3.7 Agencies resolved 65 percent of the previously reported audit findings in 2008-09; slightly down from the 68 percent resolved in 2007-08. The resolution of many audit findings provides an indication that several agencies improved aspects of their governance arrangements, internal controls and reporting practices.

3.8 The Audit Office considers that audit findings, in the large majority of cases, should be resolved within 12 months of being reported. Some audit findings may, for legitimate reasons, take longer to be resolved.

3.9 In 2008-09, a significant proportion of audit findings were not resolved or were only partially resolved (35 percent). This indicates that some agencies need to implement better processes for addressing audit findings in a timely manner.

3.10 Many of the audit findings that were not fully addressed related to internal control weaknesses in major revenue applications reviewed during the audit process. The slow progress in addressing audit findings in relation to these applications is highlighted in Chapter 4 of this report.

3.11 The significant increase in new audit findings (25 percent) indicates that some agencies need to improve the internal controls and processes used to prepare their financial reports and statements of performance.

3.12 The Audit Office has reported to agencies the status of audit findings in audit management reports provided to agencies.

**FINANCIAL AND PERFORMANCE REPORTING****Quality of financial reports**

3.13 The adequacy of the agencies' financial reporting arrangements can be assessed by reviewing the quality of financial reports submitted to the Audit Office and the changes and corrections made to these reports during the audit process.

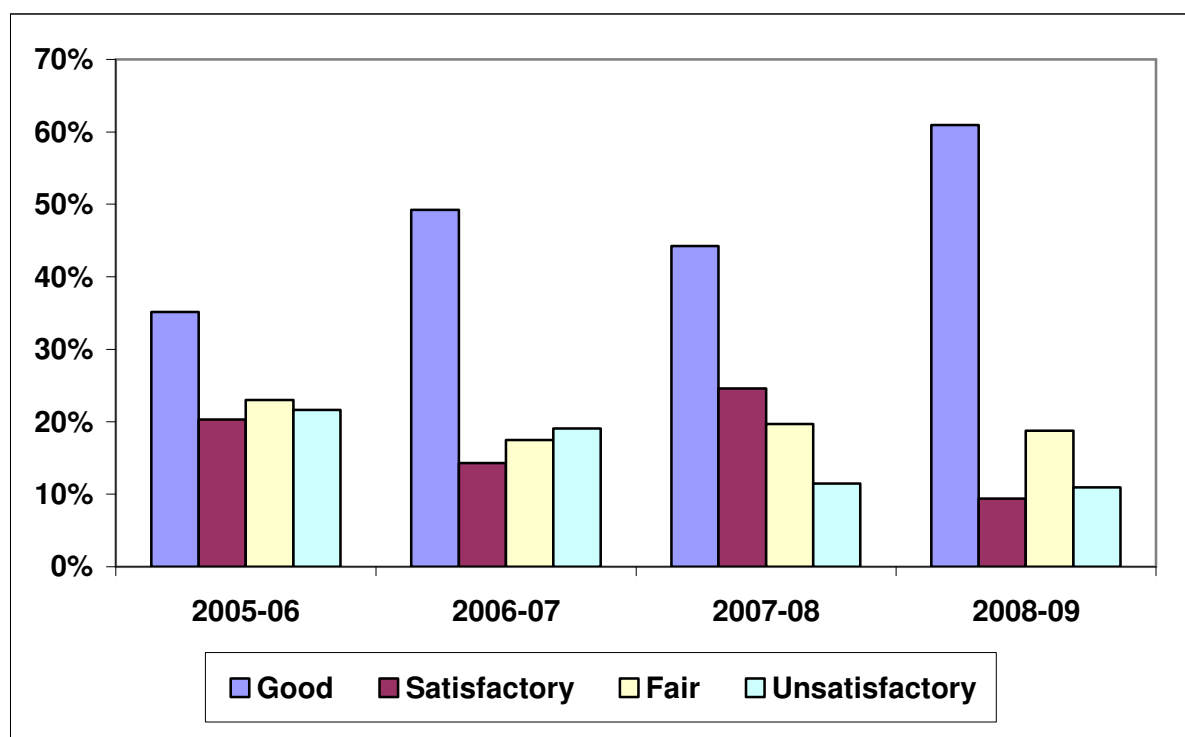


3.14 The Audit Office assessed the quality of financial reports submitted for audit using the rating criteria provided below.

**Table 3.2: Rating criteria**

Rating	Criteria
Good	Financial report was well prepared. Little or no adjustments were needed to amounts or disclosures.
Satisfactory	Financial report was well prepared with few adjustments being needed to amounts or disclosures.
Fair	Financial report was of a borderline quality. Adjustments were needed to amounts or disclosures.
Unsatisfactory	Financial report was not well prepared. Many adjustments were needed to amounts and disclosures.

**Figure 3.1: Quality of financial reports**



3.15 In 2008-09, there was a marked improvement in the percentage of financial reports assessed as ‘good’ compared to the previous year. However, the combined percentage of financial reports rated ‘satisfactory’ and ‘good’ (70 percent) was largely unchanged from the previous year (69 percent). Some agencies that were previously preparing financial reports to a ‘satisfactory’ standard in the previous year, further improved their reporting in 2008-09.

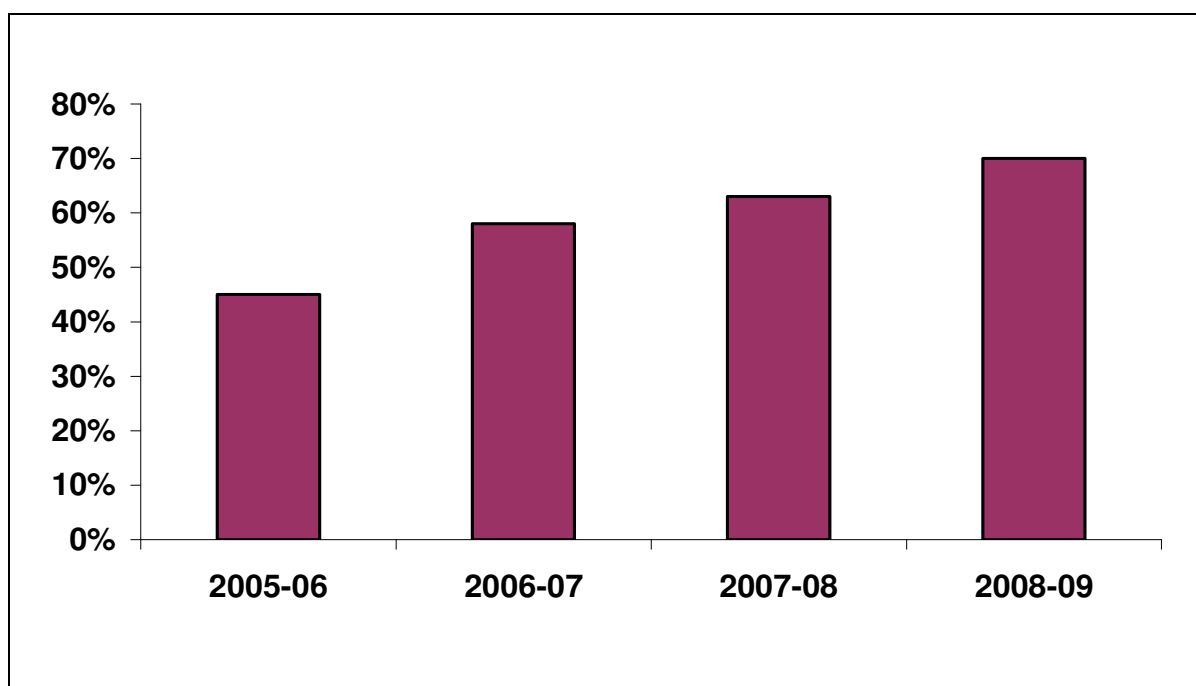
3.16 The combined percentage of financial reports rated as ‘fair’ or ‘unsatisfactory’ (30 percent) was similar to the previous year (31 percent) and indicates that some agencies need to improve their financial reporting processes.

- 3.17 Most agencies in the ‘fair’ and ‘unsatisfactory’ categories are small to medium sized agencies with limited internal accounting and financial reporting capacity and expertise. These agencies often rely excessively on the financial audit process to assist them in meeting their reporting obligations, including alerting the agencies to major changes to accounting and reporting requirements. In most cases, these agencies have had the weaknesses in their financial reporting drawn to their attention in previous years.
- 3.18 The most commonly found deficiencies in financial reports were:
- errors in current or prior year figures;
  - the failure to clearly and concisely explain the information being reported;
  - the inclusion of inconsistent, inaccurate or irrelevant information;
  - the use of generic disclosures sourced from example financial reports without tailoring these disclosures to the operations and transactions of the reporting agency; and/or
  - a lack of clear and concise explanatory information in the financial reports to assist readers to understand the financial results of the agency.
- 3.19 The Audit Office has reported deficiencies in financial reports to the reporting agencies.

### **Timeliness of financial reports**

- 3.20 Each year, the Department of Treasury issues a whole-of-government reporting timetable.
- 3.21 This timetable includes the date by which agencies should submit their financial reports to the Audit Office. Compliance with this deadline is needed for the audits of the financial reports of the Territory and its agencies to be completed within the required timeframes.
- 3.22 Compliance with this timetable also provides the Territory and its agencies with assurance that audited financial reports are made publicly available within the legislated timeframes contained within the *Annual Reports (Government Agencies) Act 2004*, *Financial Management Act 1996* and *Corporations Act 2001*.

**Figure 3.2: Compliance with the whole-of-government reporting timetable – percentage of agencies that submitted financial reports to the Audit Office by the due date**



3.23 The rate of compliance by agencies with the Department of Treasury’s timetable improved significantly from 63 percent in 2007-08 to 70 percent in 2008-09. This continues a steady trend of improvement observed since 2005-06, where only 45 percent of agencies provided the financial reports to the Audit Office by the due date.

3.24 In most cases where agencies did not comply with the timetable, the agencies provided their financial reports shortly after the due date.

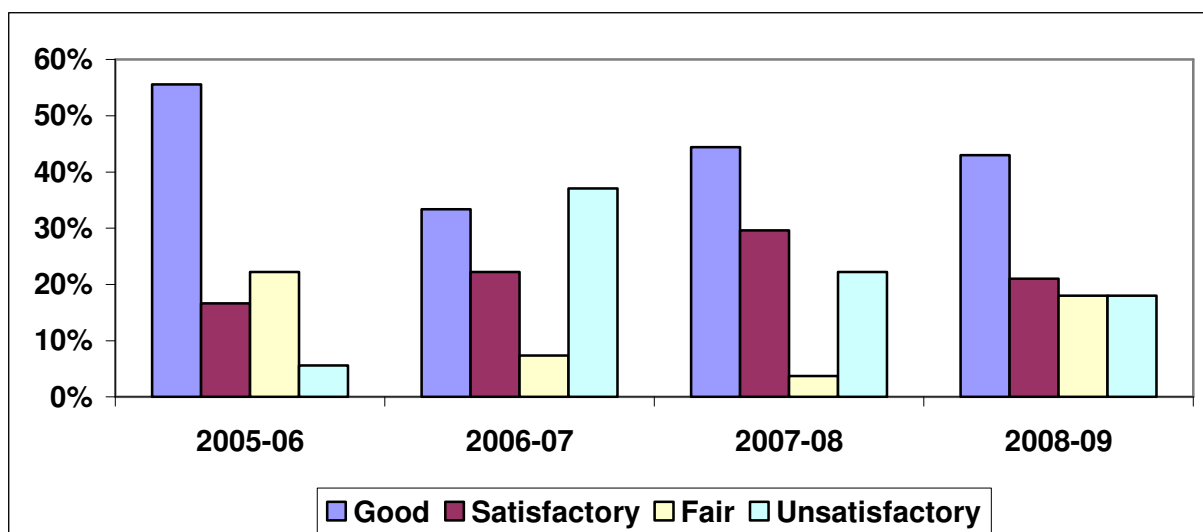
### **Quality of statements of performance**

3.25 Statements of performance include important information on the non-financial aspects of the performance of ACT Government departments and authorities.

3.26 Under the *Financial Management Act 1996*, statements of performance must provide a comparison of the planned performance of departments and authorities to their actual performance.

3.27 The Audit Office used the rating criteria for financial reports previously provided on page 19 to also assess the quality of statements of performance submitted to the Office.

**Figure 3.3: Quality of statements of performance**



3.28 The overall quality of statements of performance declined in 2008-09. The combined percentage of statements rated as ‘good’ and ‘satisfactory’ fell from 74 percent in 2007-08 to 64 percent in 2008-09.

3.29 The percentage of agencies that prepared unsatisfactory statements of performance remained significant, but fell slightly from 22 percent in 2007-08 to 18 percent in 2008-09.

3.30 Statements of performance that were rated as ‘unsatisfactory’ typically had errors in the results, inadequate explanations of the measures and/or how they were measured or estimated and included insufficient information on the material variances from the planned levels of performance.

3.31 The Audit Office has advised agencies of areas where their statements of performance should be improved.

**Usefulness or meaningfulness of performance measures**

3.32 A major objective of the statement of performance is to facilitate accountability by agencies for their performance. This requires agencies to compare planned levels of performance to actual performance achievements by reference to the performance measures and related targets included in the agency’s budget (departments) or statement of intent (authorities).

3.33 Under this framework, the effectiveness of performance reporting depends largely on the quality of the selected performance measures and the related targets.

- 3.34 As noted in Chapter 2, reflecting the limited scope of the review process applied to statements of performance, the Audit Office does not provide an opinion on the relevance or appropriateness of the reported performance measures, because these measures are settled as part of the budget process and agreed between agencies and Ministers. Nevertheless, as previously reported, the Audit Office found many instances where the performance measures and the associated targets provided little or no meaningful information about the performance of the reporting agency. Examples of such reporting have been included in the commentary on some of the individual agencies provided in Chapter 6 of this report.
- 3.35 When the performance measures and the related targets are not useful or meaningful, the significant costs associated with maintaining reporting systems for such performance measures and having them examined by the Audit Office cannot be reasonably justified.
- 3.36 The Audit Office also frequently found cases where agencies, in their statements of performance, did not:
- clearly define or explain their performance measures and the related targets;
  - provide sufficient information on how actual results were measured; or
  - adequately disclose significant judgements or estimates applied by the reporting agency in measuring the reported results.
- 3.37 The Audit Office has alerted agencies to areas where their statements of performance could be improved.

### **Timeliness of statements of performance**

- 3.38 In 2008-09, the Audit Office found that most agencies (82 percent) complied with the reporting timetable issued by the Department of Treasury. This result was consistent with the 81 percent that complied with the timetable in 2007-08.
- 3.39 In most cases where agencies did not comply with the timetable, the agencies provided their statements of performance shortly after the due date.

## **ANNUAL REPORTING**

### **Timeliness of reporting – printed and electronic versions of the annual report**

- 3.40 Under the Chief Minister's Annual Reports Directions, agencies must also place their annual reports on the relevant websites on the same day that the annual reports are tabled in the Legislative Assembly.<sup>2</sup>
- 3.41 The Audit Office found that nearly all agencies placed their annual reports on the relevant website in a timely manner as required by the *Annual Reports (Government Agencies) Act 2004*.

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<sup>2</sup> Page 9 of the Chief Minister's 2007-10 Annual Report Directions.

- 3.42 Only three agencies were found not to have placed the electronic versions of the annual report on the relevant website on the same day that the annual reports were tabled in the Legislative Assembly. However, these were placed on the relevant website shortly after the due date.

### Reliability of reporting

- 3.43 Agencies should ensure that the published financial reports and statements of performance are the same as those on which the audit reports and report of factual findings were issued.
- 3.44 In all except one case, the Audit Office found that agencies had included the correct version of the financial reports and statements of performance in the printed and electronic versions of the annual report. The one case where the incorrect version of financial reports was included in the printed and electronic versions of the annual report was rectified.

### BUDGET MANAGEMENT

- 3.45 For the Territory to achieve its budgeted operating result, individual agencies need to manage their finances to within their individual budgets.
- 3.46 The financial results of the Territory and the major agencies are compared to their budgets in Chapters 5 and 6 of this report. Instances where individual budgets were not met are listed below.
- The Territory incurred a significant operating loss of \$283 million; a result that was well below the budgeted surplus of \$400 million. This was mainly due to losses being incurred on superannuation investments (Superannuation Provision Account) and a decline in land revenue (Land Development Agency).
  - The Superannuation Provision Account's operating deficit (\$564.5 million) was substantially higher than the budgeted deficit (\$174.2 million). Substantial losses were incurred in the value of investments, reflecting adverse market conditions.
  - The Land Development Agency's operating profit (\$45.6 million) was well below the budgeted profit (\$59.9 million) due mainly to weaker conditions in the property market.
  - The net cost of services for the Department of Disability, Housing and Community Services exceeded the budgeted cost by \$9.3 million (4.8 percent). Increased grants were paid to support additional emergency relief needs, and the costs associated with the employment of additional staff were the main contributing factors.
  - The Department of Justice and the Community Safety's territorial expenses exceeded the budgeted cost by \$5.4 million or 4.2 percent due to higher than expected legal expenses and legal settlement payments.
  - ACT Health's net cost of services exceeded the budgeted cost by \$9.3 million (1.3 percent), reflecting a higher than anticipated demand for health services.

- The Legislative Assembly Secretariat's net cost of services exceeded the budgeted cost by \$0.3 million (5.1 percent); a result of higher than expected supplies and services costs.
- ACTION's net cost of services exceeded the budgeted cost by \$2.4 million or 3.1 percent due mainly to higher insurance premiums and the recruitment of additional staff.
- The Exhibition Park Corporation's net cost of services was \$0.2 million (20.0 percent) higher than the budgeted cost. This was a result of higher than expected costs of catering supplies, water consumption and grounds maintenance and an impairment loss in relation to an amount owing to the Corporation from the company running the 'Summernats' event.

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## 4. INFORMATION SYSTEMS

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### INTRODUCTION

- 4.1 Agencies use computer information systems and applications to produce their financial reports and statements of performance.
- 4.2 The Audit Office assesses the adequacy of internal controls over information systems and applications because the reliability of the financial reports and statements of performance depends significantly on the adequacy of these controls.
- 4.3 Where agencies implement strong controls over their computer systems and applications, they have increased assurance that:
- computer systems and applications will operate as intended; and
  - information on these systems will be valid, complete and secure.
- 4.4 These controls also reduce the risk of errors, irregularities and fraud.

### HIGHLIGHTS

#### Controls implemented by the Shared Services Centre

- The Audit Office assessed the adequacy of controls over key applications managed by the Shared Services Centre (Shared Services) and found that they were generally satisfactory.
- Shared Services has improved some aspects of its control environment over these applications by addressing most previously reported audit findings.
- The process of standardising the recording of data and controls in Oracle Financials was generally managed satisfactorily.
- Shared Services should improve internal controls by the regular and scheduled testing of the restoration of backed up data and systems, increased monitoring of audit logs of changes to data (Chris21), and retaining evidence of the review of user access reports (Oracle Financials).



**HIGHLIGHTS - continued****Controls for key revenue applications**

- Control weaknesses still exist in the key revenue systems. With the exception of the RAPS<sup>3</sup> application, little progress has been made in addressing previously reported control weaknesses.
- Several control weaknesses over the key revenue systems reviewed during the audit process are not expected to be resolved until these systems have been upgraded or replaced.
- These control weaknesses expose the relevant agencies to a higher risk of errors, irregularities and fraud. Areas in particular need of improvement include password controls, reviewing user access, monitoring of audit logs and the restoration of backed up data.

**CONTROLS IMPLEMENTED BY THE SHARED SERVICES CENTRE**

4.5 The Audit Office assessed the controls over Oracle Financials (a financial management information system) and Chris21 (a human resources management information system) which are key applications managed by the Shared Services Centre (Shared Services). These applications are used in the preparation of the financial reports of almost all agencies.

4.6 Therefore, the Audit Office assessed the controls over these applications.

**Audit findings****Table 4.1: Status of audit findings (number of findings)**

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
5	(3)	1	1	4	6

4.7 Overall, the Audit Office found that the controls implemented by Shared Services in relation to Oracle Financials and Chris21 were generally satisfactory.

4.8 Shared Services has improved some important aspects of its control environment over these applications by addressing most previously reported audit findings.

4.9 The Audit Office also found that the process of standardising the recording of data and controls in Oracle Financials was generally managed satisfactorily.

4.10 However, since 2005-06, the Audit Office has advised Shared Services that the risk of undetected accidental or fraudulent changes to data in Chris21 would be reduced by the regular and scheduled monitoring of audit logs which records changes made to this data and identifies who made those changes.

<sup>3</sup> RAPS (the Receipting Accounting and Payments System) is used to record amounts received from ACT businesses and residents for ACT Government services such as motor vehicle registration, general rates and taxes, rental payments and parking and traffic fines.

- 4.11 Backups of data are performed to provide a copy of data which can be accessed in the event that the primary source of data becomes corrupted, modified or unavailable. The effectiveness of this data recovery process cannot be verified without testing the processes used to restore the backed up data.
- 4.12 Shared Services regularly backs up all critical data and systems (including data recorded in and processed by Oracle Financials and Chris21 applications) stored on the ACT Government's network servers. However, Shared Services does not conduct regular and scheduled testing of the restoration of these backups. This increases the risk that this data may not be available and/or recoverable when required.
- 4.13 The Audit Office therefore recommended that Shared Services conduct regular and scheduled testing of the restoration of backed up data.
- 4.14 The Audit Office also found that there was a risk of inappropriate or unauthorised access to the sensitive financial data retained in Oracle Financials. This risk would be reduced by evidenced reviews of user access reports.
- 4.15 Shared Services has indicated that it intends to address these audit findings.

### CONTROLS FOR KEY REVENUE APPLICATIONS

- 4.16 The ACT Government uses the following major applications to record information on taxes, fees and fines and rental revenue:
- the Homenet system;
  - the Territory Revenue System;
  - the rego.act system; and
  - the Receipting Accounting and Payments System.
- 4.17 Each of the applications is discussed below.

#### Homenet

- 4.18 Homenet is used to record the rental revenue reported in the financial report of Housing ACT.

**Table 4.2: Status of audit findings (number of findings)**

Previously Reported	Resolved	Partially Resolved	Not Resolved	Balance
10	-	3	7	10

- 4.19 In 2008-09, the Audit Office assessed that the controls over Homenet could not be relied upon for the purposes of the audit of the financial report of Housing ACT due to control weaknesses identified in previous years and advice from Housing ACT that many of the control weaknesses would not be addressed until a planned upgrade of Homenet had been completed.

- 4.20 The Audit Office therefore limited the scope of work performed in 2008-09 to following up Housing ACT's progress in resolving previously reported audit findings.
- 4.21 The Audit Office found that Housing ACT has not fully resolved most previously reported audit findings. In particular, Housing ACT should:
- regularly review user access reports to minimise the risk of inappropriate or unauthorised access to Homenet and its data; and
  - record changes to Homenet and its data in audit logs and monitor those logs to reduce the risk of undetected errors, irregularities and fraudulent changes being made to Homenet and its data.
- 4.22 Housing ACT has provided the following comments in relation to the above audit findings:

*'The range of controls and processes identified by the Auditor-General in her report on the management and operation of the Homenet system are being implemented as part of the upgrade of Homenet to version 5 and ultimately to version 6 of Homenet.*

*However, there is a range of controls and processes that cannot practicably or effectively be implemented whilst the current version of Homenet continues to be used. Those controls and processes that could reasonably be implemented, given the limitations inherent in the current version of Homenet, have been implemented by Housing ACT.*

*Independent consultants have been engaged to review the operation and controls proposed or implemented by Housing ACT to address the issues raised by the Auditor-General to ensure that access, security and management of the Homenet system accords with industry practice and InTACT guidelines.'*

### Territory Revenue System

- 4.23 The TRS (the Territory Revenue System) is used to record the taxes and fines revenue reported in the financial report of the Department of Treasury.

**Table 4.3: Status of audit findings (number of findings)**

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
9	(3)	2	4	1	7

- 4.24 The Audit Office limited the scope of work performed in 2008-09 to following up Treasury's progress in resolving previously reported audit findings.
- 4.25 Treasury has improved controls over the TRS by addressing some previously reported audit findings. In particular, access controls have been improved by the automatic expiration of unused passwords after a predetermined period of time and the prompt removal of users who have left Treasury.

- 4.26 Although access controls have been improved, significant access control weaknesses remain. For example, the TRS does not lock user accounts to prevent access after a specified number of attempts and it does not have the facility to ensure passwords are sufficiently complex. These weaknesses increase the risk of unauthorised access to the TRS and the potential for errors, irregularities and fraud to occur.
- 4.27 The Audit Office also recommended that Treasury implement effective monitoring of TRS audit logs, and the regular scheduled testing of the restoration of backed up data.
- 4.28 Treasury has indicated that it intends to address these audit findings. However, some audit findings will not be addressed until the planned upgrade of the TRS is implemented in 2010.
- 4.29 Treasury has provided the following comments:

*‘Treasury has implemented appropriate mitigation strategies to address the weaknesses in the system. The weaknesses will also be addressed as part of the upcoming TRS upgrade. As this work is occurring, it is not deemed necessary to fund changes that will be addressed as part of the upgrade, nor may it be possible to address these weaknesses on the current IT platform.’*

### Rego.act

- 4.30 Rego.act is managed by the Department of Territory and Municipal Services (TAMS). This application is used to record taxes and fines revenue reported in the financial report of TAMS and the parking fines revenue reported in the financial report of the Department of Justice and Community Safety.

**Table 4.4: Status of audit findings (number of findings)**

Previously Reported	Resolved	Partially Resolved	Not Resolved	Balance
10	(4)	1	5	6

- 4.31 The Audit Office found that TAMS improved controls over rego.act by resolving some of the previously reported audit findings. For example, the risk of undetected accidental or fraudulent changes to data has been reduced by the regular monitoring of audit logs of changes made to the data and the removal of user accounts that cannot be traced to an individual user (i.e. ‘generic’ or ‘shared’ user accounts).
- 4.32 However, the risk of persons gaining unauthorised access to rego.act and its data would be further reduced by improving password controls and regularly checking that users’ access privileges remain appropriate.
- 4.33 TAMS has indicated that it intends to address these audit findings in 2010.

## Receipting Accounting and Payments System

4.34 The Receipting Accounting and Payments System (RAPS) is managed by TAMS. This application is used to record amounts received from ACT businesses and residents for ACT Government services such as motor vehicle registration, general rates and taxes, rental payments and parking and traffic fines reported in the financial reports of TAMS, the Department of Justice and Community Safety, the Department of Treasury and the ACT Planning and Land Authority.

**Table 4.5: Status of audit findings (number of findings)**

Previously Reported	Resolved	Partially Resolved	Not Resolved	Balance
7	(5)	2	-	2

4.35 In 2008-09, the Audit Office assessed that the controls over RAPS could not be relied upon for the purposes of the audit of the financial reports of the above agencies due to control weaknesses identified in previous years and advice from TAMS that several control weaknesses would not be addressed until a planned replacement of RAPS had been completed.

4.36 The Audit Office therefore limited the scope of work performed in 2008-09 to following up the progress made by TAMS in resolving previously reported audit findings.

4.37 The Audit Office found that TAMS has resolved most of the previously reported audit findings. In particular, TAMS reduced the risk of:

- unauthorised or inappropriate access to data by regularly reviewing that users' access remained appropriate; and
- data not being recoverable by testing the effectiveness of procedures for restoring backed up data.

4.38 However, TAMS should also record changes in audit logs and perform regular scheduled monitoring of those audit logs to reduce the risk of unauthorised and undetected changes being made to RAPS and its data.

4.39 TAMS has advised that it intends to eventually address these audit findings. However, the timing depends on the implementation of a replacement system.

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## 5. THE TERRITORY'S FINANCIAL REPORT

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- 5.1 This Chapter highlights the results of the audit of the Territory's financial report and includes an analysis of the Territory's financial performance, position and the capital assets program.
- 5.2 This Chapter also includes an analysis of the Territory's expected financial performance and position for the next few years.

### AUDIT REPORT

- The Audit Office issued an unqualified audit report on the Territory's 2008-09 financial report.
- This year, the Territory's financial report was prepared in accordance with the requirements of the new accounting standard AASB 1049 'Whole of Government and General Government Sector Financial Reporting'.

### FINANCIAL RESULTS

#### Net operating balance

- In 2008-09, the Territory incurred a small deficit of \$33 million for the net operating balance. This result was in line with budget expectations, but represented a much lower result than the surpluses generated in recent years of \$171 million in 2007-08 and \$53 million in 2006-07.
- This declining result was caused by an increase in expenses (\$270 million or 7.9 percent) which was not matched by the growth in revenues (\$66 million or 1.8 percent).
- The Territory is expected to incur significantly higher deficits in the net operating balance ranging from \$245 million to \$350 million over the period covered by the budget forward estimates.

#### Operating result

- In 2008-09, the Territory incurred a significant operating deficit of \$283 million. This result was much lower than the budgeted surplus of \$400 million and the surpluses of recent years of \$131 million in 2007-08 and \$372 million in 2006-07.
- The Territory's significant operating deficit was due mainly to losses on superannuation investments caused by adverse conditions in financial markets (global financial crisis), and declining land revenue due to a weakening of the property market.
- The Territory is expected to generate small operating results over the period covered by the budget forward estimates.

### **Operating result - continued**

- There is a continuing and significant risk that the Territory will incur large operating deficits over the next few years, particularly if unfavourable conditions persist in investment and property markets.

### **Revenue**

- In 2008-09, the Territory's revenue (\$3 652 million) was slightly higher than the budget forecast (\$3 544 million) and the prior year's result (\$3 586 million).

### **Expenses**

- Expenses exceeded the budgeted amount by \$108 million (3.0 percent).
- Expenses increased by \$270 million (7.9 percent) on the prior year with costs rising in all major categories of expenses.

### **Financial position**

- The Territory's net asset position has improved because the increases in the valuation of non-financial assets and amounts spent on capital works have outweighed a significant increase in the estimated unfunded superannuation liability and borrowings.

### **Short-term financial position**

- The Territory's short-term financial position remains strong. However, it has weakened during 2008-09, and is much weaker than was anticipated in the budget, due mainly to significant losses in the value of superannuation investments.
- The Territory is expected to retain a sufficient capacity to meet its short-term obligations. However, its capacity to do so is expected to diminish significantly over the period covered by the budget forward estimates.
- The expected weakening in the Territory's short-term financial position is primarily due to the increased use of short-term borrowings to fund the planned increases to the capital works program in the General Government Sector.

### **Long-term financial position**

- The Territory's long-term financial position has weakened significantly during 2008-09 and was considerably weaker than anticipated in the budget due mainly to the substantial growth in the unfunded superannuation liability.
- Over the period of the budget forward estimates, the Territory's long-term financial position is expected to continue to weaken significantly. The main contributing factors are the growing unfunded superannuation liability and planned increases in borrowings to fund major capitals work projects including ACTEW water projects.

### Cash results

- In 2008-09, the cash surplus from the Territory's operations (\$544 million) remained strong, but was considerably lower than the previous year's result (\$984 million) and less than was anticipated in the budget (\$695 million).
- Over the next few years, cash surpluses from the Territory's operations are generally expected to be maintained at similar levels to that generated in 2008-09.
- The Territory recorded a small cash surplus (\$32 million) after operating and capital activities.
- The Territory expects to incur significant cash flow deficits over the next two years due mainly to significant planned capital spending associated with the ACT Government's capital works program.

### Capital assets

- The funding provided for capital works in the 2008-09 Budget increased by \$113 million or 23.8 percent compared to the 2007-08 Budget. This was due mainly to funding provided for major capital works including the Kingsford Smith (West Belconnen) High School, schools infrastructure, health system infrastructure and upgrades of roads and paths.
- In 2008-09, the level of underspending (41.5 percent) for capital works increased significantly compared to the prior years.

## OPERATING RESULTS

**Table 5.1: Operating results**

	Actual 2006-07 \$m	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Revenue	3 088	3 586	3 652	3 544
Expenses	(3 035)	(3 415)	(3 685)	(3 577)
<b>Net operating balance</b>	<b>53</b>	<b>171</b>	<b>(33)</b>	<b>(33)</b>
Other economic flows	319	(40)	(250)	433
<b>Operating surplus/(deficit)</b>	<b>372</b>	<b>131</b>	<b>(283)</b>	<b>400</b>



- 5.3 The Territory's 2008-09 financial report was prepared in accordance with the requirements of the new accounting standard AASB 1049 'Whole of Government and General Government Sector Financial Reporting'.
- 5.4 AASB 1049 requires the Territory's financial report to include the presentation and disclosure requirements of the Government Finance Statistics (GFS) Manual issued by the Australian Bureau of Statistics (ABS), where these requirements do not conflict with the requirements of the Australian Accounting Standards.
- 5.5 The net operating balance is a key measure of the Territory's financial performance under GFS reporting. This measure provides information on the ongoing financial sustainability of the ACT Government's strategies and policies, particularly when assessed over a number of years.
- 5.6 The net operating balance generally consists of revenue and expenses that arise from mutually agreed transactions such as:
- revenue from Commonwealth grants, taxation, sales of goods and services and that estimated component of land sales revenue attributable to the Territory's activities in the development of land; and
  - employee, supplies and services expenses, grants and depreciation expenses.
- 5.7 The net operating balance excludes other economic flows. Other economic flows generally consist of transactions that have not arisen from a mutual agreement and represent changes in the volume or value of assets and liabilities that have not resulted from the Territory's operations.
- 5.8 Other economic flows for the Territory are largely comprised of gains and losses incurred on investments and the estimated component of land sales attributable to movements in the markets for investments and land.
- 5.9 In 2008-09, the Territory incurred a deficit of \$33 million for the net operating balance. This deficit was in line with budget expectations with overall revenue and expenses not varying significantly from budget expectations.
- 5.10 The deficit of \$33 million in the net operating balance in 2008-09 is a much lower result than the surpluses generated in recent years of \$171 million in 2007-08 and \$53 million in 2006-07.
- 5.11 This declining result was caused by an increase in expenses which exceeded the growth in revenues. Expenses increased by \$270 million (7.9 percent) compared to relatively small growth in revenue of \$66 million (1.8 percent). Further information on these increases is provided on pages 39 to 40 of this report.
- 5.12 The operating result is another important measure of financial performance. It consists of the net operating balance and other economic flows. Like the net operating balance, this measure provides an indication of the financial sustainability of the ACT Government's strategies and policies over time.

- 5.13 In 2008-09, the Territory incurred an operating deficit of \$283 million. This result represents a significant decline from the budgeted surplus of \$400 million and the surpluses of recent years of \$131 million in 2007-08 and \$372 million in 2006-07.
- 5.14 The Territory's significant operating deficit was due mainly to losses on superannuation investments caused by adverse conditions in financial markets (global financial crisis) and declining land revenue due to a weakening of the property market.

**Table 5.2: Projected operating results - Note 1**

	<b>Actual 2008-09 \$m</b>	<b>Budget 2009-10 \$m</b>	<b>Budget 2010-11 \$m</b>	<b>Budget 2011-12 \$m</b>	<b>Budget 2012-13 \$m</b>
Revenue	3 652	3 700	3 756	3 958	4 090
Expenses	(3 685)	(3 945)	(4 044)	(4 303)	(4 440)
<b>Net operating balance</b>	<b>(33)</b>	<b>(245)</b>	<b>(288)</b>	<b>(345)</b>	<b>(350)</b>
Other economic flows	(250)	270	335	331	374
<b>Operating (deficit)/surplus</b>	<b>(283)</b>	<b>25</b>	<b>47</b>	<b>(14)</b>	<b>24</b>

Note 1: Projected budget figures are sourced from the 2009-10 Budget Update.

- 5.15 The Territory is expected to incur significantly higher deficits in the net operating balance ranging from \$245 million to \$350 million over the period covered by the budget forward estimates.
- 5.16 According to the 2009-10 Budget Update, the Territory is expected to generate small operating results over the period covered by the budget forward estimates. However, the achievement of the planned small surpluses and deficits depends on the generation of sufficient positive results from other economic flows to counter the expected significant deficits in the net operating balance over the next few years. As these other economic flows are determined by movements in investment and property values, the planned small results could easily become large deficits, if unfavourable conditions persist in investment and property markets.
- 5.17 Therefore, there is a continuing and significant risk that the Territory will incur large operating deficits over the next few years.

5.18 Treasury has provided the following comments in relation to the above analysis:

*'The Territory's financial performance in 2008-09 compared to the 2008-09 Budget and 2007-08 actual results has been impacted by consequences of the global financial crisis, which has resulted in both a reduction in the growth in revenues, particularly from the Commonwealth, lower interest earnings and a softening of the property market, and reduced returns on investments due to the volatility of the share markets globally.*

*Considerable revenue losses from these four factors combined in 2008-09 equated to around five percent of the Territory's revenue base.*

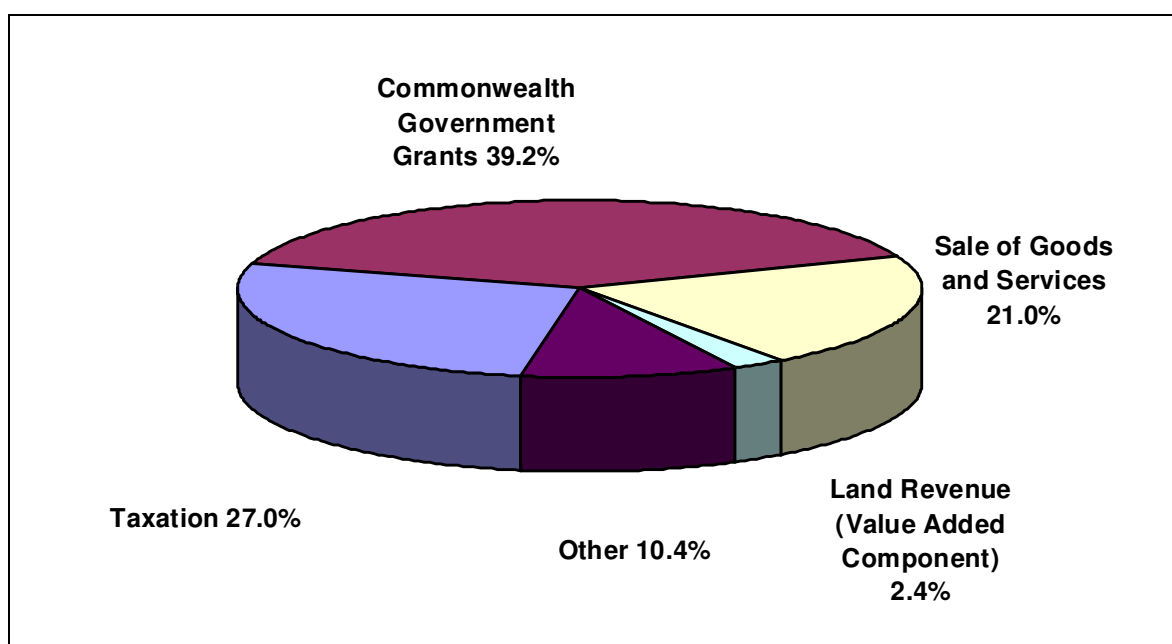
*The level and value of financial assets has also reduced significantly, over the budget, as a result of the crisis.*

*The ACT Government has responded to impacts of the crisis with a longer term approach, as outlined in the Budget Plan announced by the ACT Government in the 2009-10 Budget, then updated in the 2009-10 Budget Update. The Plan provides a strategy to return the budget to surplus by 2015-16.'*

## REVENUE, EXPENSES AND OTHER ECONOMIC FLOWS

### Revenue

Figure 5.1: 2008-09 Revenue



5.19 The Territory receives the majority of its revenue from Commonwealth Government grants, taxation and the sale of goods and services.

**Table 5.3: Revenue**

	<b>Actual 2006-07 \$m</b>	<b>Actual 2007-08 \$m</b>	<b>Actual 2008-09 \$m</b>	<b>Budget 2008-09 \$m</b>
Taxation	910	1 006	986	1 023
Commonwealth Government grants	1 215	1 324	1 432	1 395
Sale of goods and services	628	702	766	729
Land revenue (value added component)	99	229	88	126
Other	236	325	380	271
<b>Revenue</b>	<b>3 088</b>	<b>3 586</b>	<b>3 652</b>	<b>3 544</b>

5.20 In 2008-09, the Territory's revenue (\$3 652 million) was slightly higher than the budget forecast (\$3 544 million) and the prior year's result (\$3 586 million).

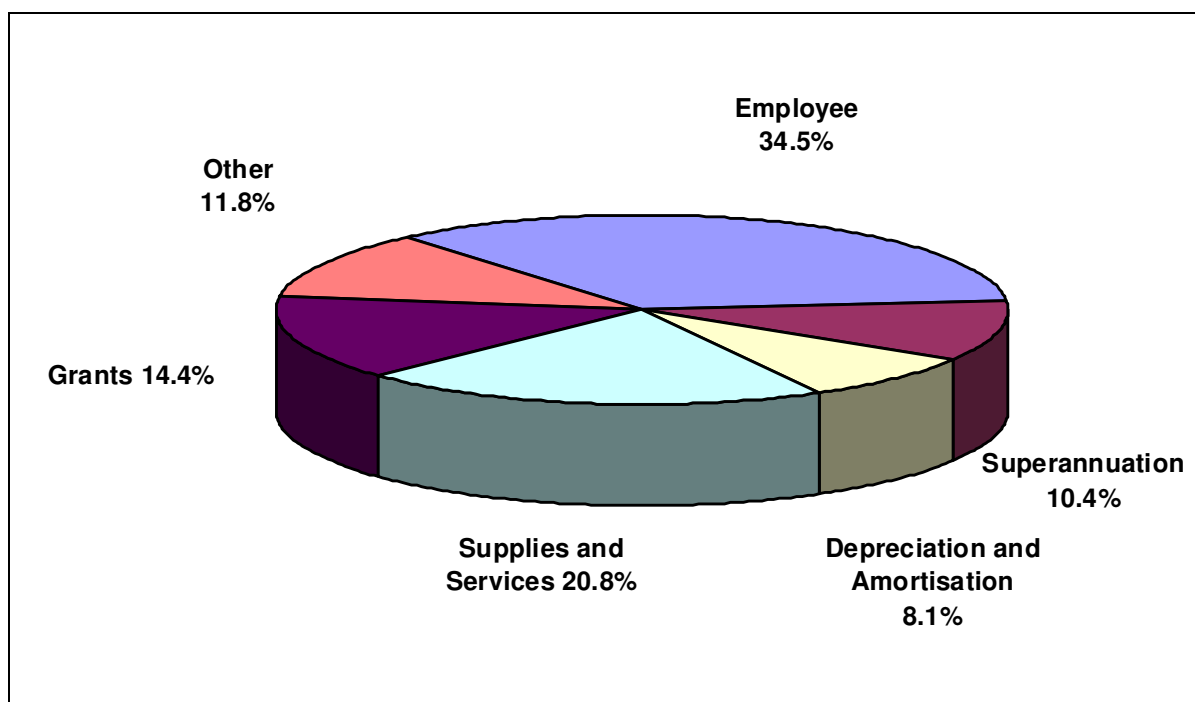
5.21 Revenue exceeded the budget and prior year's results in the following areas:

- Commonwealth Government grants - additional funding was received for initiatives relating to health, education, housing and disability services in the second half of the year due to the Commonwealth Government's stimulus package, offset by significant reductions in GST revenue;
- Sales of goods and services – revenue increased as a result of a rise in the price charged for water and increases in user charges for hospital and other services; and
- Other revenue – the increase reflects a reassessment of the estimated reinsurance recoveries of public liability claims related to the 2003 Canberra bushfire.

5.22 The growth in these sources of revenue was mostly offset by fall in land and taxation revenue, reflecting a decline in the property market and a reduction in taxes obtained on property transactions respectively.

Expenses

Figure 5.2: 2008-09 Expenses



5.23 Most of the Territory's expenses are related to employee and superannuation and supplies and services expenses.

Table 5.4: Expenses

	Actual 2006-07 \$m	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Employee	1 083	1 158	1 271	1 236
Superannuation	359	377	383	425
Depreciation and amortisation	217	266	297	272
Supplies and services	652	728	767	810
Grants	435	493	532	520
Other	289	393	435	314
<b>Expenses</b>	<b>3 035</b>	<b>3 415</b>	<b>3 685</b>	<b>3 577</b>

5.24 Expenses exceeded the budgeted amount by \$108 million (3.0 percent). This was due mainly to the reassessment of the value of outstanding public liability claims relating to the 2003 Canberra bushfire (included in other expenses) and higher

employee expenses which resulted mainly from an increase in employee related on-costs.

5.25 Expenses increased by \$270 million (7.9 percent) from the prior year with costs rising in all major categories of expenses. The largest cost increases were experienced in the following areas:

- Employee expenses increased by \$113 million (9.8 percent) due to higher employee numbers, wages and salaries increases provided for under certified agreements and higher on-costs;
- Supplies and services were higher than the previous year by \$39 million (5.4 percent) due mainly to additional repairs and maintenance costs. These included repairs and maintenance of buses and repairs to public housing properties using additional funding provided under the Commonwealth Government's stimulus package;
- Grants exceeded the prior year's amount by \$39 million (7.9 percent) due mainly to increased costs of providing the first home owners grant and additional funding for non-government schools – through the Commonwealth Government stimulus package; and
- Other expenses increased by \$42 million (10.7 percent) due largely to an upward reassessment of the value of outstanding public liability claims related to the 2003 Canberra bushfire.

### Other economic flows

**Table 5.5: Other economic flows**

	Actual 2006-07 \$m	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Land revenue - market gains and undeveloped land value	107	244	139	337
Net gain/(loss) on financial assets and liabilities at fair value	220	(276)	(340)	90
Other	(8)	(8)	(49)	6
<b>Other economic flows</b>	<b>319</b>	<b>(40)</b>	<b>(250)</b>	<b>433</b>

5.26 Other economic flows were substantially below the budgeted and prior year amounts by \$683 million and \$210 million respectively due mainly to significant losses on superannuation investments caused by adverse conditions in financial markets associated with the global financial crisis, and declining land revenue due to a weakening of the property market.

## FINANCIAL POSITION

5.27 The Territory's assets largely consist of land and buildings and infrastructure assets.

5.28 The Territory's liabilities are largely represented by borrowings, payables and finance leases and the estimated unfunded superannuation liability.

**Table 5.6: Balance sheet**

As at 30 June	Actual 2007 \$m	Actual 2008 \$m	Actual 2009 \$m	Budget 2009 \$m
<b>Assets</b>				
Financial assets - Note 1	1 414	2 035	2 188	1 909
Non-financial assets	12 255	15 575	17 291	15 031
	<b>13 669</b>	<b>17 610</b>	<b>19 479</b>	<b>16 940</b>
<b>Liabilities</b>				
Borrowings, payables and finance leases	(1 294)	(1 581)	(1 791)	(1 654)
Unfunded superannuation - Note 2	(851)	(1 098)	(2 255)	(1 379)
Employee benefits	(360)	(438)	(579)	(394)
Other	(4)	(7)	(15)	(8)
	<b>(2 509)</b>	<b>(3 124)</b>	<b>(4 640)</b>	<b>(3 435)</b>
<b>Net assets</b>	<b>11 160</b>	<b>14 486</b>	<b>14 839</b>	<b>13 505</b>

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

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

5.29 The Territory's net asset position as at 30 June 2009 exceeded the budgeted position by \$1 334 million (9.9 percent) and the prior year's position by \$353 million (2.4 percent).

5.30 This improved net asset position mainly reflects continuing increases in the valuation of the Territory's non-financial assets and amounts spent on capital works, partially offset by a significant increase in the estimated unfunded superannuation liability and borrowings.

## SHORT-TERM FINANCIAL POSITION

**Table 5.7: Short-term financial position**

As at 30 June	Actual 2007 \$m	Actual 2008 \$m	Actual 2009 \$m	Budget 2009 \$m
<b>Short-term assets</b>				
Financial assets – Note 1	1 414	2 035	2 188	1 909
Funded superannuation assets - Note 2	2 077	1 952	1 709	2 265
	<b>3 491</b>	<b>3 987</b>	<b>3 897</b>	<b>4 174</b>
<b>Short-term liabilities - Note 3</b>	<b>(963)</b>	<b>(976)</b>	<b>(1 087)</b>	<b>(609)</b>
<b>Net short-term assets</b>	<b>2 528</b>	<b>3 011</b>	<b>2 810</b>	<b>3 565</b>
<b>Short-term assets to short-term liabilities</b>	<b>3.6 to 1</b>	<b>4.1 to 1</b>	<b>3.6 to 1</b>	<b>6.9 to 1</b>

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

Note 2: Funded superannuation assets are calculated by subtracting the current employee superannuation benefit liability reported in Note 47 of the Territory's financial report from the superannuation investments reported in Superannuation Provision Account's financial report.

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

5.31 The Territory's short-term financial position can be assessed by comparing the amount of assets available to cover short-term liabilities.

5.32 At 30 June 2009, the Territory had \$3.60 in short-term assets available to cover each dollar of short-term liabilities. Although the Territory's short-term financial position has remained strong, it has weakened during 2008-09, and was much weaker than anticipated in the budget. The weaker result was due mainly to the previously mentioned substantial losses in the value of superannuation investments.



**Table 5.8: Projected short-term financial position - Note 1**

As at 30 June	Actual 2009 \$m	Budget 2010 \$m	Budget 2011 \$m	Budget 2012 \$m	Budget 2013 \$m
<b>Short-term assets</b>					
Financial assets	2 188	1 302	1 365	1 282	1 478
Funded superannuation assets	1 709	1 857	1 999	2 139	2 276
<b>Total short-term assets</b>	<b>3 897</b>	<b>3 159</b>	<b>3 364</b>	<b>3 421</b>	<b>3 754</b>
<b>Short-term liabilities</b>	<b>(1 087)</b>	<b>(1 530)</b>	<b>(1 976)</b>	<b>(2 032)</b>	<b>(2 079)</b>
<b>Net short-term assets</b>	<b>2 810</b>	<b>1 629</b>	<b>1 388</b>	<b>1 389</b>	<b>1 675</b>
<b>Short-term assets to short-term liabilities</b>	<b>3.6 to 1</b>	<b>2.1 to 1</b>	<b>1.7 to 1</b>	<b>1.7 to 1</b>	<b>1.8 to 1</b>

Note 1: Projected budget figures are sourced from the 2009-10 Budget Update.

- 5.33 In the next few years, the Territory is expected to retain a sufficient capacity to meet its short-term obligations, however, its capacity to do so is expected to diminish significantly over the period covered by the budget forward estimates.
- 5.34 The expected weakening in the Territory's short-term financial position is primarily due to the increased use of short-term borrowings to fund the planned increases to the capital works program in the General Government Sector.

## LONG-TERM FINANCIAL POSITION

**Table 5.9: Financial assets to liabilities**

As at 30 June	Actual 2007 \$m	Actual 2008 \$m	Actual 2009 \$m	Budget 2009 \$m
<b>Financial assets</b>	<b>1 414</b>	<b>2 035</b>	<b>2 188</b>	<b>1 909</b>
<b>Liabilities</b>				
Unfunded superannuation	(851)	(1 098)	(2 255)	(1 379)
Other	(1 658)	(2 026)	(2 385)	(2 055)
	<b>(2 509)</b>	<b>(3 124)</b>	<b>(4 640)</b>	<b>(3 434)</b>
<b>Unfunded liabilities</b>	<b>(1 095)</b>	<b>(1 089)</b>	<b>(2 452)</b>	<b>(1 525)</b>
<b>Ratio of financial assets to liabilities</b>	<b>0.6 to 1</b>	<b>0.7 to 1</b>	<b>0.5 to 1</b>	<b>0.6 to 1</b>

- 5.35 The Territory's financial assets are the primary means of covering the Territory's short-term and long-term obligations. Although some non-financial assets could be sold to meet these obligations, most are committed to the provision of public services (for example, infrastructure assets, schools, hospitals etc).
- 5.36 Therefore, the Territory's long-term financial position can be assessed by comparing the amount of financial assets to liabilities.
- 5.37 The Territory's long-term financial position has weakened significantly during 2008-09 and was considerably weaker than anticipated in the budget. The Territory's unfunded liabilities (\$2 452 million) exceeded the budgeted position (\$1 525 million) by \$927 million (60.8 percent).
- 5.38 The main cause of this weakening is the substantial increase in the estimated unfunded superannuation liability. The unfunded superannuation liability grew considerably during 2008-09 and was much larger than was anticipated in the budget. This was due to the combined effects of a large fall in the value of superannuation investments and an increase in the estimated superannuation liability. A reduction in the discount rate used to estimate the present value of the liability and the accrual of an additional year's benefit (liability) contributed to the increased superannuation liability. Further information on the unfunded superannuation liability is provided in the section on the Superannuation Provision Account on pages 119 to 121 of this report.

- 5.39 As explained previously, other liabilities increased compared to prior year due to an increase in borrowings to fund major projects for water infrastructure undertaken by ACTEW Corporation Limited and the capital works program in the General Government Sector.

**Table 5.10: Projected assets available to meet the Territory's liabilities - Note 1**

As at 30 June	Actual 2009 \$m	Budget 2010 \$m	Budget 2011 \$m	Budget 2012 \$m	Budget 2013 \$m
<b>Financial assets</b>	<b>2 188</b>	<b>1 302</b>	<b>1 365</b>	<b>1 282</b>	<b>1 478</b>
<b>Liabilities</b>					
Unfunded superannuation	(2 255)	(2 088)	(2 167)	(2 263)	(2 355)
Other liabilities	(2 385)	(2 520)	(3 230)	(3 232)	(3 296)
	<b>(4 640)</b>	<b>(4 608)</b>	<b>(5 397)</b>	<b>(5 495)</b>	<b>(5 651)</b>
<b>Unfunded liabilities</b>	<b>(2 452)</b>	<b>(3 306)</b>	<b>(4 032)</b>	<b>(4 213)</b>	<b>(4 173)</b>
<b>Ratio of financial assets to liabilities</b>	<b>0.5 to 1</b>	<b>0.3 to 1</b>	<b>0.3 to 1</b>	<b>0.2 to 1</b>	<b>0.3 to 1</b>

Note1: Projected budget figures are sourced from the 2009-10 Budget Update.

- 5.40 The Territory's long-term financial position is expected to continue to weaken significantly over the period of the budget forward estimates.
- 5.41 The value of unfunded liabilities is projected to increase from \$2 452 million in 2009 to \$4 173 million in 2013. This represents an average annual increase of 17.5 percent over this period.
- 5.42 Other liabilities are also expected to grow significantly due to a planned increase in borrowings to fund the major projects for water infrastructure undertaken by ACTEW Corporation Limited and the planned capital works program in the General Government Sector.

## CASH RESULTS

**Table 5.11: Cash flows**

	<b>Actual 2006-07 \$m</b>	<b>Actual 2007-08 \$m</b>	<b>Actual 2008-09 \$m</b>	<b>Budget 2008-09 \$m</b>
<b>Cash flows from operations</b>				
Receipts	3 286	4 120	3 961	4 019
Payments	(2 739)	(3 136)	(3 417)	(3 324)
<b>Net cash surplus from operations</b>	<b>547</b>	<b>984</b>	<b>544</b>	<b>695</b>
<b>Cash flows from capital activities</b>				
Payments for property, plant, equipment and capital works	(323)	(466)	(577)	(819)
Sale of property, plant and equipment	37	29	65	102
<b>Net cash (deficit) from capital activities</b>	<b>(286)</b>	<b>(437)</b>	<b>(512)</b>	<b>(717)</b>
<b>Net cash surplus/(deficit) from operating and capital activities</b>	<b>261</b>	<b>547</b>	<b>32</b>	<b>(22)</b>

- 5.43 The above table provides information on the cash flows relating to the Territory's operating and capital activities.
- 5.44 In 2008-09, the cash surplus from the Territory's operations (\$544 million) remained strong, but was considerably lower than the previous year's result (\$984 million) and less than was anticipated in the budget (\$695 million).
- 5.45 The Territory's small cash surplus from operating and capital activities (\$32 million) indicates that the net cash surpluses from the Territory's operations were just sufficient to cover the payments for property, plant, equipment and capital works.

**Table 5.12: Projected cash flows – Note 1**

	<b>Actual 2008-09 \$m</b>	<b>Budget 2009-10 \$m</b>	<b>Budget 2010-11 \$m</b>	<b>Budget 2011-12 \$m</b>	<b>Budget 2012-13 \$m</b>
<b>Cash flows from operations</b>					
Receipts	3 961	4 086	4 184	4 377	4 551
Payments	(3 417)	(3 562)	(3 625)	(3 882)	(4 041)
<b>Net cash inflows from operations</b>	<b>544</b>	<b>524</b>	<b>559</b>	<b>495</b>	<b>510</b>
<b>Net cash (outflows) from capital activities</b>	<b>(512)</b>	<b>(1 211)</b>	<b>(1 105)</b>	<b>(447)</b>	<b>(323)</b>
<b>Net cash inflows/(outflows) after operating and capital activities</b>	<b>32</b>	<b>(687)</b>	<b>(546)</b>	<b>48</b>	<b>187</b>

Note 1: Projected budget figures are sourced from the 2009-10 Budget Update.

- 5.46 Over the next few years, cash surpluses from the Territory's operations are generally expected to be maintained at similar levels to that generated in 2008-09.
- 5.47 The Territory expects to incur significant cash flow deficits over the next two years due mainly to significant planned capital spending associated with the ACT Government's capital works program.

**CAPITAL ASSETS**

**Table 5.13: Past trends in capital works funding and expenditure – Note 1**

	<b>Actual 2006-07 \$m</b>	<b>Actual 2007-08 \$m</b>	<b>Actual 2008-09 \$m</b>
<b>Original budget – Note 2</b>	<b>384</b>	<b>475</b>	<b>588</b>
Capital outlays – Note 2	(253)	(327)	(344)
<b>Underspending against the original budget</b>	<b>131</b>	<b>148</b>	<b>244</b>
<b>Underspending as a percentage of the original budget</b>	<b>34.1%</b>	<b>31.2%</b>	<b>41.5%</b>

Note 1: This table covers expenditure on infrastructure reported in the Territory's Capital Works Report - Program Outcome. These reports are prepared by the Department of Treasury and tabled in the Legislative Assembly.

Note 2: This includes supplementary appropriations and Commonwealth funding and Housing ACT capital works.

5.48 The 2009-10 Budget Papers provide details of the capital works planned by the ACT Government to meet the capital costs of its services.

5.49 The funding provided for capital works in the 2008-09 Budget increased by \$113 million or 23.8 percent compared to the 2007-08 Budget. This was due mainly to funding provided for major capital works including the Kingsford Smith (West Belconnen) High School, schools infrastructure, health system infrastructure and upgrades of roads and paths.

5.50 As in previous years, this planned funding was underspent. In 2008-09, the level of underspending as a percentage of the original budget (41.5 percent) significantly increased from prior years.

5.51 Most of the amount underspent in 2008-09 resulted from delays in completing infrastructure and building projects for ACT Health, the Department of Education and Training and the Department of Territory and Municipal Services. These delays are outlined in the sections for these agencies in Chapter 6 of this report.

5.52 Treasury has provided the following comments in relation to the above audit findings:

*‘The ACT Government has commitment to significant investment in infrastructure in the future, with the aim of expanding available infrastructure to improve the productive capacity of the community, and provide certainty to industry and support jobs.*

*As a result, the overall size of the capital program will increase substantially in coming years.’*

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## 6. COMMENTARY ON GOVERNMENT AGENCIES

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### ACT HEALTH

6.1 ACT Health seeks to improve health outcomes for the population by:

- providing access to an appropriate and comprehensive range of health and related services;
- promoting the independence of users and their carers;
- providing good information to consumers and involving them in decision making about their health needs; and
- improving patient safety and quality of care.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on ACT Health's 2008-09 financial report and an unqualified report of factual findings on the 2008-09 statement of performance.
- ACT Health's net cost of services of \$733.8 million exceeded the budgeted and prior year's cost of \$724.5 million and \$670.7 million respectively, due mainly to a higher demand for health services.
- ACT Health did not draw down most of the allocated capital injection funding due to delays in major construction projects.
- ACT Health addressed nearly all of the previously reported audit findings. In particular, ACT Health improved the reporting of its performance in the statement of performance and improved controls over pharmaceutical inventory.
- The Audit Office found that there was scope for ACT Health to improve the bank reconciliation controls relating to third party moneys and the process for the preparation of the financial report.

Financial results

Table 6.1: Key results

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Expenses	(838.9)	(917.1)	(888.8)
Income	168.2	183.3	164.3
<b>Net cost of services</b>	<b>(670.7)</b>	<b>(733.8)</b>	<b>(724.5)</b>
Government contributions	653.1	721.5	708.5
Increase in the estimate of the liability for employee benefits due to a change in the estimation methodology	-	(21.7)	-
<b>Operating (deficit)</b>	<b>(17.6)</b>	<b>(34.0)</b>	<b>(16.0)</b>
<b>Capital injections</b>	<b>13.0</b>	<b>28.8</b>	<b>91.2</b>

- 6.2 ACT Health’s expenses are mostly represented by the employment costs associated with its workforce, the purchase of clinical and medical surgical supplies and pharmaceuticals, insurance and payments for services provided by visiting medical officers. ACT Health also funds the delivery of health services provided to the community by the Calvary Public Hospital and other non-government organisations.
- 6.3 ACT Health’s net cost of services exceeded the budgeted and prior year’s cost by \$9.3 million (1.3 percent) and \$63.1 million (9.4 percent) respectively.
- 6.4 These cost increases mostly reflected a higher than anticipated demand for health services. In particular, employee costs, payments to the Calvary Public Hospital and other non-government organisations (to fund higher staffing levels and pay increases) and supplies and services costs increased due to a greater demand for health services. These increased costs were partially offset by higher income resulting from an increase in the services provided, particularly, to interstate patients and veterans.
- 6.5 ACT Health did not draw down most of the budgeted capital injection funding allocated for capital projects due to delays in several capital projects, including the construction of the multi-storey car park at The Canberra Hospital, the construction of a Women’s and Children’s Hospital and several smaller value projects.



**Audit findings**

**Table 6.2: Status of audit findings (number of findings)**

Previously Reported	Resolved	Partially Resolved	New	Balance
8	(7)	1	5	6

- 6.6 ACT Health resolved nearly all of the previously reported audit findings. This indicates ACT Health has sound processes for addressing audit findings.
- 6.7 The Audit Office found that ACT Health’s performance was explained more meaningfully in its statement of performance by providing more information about each performance measure and improving explanations for material variances from targeted results. The Office also found that ACT Health had reduced the risk of errors, irregularities and fraud in relation to pharmaceutical inventory by improving controls over this inventory.
- 6.8 In 2008-09, the Audit Office found that:
- bank reconciliation controls over third party moneys needed to be improved to minimise the risk of errors, irregularities and fraud; and
  - the financial report submitted for audit contained several errors and omissions, indicating that the processes implemented to prepare the financial report need to be improved.
- 6.9 ACT Health has advised that it has agreed to address all audit findings.

## ACTEW

6.10 ACTEW Corporation Limited (ACTEW) is a holding company with substantial assets and investments in water, sewerage, electricity, gas and telecommunications. ACTEW has two subsidiaries - ACTEW Distribution Limited and ACTEW Retail Limited.

6.11 ACTEW's principal activities are to supply water, provide sewerage services and to promote and manage the sustainable use of energy and water.

### HIGHLIGHTS

- The Audit Office issued unqualified audit reports on the 2008-09 financial reports of ACTEW Corporation Limited, ACTEW Distribution Limited and ACTEW Retail Limited.
- ACTEW's operating profit (\$72.8 million) was slightly lower than the prior year's profit (\$75.9 million).
- ACTEW's short and long-term financial positions continue to be sound.

### Financial results

**Table 6.3: Key results**

	Actual 2007-08 \$m	Actual 2008-09 \$m
Revenue	210.8	239.5
Profit share - ActewAGL Joint Venture	69.3	80.5
<b>Income</b>	<b>280.1</b>	<b>320.0</b>
Expenses	(170.7)	(219.1)
<b>Operating profit before income tax expense</b>	<b>109.4</b>	<b>100.9</b>
Income tax expense	(33.5)	(28.1)
<b>Operating profit</b>	<b>75.9</b>	<b>72.8</b>
<b>Dividends paid to the ACT Government</b>	<b>(75.9)</b>	<b>(72.8)</b>

- 6.12 ACTEW's consolidated results include the financial results of ACTEW and its subsidiaries and ACTEW's share of the financial results of the ActewAGL Joint Venture and TransACT Communications Pty Limited (TransACT<sup>4</sup>).
- 6.13 ACTEW obtains most of its income by charging its customers for water supply and sewerage services. ACTEW also derives a significant amount of revenue and the majority of its profit from its 50 percent share of the profit generated by the ActewAGL Joint Venture.
- 6.14 Income increased by \$39.9 million (14.2 percent) in 2008-09 due mostly to increases in charges levied for water and sewerage services and growth in ACTEW's customer base. The increase of \$11.2 million (16.1 percent) in ACTEW's share of revenue from the ActewAGL Joint Venture continued a trend of growth in profits generated by the Joint Venture.
- 6.15 ACTEW's costs consist mainly of project-related expenses incurred under a utilities management agreement with the ActewAGL Joint Venture, costs associated with supplying water, expenses incurred in providing waste water and sewerage services, borrowing costs and depreciation.
- 6.16 Expenses increased by \$48.4 million (28.4 percent) in 2008-09 due mainly to:
- higher project-related costs relating to the utilities management agreement;
  - an additional allowance for impairment for the water purification design scheme following a decision by the ACT Government not to proceed with the scheme; and
  - higher borrowing costs as ACTEW entered into two indexed annuity bond loans of \$300 million and \$96 million in June 2008 and June 2009 respectively to fund major projects for water infrastructure.
- 6.17 ACTEW's operating profit (\$72.8 million) was slightly lower than the prior year's profit (\$75.9 million) and above the budgeted profit of \$65.7 million included in ACTEW's statement of corporate intent. This result is reflected in the dividends paid to the ACT Government.

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<sup>4</sup> TransACT refers to TransACT Communications Pty Limited and any entities it controlled during the year. TransACT is not a subsidiary of ACTEW and is not audited by the Audit Office.

### Short-term financial position

**Table 6.4: Short-term financial position**

	<b>Actual 2008 \$m</b>	<b>Actual 2009 \$m</b>
Short-term assets	258.6	228.9
Short-term liabilities	(78.7)	(102.3)
<b>Net short-term assets</b>	<b>179.9</b>	<b>126.6</b>
<b>Short-term liquidity ratio</b>	<b>3.3 to 1</b>	<b>2.2 to 1</b>

6.18 ACTEW's short-term financial position has weakened since the previous year as ACTEW used short-term investments to meet increased expenditure on the major projects for water infrastructure.

6.19 Despite this, ACTEW's short-term financial position remains sound.

### Long-term financial position

**Table 6.5: Long-term financial position**

	<b>Actual 2008 \$m</b>	<b>Actual 2009 \$m</b>
Assets	2 009.0	2 112.5
Liabilities	(995.2)	(1 113.7)
<b>Net assets</b>	<b>1 013.8</b>	<b>998.8</b>
<b>Long-term liquidity ratio</b>	<b>2.0 to 1</b>	<b>1.9 to 1</b>

6.20 Most of ACTEW's assets consist of property, plant and equipment related to the water and sewerage networks, and investments in the ActewAGL Joint Venture and TransACT.

6.21 The significant increase in assets in 2008-09 resulted from the recognition of assets associated with the major water projects referred to previously, and the purchase of water licences.

- 6.22 ACTEW's major liabilities are represented by loans and deferred tax liabilities. Liabilities increased due mainly to an additional borrowing being undertaken to fund major infrastructure works.
- 6.23 ACTEW's long-term financial position remains strong but has weakened slightly since the previous year.

**Audit findings**

**Table 6.6: Status of audit findings (number of findings)**

Previously Reported	Resolved	New	Balance
1	(1)	5	5

- 6.24 ACTEW addressed the previously reported audit finding in the 2007-08 audit management report. In 2008-09, the Audit Office recommended improvements to accounting arrangements and controls over borrowings, fixed assets and employee provisions.
- 6.25 ACTEW has agreed to address all reported audit findings and associated recommendations during 2009-10.

## ACTEWAGL JOINT VENTURE

- 6.26 The ActewAGL Joint Venture's major business activities include the operation of energy (gas and electricity) networks, the supply of energy to customers in the ACT region, operating the business activities of TransACT Communications Pty Limited pursuant to a management agreement, operating the water and sewerage services of the ACT and undertaking other related business activities.
- 6.27 ActewAGL consists of the ActewAGL Retail Partnership and the ActewAGL Distribution Partnership. ACTEW Corporation Limited (ACTEW) holds a 50 percent interest in ActewAGL. A financial report, aggregating the results of the Retail and Distribution Partnerships, was prepared to provide an overall view of ActewAGL for public reporting in ACTEW's annual report.
- 6.28 The ActewAGL Distribution Partnership controls the Ecowise group of companies. The 2008-09 financial report discloses the Ecowise group of companies as 'available for sale' at 30 June 2009.
- 6.29 ActewAGL entered into a management agreement with TransACT on 1 February 2004 to manage TransACT's business operations. This agreement, which expired on 30 June 2008, is currently being reviewed.

### HIGHLIGHTS

- The Audit Office and Deloitte Touche Tohmatsu jointly issued unqualified audit reports on the financial reports of the ActewAGL Joint Venture, ActewAGL Retail Partnership and ActewAGL Distribution Partnership.
- ActewAGL generated an operating profit of \$156.7 million in 2008-09. This represents an increase of \$21.2 million (15.6 percent) over the 2007-08 operating profit.
- ActewAGL paid cash distributions of \$58.8 million to ACTEW in 2008-09 compared to \$56.5 million in 2007-08.
- ActewAGL's short and long-term financial positions remain sound and have improved since the previous year.
- ActewAGL commenced a project to systematically address weaknesses identified in its control environment. As a result, ActewAGL has resolved most of the previously reported audit findings and improved controls over its financial reporting, purchasing system, maintenance of supplier data and changes to IT systems and applications.
- There is scope for further improvement of controls over access to key information technology applications and the creation of suppliers on the purchasing system.

**Financial results**

**Table 6.7: Key results**

	<b>Actual 2007-08 \$m</b>	<b>Actual 2008-09 \$m</b>
Income	717.1	798.7
Expenses	(581.6)	(642.0)
<b>Operating profit</b>	<b>135.5</b>	<b>156.7</b>
<b>Distributions paid to partners</b>	<b>(113.0)</b>	<b>(117.5)</b>
<b>Distributions paid to ACTEW (50%)</b>	<b>(56.5)</b>	<b>(58.8)</b>

6.30 ActewAGL’s income is derived largely from the sale and distribution of energy (gas and electricity) and from operating the water business on behalf of ACTEW under a utilities management agreement.

6.31 The growth in income of \$81.6 million (11.4 percent) in 2008-09 was due to:

- increased revenue from the sale and distribution of energy of \$52.0 million (10.0 percent). This resulted from higher volumes of energy usage, a tariff increase charged to ActewAGL’s franchise customers and higher revenue from contestable customers following the renegotiation of major contracts and a growth in gas consumption;
- an increase in operations management income of \$17.0 million (9.8 percent). This was due to a significant increase in work associated with major water security projects performed on behalf of ACTEW, partially offset by a decrease in TransACT management fees as the amount of services provided fell during 2008-09; and
- a one-off gain on the disposal of ActewAGL House of \$10.3 million.

6.32 ActewAGL’s major expenses are energy purchases, employee costs, depreciation and payments to subcontractors.

- 6.33 Expenses increased by \$60.4 million (10.4 percent). This was largely due to:
- higher energy purchases of \$31.5 million (11.5 percent) flowing from the growth in the sale and distribution of energy;
  - higher employee costs of \$8.0 million (5.9 percent) due mostly to pay rises provided for in the enterprise bargaining agreement; and
  - higher subcontractor costs of \$14.0 million (17.5 percent) resulting from the work performed on the major water security projects referred to previously.
- 6.34 ActewAGL’s operating profit (\$156.7 million) increased over the previous year’s profit (\$135.5 million). A one-off gain on the disposal of ActewAGL House (\$10.3 million) partly contributed to this result.
- 6.35 ActewAGL paid cash distributions of \$58.8 million to ACTEW in 2008-09 compared to \$56.5 million in 2007-08.

**Short-term financial position**

**Table 6.8: Short-term financial position**

	<b>Actual 2008 \$m</b>	<b>Actual 2009 \$m</b>
Short-term assets	164.1	216.9
Short-term liabilities	(158.3)	(173.9)
<b>Net short-term assets</b>	<b>5.8</b>	<b>43.0</b>
<b>Short-term liquidity ratio</b>	<b>1.0 to 1</b>	<b>1.2 to 1</b>

- 6.36 ActewAGL’s short-term financial position, as shown in the above table, is presented after making cash distributions to ActewAGL’s partners.
- 6.37 ActewAGL’s short-term financial position has strengthened since the previous year.



## Long-term financial position

**Table 6.9: Long-term financial position**

	<b>Actual 2008 \$m</b>	<b>Actual 2009 \$m</b>
Assets	968.8	1 020.9
Liabilities	(166.3)	(177.3)
<b>Net assets</b>	<b>802.5</b>	<b>843.6</b>
<b>Long-term liquidity ratio</b>	<b>5.8 to 1</b>	<b>5.8 to 1</b>

6.38 The majority of ActewAGL's assets are represented by cash at bank, investments, inventory and property, plant and equipment (mostly electricity and gas system assets). ActewAGL's major liabilities consist of accounts payable, employee entitlement provisions and unearned revenue.

6.39 ActewAGL's long-term financial position continues to be strong and has improved since the previous year.

## Audit findings

**Table 6.10: Status of audit findings (number of findings)**

<b>Previously Reported</b>	<b>Resolved</b>	<b>Partially Resolved</b>	<b>New</b>	<b>Balance</b>
19	(16)	3	15	18

6.40 ActewAGL commenced a project to systematically address weaknesses identified in its control environment, and resolved 16 of the 19 previously reported audit findings in 2008-09.

6.41 For example, ActewAGL:

- reduced the risk of errors and fraud by improving controls over access to the purchasing system and maintenance of supplier data;
- improved the reliability of financial reports and reduced the risk of errors and fraud by standardising balance sheet reconciliations and implementing quality reviews over month-end processing of financial information;
- reduced the risk of erroneous or fraudulent changes to IT systems and applications by improving the management of these changes; and
- documented the key processes and risks in relation to the commercial billing system.

6.42 Despite these improvements, the Audit Office found that there was scope for further improving the reliability of financial reports by implementing the consistent review of reconciliations and documenting policies and procedures that outline the roles and responsibilities of personnel responsible for the preparation of financial information.

6.43 The Audit Office also recommended that ActewAGL:

- implement regular reviews of access rights to key information technology applications such as the treasury system, financial management system and the revenue and billing system, to reduce the risk erroneous or fraudulent transactions and improper access to records; and
- strengthen the processes required to enable suppliers to be created on the purchasing system to minimise the risk of unauthorised suppliers being entered into the purchasing system.

6.44 ActewAGL has agreed to address all audit findings and associated recommendations during 2009-10.

## ACTION

- 6.45 ACTION provides public transport services to the ACT community. These services include the provision of scheduled bus routes, school bus and special needs transport services.
- 6.46 ACTION is part of the Department of Territory and Municipal Services, however, it remains a separate entity for reporting purposes.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on ACTION's 2008-09 financial report and an unqualified report of factual findings on the 2008-09 statement of performance.
- ACTION's net cost of services exceeded the budgeted cost by \$2.4 million or 3.1 percent due mainly to higher insurance premiums and the recruitment of additional staff.
- ACTION improved its systems for measuring the timeliness of its services by using customer surveys to report a result on the timeliness of its services in its statement of performance.
- ACTION's reporting on the timeliness of its services and customer satisfaction in its statement of performance need to be further improved.
- ACTION has finalised its business continuity plan but the effectiveness of this plan has not been tested.
- There were several breakdowns in ACTION's ticketing system in 2008-09. These failures result in a loss of cash fare revenue and could affect ACTION's ability to accurately report a result for some of its performance measures.
- ACTION's reconciliation procedures relating to cash collected by bus drivers, salary packaging bank accounts and payroll need improvement.

Financial results

Table 6.11: Key results

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Expenses	(92.2)	(103.5)	(99.5)
Income	21.3	22.5	20.9
<b>Net cost of services</b>	<b>(70.9)</b>	<b>(81.0)</b>	<b>(78.6)</b>
Government contributions	67.3	74.0	71.3
(Losses) on the revaluation of plant and equipment and the bus fleet and asset transfers	(6.3)	(1.5)	-
Increase in the estimate of the liability for employee benefits due to a change in the estimation methodology	-	(2.8)	-
<b>Operating (deficit)</b>	<b>(9.9)</b>	<b>(11.3)</b>	<b>(7.3)</b>

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

6.48 Expenses were \$4.0 million (4.0 percent) higher than the budgeted amount. This was mainly due to:

- increased insurance premiums resulting from motor vehicle accidents and higher assessed insurance values for land and buildings in 2007-08; and
- the recruitment of additional staff to enable an expansion of the bus network. ACTION's full-time equivalent staff numbers increased by 61 staff (8.8 percent) from 692 on 30 June 2008 to 753 on 30 June 2009.

6.49 Most of ACTION's income is represented by fares charged for transport services.

6.50 Income exceeded the budgeted amount by \$1.6 million (7.7 percent). This was mainly due to the extension of the Commonwealth Government's fuel tax credit scheme on diesel and gas fuel.

6.51 ACTION's net cost of services exceeded the budgeted cost by \$2.4 million or 3.1 percent, reflecting the higher insurance premiums and recruitment of additional staff referred to above.

**Audit findings**

**Table 6.12: Status of audit findings (number of findings)**

Previously Reported	Resolved	Not Resolved	New	Balance
4	(3)	1	9	10

6.52 ACTION resolved most previously reported audit findings. In particular, ACTION:

- used customer surveys to enable a result on the timeliness of its services to be measured and reported in its statement of performance; and
- reduced the risk of reporting errors by improving controls over inventory costing journals.

6.53 The Audit Office found that ACTION had finalised its business continuity plan, but had not tested the effectiveness of this plan. Testing of this plan would provide increased assurance that ACTION’s systems and operations will recover promptly, with minimal disruption and loss of information, in the event of a disaster or other adverse event.

6.54 There were several failures in ACTION’s ticketing system in 2008-09. These failures result in a loss of cash fare revenue as ACTION does not collect cash fares when the ticket machine fails. In relation to this issue, ACTION has advised that:

*‘Strategies exist to minimise the effect of ticket machine shortages and breakdowns. Revenue protection strategies have been designed to minimise loss of fare revenue.’*

6.55 ACTION also relies on this system to record the results for the following performance measures:

- increase in modal share (adult work trips increase in line with the Sustainable Transport Plan);
- increase in total patronage; and
- total cost per passenger boarding.

6.56 If these system failures become more frequent, then there is a significant risk that ACTION will be unable to accurately report a result for these performance measures.

6.57 ACTION uses customer surveys to measure and report in its statement of performance, the results on the timeliness of its services and overall customer satisfaction. For each performance measure, ACTION disclosed one result which included neutral customer survey responses (i.e. survey responses with a ‘neither satisfied nor dissatisfied’ rating) and another which excluded neutral customer survey responses.

- 6.58 The Audit Office believes that the inclusion of neutral responses in these results causes an overstatement of ACTION's performance because neutral responses do not equate to a 'satisfied' customer response. The Office therefore recommends that ACTION only report 'satisfied' results that exclude neutral responses for future reporting purposes.
- 6.59 The Audit Office also found that ACTION's reconciliation procedures relating to cash collected by bus drivers, salary packaging bank accounts and payroll need to be improved.
- 6.60 ACTION has agreed to address these audit findings.

## ACT PLANNING AND LAND AUTHORITY

6.61 The ACT Planning and Land Authority's (ACTPLA's) main function is to plan for the future growth of Canberra. ACTPLA is also responsible for development assessment under the *Planning and Land Act 2007*, building regulation, leasing, land information, the administration of the Territory Plan, urban design and spatial planning policy.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on ACTPLA's 2008-09 financial report and an unqualified report of factual findings on the 2008-09 statement of performance.
- ACTPLA's net cost of services (\$35.8 million) was slightly below the budgeted cost (\$37.0 million).
- ACTPLA addressed most previously reported audit findings. In particular, ACTPLA rectified control weaknesses identified in relation to capital payments and improved the information included in its statement of performance.
- The Audit Office found that controls over salary payments could be improved and that there was scope for improving aspects of ACTPLA's internal audit function.

### Financial results

**Table 6.13: Key results**

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Expenses	(36.4)	(42.0)	(40.5)
Income	5.7	6.2	3.5
<b>Net cost of services</b>	<b>(30.7)</b>	<b>(35.8)</b>	<b>(37.0)</b>
Government contributions	31.9	35.6	36.8
Transfers of capital works and land to the Department of Territory and Municipal Services and ACTEW	(12.6)	-	-
Increase in the estimate of the liability for employee benefits due to a change in the estimation methodology	-	(1.1)	-
<b>Operating (deficit)</b>	<b>(11.4)</b>	<b>(1.3)</b>	<b>(0.2)</b>

6.62 Most of ACTPLA's expenses consist of employee, contractors and consultants and computing costs.

- 6.63 ACTPLA’s income mainly consists of fees associated with providing extensions of time to build, conveyancing and public notifications and the sale of maps and publications.
- 6.64 ACTPLA’s net cost of services (\$35.8 million) was slightly under the budgeted cost (\$37.0 million) due mainly to higher income associated with an increased demand for conveyancing reports and fee searches.

**Audit findings**

**Table 6.14: Status of audit findings (number of findings)**

Previously Reported	Resolved	Unresolved	New	Balance
8	(7)	1	5	6

- 6.65 ACTPLA resolved seven of the eight previously reported audit findings. This indicates that ACTPLA’s processes for resolving audit findings are effective.
- 6.66 In 2008-09, ACTPLA has:
  - reduced the risk of incorrect, irregular or fraudulent capital payments by ensuring payments were approved by delegates acting within their delegation limits; and
  - reviewed the adequacy of its performance measures and improved the quality and clarity of the information provided in its statement of performance.
- 6.67 The Audit Office found, however, that ACTPLA could reduce the risk of incorrect, irregular or fraudulent salary payments by including information on payments made to individual employees in fortnightly salary reports and by documenting the review of these reports by the relevant manager of each business unit.
- 6.68 The Audit Office also found that there was scope for improving some aspects of ACTPLA’s internal audit arrangements.
- 6.69 ACTPLA has indicated that it has agreed or agreed in principle to the audit findings and the associated recommendations.



## ACT PUBLIC CEMETERIES AUTHORITY

- 6.70 The ACT Public Cemeteries Authority (the Authority) is a self-funded statutory authority which was established under the *Cemeteries and Crematoria Act 2003*. The Authority is responsible for managing the cemeteries owned by the ACT Government, which are located in Gungahlin, Woden and Hall.
- 6.71 Perpetual care trust arrangements have been established to meet the maintenance needs of each cemetery. Under these arrangements, the Authority must provide a ministerially determined percentage of revenue from each burial, interment of ashes or memorialisation to a perpetual care trust established for each cemetery. These trusts reimburse the Authority for maintenance costs incurred by the Authority.

### HIGHLIGHTS

- The Audit Office issued unqualified audit reports on the 2008-09 financial reports of the Authority and the associated perpetual care trusts.
- The Audit Office issued an unqualified report of factual findings on the Authority's 2008-09 statement of performance.
- The Authority's 2008-09 operating surplus (\$0.6 million) was in line with the budgeted surplus.
- The Authority resolved most of the previously reported audit findings. In particular, the Authority improved accounting records used to support the financial report. The budget information included in the financial report was also improved by the inclusion of budgeted amounts for transactions between the Authority and the Trusts.
- Despite some improvements, the Authority's financial reporting arrangements need to be further improved to meet acceptable standards.

### Financial results

**Table 6.15: Key results**

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Income	3.8	3.9	3.8
Expenses	(3.1)	(3.3)	(3.2)
<b>Operating surplus</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>

- 6.72 Most of the Authority’s income consists of fees collected for grave allotments and reservations, burials and maintenance and sales of plaques and vaults. Income also includes the reimbursement by the perpetual care trusts, of maintenance expenditure incurred by the Authority on the cemeteries.
- 6.73 The Authority’s expenses consist mainly of employee and maintenance costs associated with the cemeteries and the transfer of a ministerially determined percentage of revenue to the perpetual care trusts to meet present and future maintenance costs of the cemeteries.
- 6.74 The Authority’s 2008-09 operating surplus (\$0.6 million) in 2008-09 was in line with the budgeted surplus.

### Audit findings

**Table 6.16: Status of audit findings (number of findings)**

Previously Reported	Resolved	Unresolved	New	Balance
6	(4)	2	8	10

- 6.75 The Authority resolved four of the six previously reported audit findings. In particular, the Authority:
- reduced the risk of material errors in its financial report by ensuring that the supporting accounting records (trial balance) agreed to the financial report; and
  - improved the budget information included in its financial report by the inclusion of budgeted amounts for transactions between the Authority and the Trusts.
- 6.76 Two previously reported findings were not resolved by the Authority. The Audit Office again found that:
- the Authority’s financial reporting arrangements continue to be unsatisfactory with significant amendments to the financial reports being needed to bring them to an acceptable standard; and
  - calculations of the financial performance measures, included in the Authority’s 2008-09 statement of intent, were inconsistent with the budgeted financial statements.
- 6.77 Eight new audit findings were identified in 2008-09. Most of these findings related to deficiencies in the maintenance of the Authority’s accounting records. Errors were found in the Authority’s records of revenue, expenses and the related accruals, capital works and plant and equipment records.
- 6.78 The Authority has indicated that it intends to address the audit findings.

## CANBERRA INSTITUTE OF TECHNOLOGY

6.79 The Canberra Institute of Technology is a tertiary education institution which provides vocational education and training to the ACT and surrounding region. The Institute operates under the *Canberra Institute of Technology Act 1987*.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on the Institute's 2008 financial report and an unqualified report of factual findings on its 2008 statement of performance.
- The Institute's net cost of services, excluding a significant unbudgeted loss of \$26.6 million from a downward revaluation of its property, plant and equipment (\$68.1 million), was slightly under the budgeted cost (\$69.9 million).
- The Institute resolved two of the four previously reported audit findings.
- The Audit Office found that the effectiveness of the Institute's disaster recovery plan had not been fully tested.

### Financial results

**Table 6.17: Key results (calendar years)**

	Actual 2007 \$m	Actual 2008 \$m	Budget 2008 \$m
Expenses (excluding losses on revaluation)	(89.5)	(97.8)	(98.0)
Income	23.6	29.7	28.1
<b>Net cost of services</b>	<b>(65.9)</b>	<b>(68.1)</b>	<b>(69.9)</b>
Government contributions	65.5	62.2	62.1
(Losses) on the revaluation of property, plant and equipment	-	(26.6)	-
<b>Operating (deficit)</b>	<b>(0.4)</b>	<b>(32.5)</b>	<b>(7.8)</b>

6.80 The Institute's main expenses are employee related costs and supplies and services expenses, such as consultants, contractors, repairs and maintenance.

6.81 Income is mainly derived from the provision of tertiary education services to students and vocational education and training programs to the public and private sectors.

- 6.82 Income exceeded the budgeted amount by \$1.6 million (5.7 percent) and the prior year's result by \$6.1 million (25.8 percent). This reflected additional revenue received from increased numbers of international students and new commercial training courses provided to the Commonwealth and ACT Government public sector employees.
- 6.83 Excluding a significant unbudgeted loss of \$26.6 million from the downward revaluation of property, plant and equipment, the Institute's expenses were in line with the budgeted amount. On the same basis, the Institute's net cost of services was better than the budgeted cost because the higher income was achieved without an increase in operating costs.

### Audit findings

**Table 6.18: Status of audit findings (number of findings)**

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

- 6.84 The Audit Office found that the Institute resolved two of the four previously reported audit findings. In particular:
- the salary packaging bank account had been consistently reconciled on a monthly basis. This reduces the risk of errors and fraud; and
  - the Institute was able to report a result for the performance measure - 'Program Completions' in its statement of performance following an upgrade to the student administration system.
- 6.85 The Audit Office found that that the effectiveness of the Institute's disaster recovery plan had not been fully tested. Although the Institute performed a disaster recovery exercise, this exercise did not include the recovery of critical systems from being shut down.
- 6.86 The Institute, as a 'prescribed territory authority' under the *Financial Management Act 1996*, is required to report, in its statement of performance, against the targets for the performance measures included in its budget and statement of intent. The Institute's statement of performance did not include the reporting of its performance against the targets included in its budget papers because the financial year reporting period covered by the budget papers is not consistent with the Institute's calendar year reporting period. Instead, the Institute reported against the targets included in its statement of intent which are prepared on a calendar year basis.
- 6.87 The Audit Office recommended that the Institute's future statements of performance include both the reporting of its actual performance against the target performance measures included in its budget papers and statement of intent, until this reporting anomaly has been resolved.
- 6.88 The Institute has agreed to address all audit findings.

## CHIEF MINISTER'S DEPARTMENT

6.89 The Chief Minister's Department provides support to the Chief Minister and the ACT Government by developing, coordinating and implementing key ACT Government strategies and policies.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on the Department's 2008-09 financial report and an unqualified report of factual findings on the 2008-09 statement of performance.
- The Department's net cost of services (\$50.5 million) was slightly under the budgeted cost (\$52.6 million).
- The usefulness of information included in the Department's statement of performance has not improved. The information included in the statement was often insufficient to enable external readers to understand the Department's performance in meeting its objectives.

### Financial results

**Table 6.19: Key results**

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Expenses	(50.8)	(54.1)	(57.6)
Income	6.9	3.6	5.0
<b>Net cost of services</b>	<b>(43.9)</b>	<b>(50.5)</b>	<b>(52.6)</b>
Government contributions	41.9	48.6	50.1
Increase in the estimate of the liability for employee benefits due to a change in the estimation methodology	-	(1.0)	-
<b>Operating (deficit)</b>	<b>(2.0)</b>	<b>(2.9)</b>	<b>(2.5)</b>

6.90 Most of the Department's expenses are represented by the cost of employees, grants, consultants and contractors, accommodation, information technology and financial management and human resources services provided by the Shared Services Centre (Shared Services).

- 6.91 The Department’s expenses were \$3.5 million (6.1 percent) lower than budgeted. In particular:
- depreciation costs were lower than expected following the transfer of the human resource information system (Chris 21) to Shared Services; and
  - payroll tax waiver expenses were lower than anticipated.
- 6.92 Income is mainly from:
- payroll tax revenue provided by the Department of Treasury to fund tax incentives offered to organisations under the Business Incentive Fund;
  - fees charged to overseas applicants for participating in the Skilled and Business Migration Program. Under this program, successful applicants may be granted a visa to enable them to work in local businesses; and
  - fees for the use of the Canberra Business and Events Centre, mainly by local businesses from the private sector.
- 6.93 Income was \$1.4 million (28.0 percent) lower than budgeted due mainly to lower than anticipated payroll tax revenue received from the Department of Treasury to fund the payroll tax waiver expenses referred to above.
- 6.94 The Department’s net cost of services was slightly under the budgeted cost (by \$2.1 million or 4.0 percent) due mainly to the lower depreciation charges mentioned above.

**Audit findings**

**Table 6.20: Status of audit findings (number of findings)**

Previously Reported	Resolved	Not Resolved	New	Balance
7	(4)	3	2	5

- 6.95 The Department addressed four of the seven previously reported audit findings. In particular, the Department improved its accounting practices in relation to property, plant and equipment.
- 6.96 The Audit Office again found that the Department has not improved the usefulness of the information included in its statement of performance. The Office noted that the information included in the statement is often insufficient to enable external readers of the statement to understand the Department’s performance in meeting its objectives.

6.97 In some cases, performance measures were not clearly defined and no explanatory information has been included in the budget papers. For example, some measures refer very generally to ‘progress’ being made or to the provision of ‘support’ and do not indicate how well the Department performed these tasks. For example:

**Output 1.1 Strategic Policy and Implementation**

1.1b ‘Progress (in partnership with the Australian National University) the development of key sites in the City West Precinct.

**Output 2.1 Business and Industry Development**

2.1h Secretariat and research support for the ACT Skills Commission.

6.98 In other cases, the target is considered to have been achieved when the Department has completed a series of activities. For example, the performance measures listed below in the Arts and Business and Industry Development outputs for the Department have a target of ‘1’. Such targets do not provide useful information about the planned and actual performance of the Department in relation to the performance measures.

**Output 1.5 Arts**

1.5b Deliver programs:

- Deliver the 2009 ACT Arts Fund;
- Public Arts Program;
- ANU Faculty of Arts Funding; and
- Arts Facilities Repairs and Maintenance Program.

**Output 2.1 Business and Industry Development**

2.1a Business mentoring and information service to enhance entrepreneurial and innovation capacity across the ACT Business Community; and

2.1d Deliver the Industry Capability Network (ACT).

6.99 The Department provided the following comments:

*‘Recognising the challenges in concisely defining performance indicators across a broad policy and program based operating environment, the Department will review existing performance measures as part of the 2010-11 Budget process.’*

- 6.100 The Audit Office also found that salary reports were not consistently being reviewed in one business unit and recommended that this review be performed to minimise the risk of incorrect, irregular or fraudulent payments. The Department has advised that this issue will be addressed in 2009-10.
- 6.101 There is scope for further improvement of the independence of the Department's internal audit function.



## **DISABILITY, HOUSING AND COMMUNITY SERVICES**

6.102 The Department of Disability, Housing and Community Services is responsible for a wide range of programs and policies. These include the provision of:

- disability and therapy services to meet the accommodation support, respite care and well-being needs of people with moderate to severe disabilities;
- early intervention services to assist children, young people and families to participate in a range of community activities;
- community and homelessness services, which includes a range of benefits and concessions to low income earners; and
- children, youth and family services to support young people at risk from abuse and neglect and to promote their safety within the family unit.

### **HIGHLIGHTS**

- The Audit Office issued an unqualified audit report on the Department's 2008-09 financial report and an unqualified report of factual findings on the 2008-09 statement of performance.
- The Department's net cost of services exceeded the budgeted cost by \$9.3 million (4.8 percent). This was mainly a result of grants paid to support additional emergency relief needs, and the costs associated with the employment of additional staff.
- The Department addressed all previously reported audit findings.
- The Department's implementation of a business continuity plan should provide increased assurance that the Department would resume operations in a timely and effective manner in the event of a disaster or other adverse event.
- The Department's internal controls could be improved by ensuring all business units consistently review all salary reports.

Financial results

Table 6.21: Key results - departmental

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Expenses	(190.0)	(207.7)	(197.3)
Income	3.6	3.8	2.7
<b>Net cost of services</b>	<b>(186.4)</b>	<b>(203.9)</b>	<b>(194.6)</b>
Government contributions	182.5	200.0	188.5
Gains from contributed assets /asset transfers	1.2	0.4	(0.7)
Increase in the estimate of the liability for employee benefits due to a change in the estimation methodology	-	(2.5)	-
<b>Operating (deficit)</b>	<b>(2.7)</b>	<b>(6.0)</b>	<b>(6.8)</b>

6.103 A large proportion of the Department’s expenses consist of employee related costs, grants and purchased services, and supplies and services costs.

6.104 The Department’s net cost of services exceeded the budgeted cost by \$9.3 million (4.8 percent). This was mainly a result of greater than expected:

- expenditure on grants and purchased services (\$5.8 million). In particular, additional funding, provided by the Commonwealth and the ACT Government, was spent on disability services, emergency relief for welfare and community groups and support for carers and volunteers;
- supplies and services costs (\$4.9 million) due to an increase in employment agency fees, consultant fees and recruitment costs for extra staff employed during 2008-09; and
- employee costs (\$1.9 million) due primarily to an overall increase in staff numbers.

6.105 The Department’s operating deficit (\$6.0 million) was less than budgeted (\$6.8 million) because contributions provided by the ACT Government were sufficient to meet the higher than expected net cost of the Department’s services.

**Table 6.22: Key results – territorial expenses**

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Grants and purchased services	11.7	14.1	15.3
Subsidies and concessions	15.4	16.2	17.2
<b>Concession and community service obligation payments</b>	<b>27.1</b>	<b>30.3</b>	<b>32.5</b>

6.106 Concession and community service obligation payments consist of payments to service providers for subsidies to low income earners, pensioners and people with disabilities. Subsidies are provided for electricity, water, general rates, motor vehicle registrations and licences, pensioner transport and spectacles for senior citizens.

6.107 Concession and community service obligation payments were \$2.2 million (6.8 percent) lower than the budgeted cost. This was due mainly to lower than expected demand for concession rates for electricity, gas, water and sewerage rebates.

**Audit findings**

**Table 6.23: Status of audit findings (number of findings)**

Previously Reported	Resolved	New	Balance
4	(4)	2	2

6.108 The Department addressed all previously reported audit findings. This indicates that the Department’s processes for addressing audit findings are effective. In particular, the Department has implemented a business continuity plan which should provide the Department with additional assurance that it will be able to resume operations in a timely manner in the event of a disaster or other adverse event.

6.109 The Audit Office found that a significant number of salary break-up reports for two business units were not reviewed in a timely manner leading to a higher risk of incorrect employee payments or irregularities not being promptly detected.

6.110 The Department has advised that these control weaknesses will be addressed in a timely manner.

## ECOWISE

- 6.111 Ecowise Environmental Pty Limited is the parent company of the Ecowise group of companies. It is equally owned by ACTEW Corporation Limited and Jemena Networks (ACT) Pty Limited.
- 6.112 The audited financial report includes the financial results of Ecowise Environmental Pty Limited and its subsidiaries.
- 6.113 The ACT Government's interest in the Ecowise group stems from ACTEW Corporation Limited's 50 percent share of the parent company.
- 6.114 The Ecowise group provides specialised environmental analysis, monitoring and consulting services, including environmental monitoring and water resources assessment services, environmental data collection, aquatic ecology, water and waste cycle consulting and geographic information systems for utilities and catchments management.

## HIGHLIGHTS

- The Audit Office issued an unqualified audit report on the financial report of Ecowise Environmental Pty Limited for the year ended 30 June 2009.
- In 2008-09, the Ecowise group generated an operating profit before tax of \$2.9 million from its continuing operations and a cash surplus of \$6.5 million. These results represent an improvement on the prior year's cash and net operating results.
- The Ecowise group paid dividends of \$2.0 million to its shareholders, \$1.0 million of which was paid to ACTEW Corporation Limited.
- The Audit Office found that Ecowise has addressed most of the previously reported weaknesses in its internal controls. In particular, Ecowise improved its information technology controls, including the implementation of an information technology security policy and the development of business continuity and disaster recovery plans.
- The Audit Office identified some control weaknesses in the Ecowise's laboratory information management system.

**Financial results**

**Table 6.24: Key results**

	<b>Actual 2007-08 \$m</b>	<b>Actual 2008-09 \$m</b>
Income	53.3	55.8
Expenses	(50.8)	(52.9)
<b>Operating profit before tax</b>	<b>2.5</b>	<b>2.9</b>
<b>Net cash inflows from operations</b>	<b>5.1</b>	<b>6.5</b>
<b>Dividends paid to ACTEW Corporation Limited</b>	<b>-</b>	<b>(1.0)</b>

- 6.115 The Ecowise group’s income increased by \$2.5 million (4.7 percent), primarily in the analytical services and consulting lines of its business. The group won two large contracts in the consulting line of business which contributed significantly to the overall growth in revenue.
- 6.116 In 2008-09, the Ecowise group generated an operating profit before tax of \$2.9 million from its continuing operations and a cash surplus of \$6.5 million. These results represent an improvement on the prior year’s cash and net operating results, and reflect an increase in revenue and tighter control over operating expenses.
- 6.117 The Ecowise group paid dividends of \$2.0 million to its shareholders, \$1.0 million of which was paid to ACTEW Corporation Limited.

## Short-term financial position

**Table 6.25: Short-term financial position**

	<b>Actual 2008 \$m</b>	<b>Actual 2009 \$m</b>
Short-term assets	19.2	16.4
Short-term liabilities	(13.7)	(13.2)
<b>Net short-term assets</b>	<b>5.5</b>	<b>3.2</b>
<b>Short-term liquidity ratio</b>	<b>1.4 to 1</b>	<b>1.2 to 1</b>

6.118 The Ecowise group's short-term liquidity ratio decreased due mainly to the payment of dividends to its shareholders during 2008-09.

## Long-term financial position

**Table 6.26: Long-term financial position**

	<b>Actual 2008 \$m</b>	<b>Actual 2009 \$m</b>
Assets	42.1	38.9
Liabilities	(29.5)	(25.7)
<b>Net assets</b>	<b>12.6</b>	<b>13.2</b>

6.119 The Ecowise group's major assets consist of goodwill associated with the acquisition of subsidiaries, amounts owing from customers, plant and equipment.

6.120 The Ecowise group's long-term financial position improved due mainly to the repayment of \$3.5 million in long-term borrowings during 2008-09.

**Audit findings**

**Table 6.27: Status of audit findings (number of findings)**

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
8	(6)	1	1	6	8

- 6.121 In 2008-09, the Audit Office found that Ecowise had resolved nearly all of the previously reported weaknesses in its internal controls. In particular, Ecowise improved its information technology controls, including the implementation of an information technology security policy and the development of business continuity and disaster recovery plans. These improvements provide greater assurance to Ecowise that its operations will operate as intended and will recover promptly in the event of a disaster.
- 6.122 Ecowise had not fully resolved two previously reported audit findings. In particular, a register of all contractual obligations has not been fully maintained and purchase orders were not being consistently used across the group.
- 6.123 Ecowise operates a laboratory information management system to manage all data electronically. This covers all information from the receipt of water samples through to final reporting of results. Customer invoices are based on information included in the system.
- 6.124 The Audit Office identified some control weaknesses in the laboratory information management system. These included:
- periodic reviews were not performed to ensure that only legitimate changes were made to pricing information; and
  - the detailed invoicing processes had not been documented. Ecowise relies on the detailed knowledge of a few key staff members to operate key controls within the system.
- 6.125 Failure to resolve these internal control weaknesses increases the risk of reporting errors and irregularities (including fraud).
- 6.126 Ecowise management has indicated that all audit findings will be addressed in 2009-10.

## EDUCATION AND TRAINING

- 6.127 The Department of Education and Training provides school education and training services to the ACT community.
- 6.128 The Department's responsibilities include the provision of public school education, registration of non-government schools and home education, planning and coordination of vocational education and training, and the provision of preschool and early intervention education programs.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on the Department's 2008-09 financial report and an unqualified report of factual findings on its 2008-09 statement of performance.
- The Department's net cost of services (\$475.2 million) was in line with the budgeted cost (\$478.4 million).
- The Department did not draw down \$40.6 million (28.9 percent) of the funds appropriated for capital works due to delays in major capital projects relating to the new Gungahlin College and the refurbishment of schools infrastructure.
- Grants provided to non-government schools (\$171.5 million) were significantly higher than in the previous year (\$152.4 million). This increase was in line with budget expectations.
- The Department finalised its business continuity plan. Implementation of this plan should provide the Department with assurance that its critical systems will recover promptly in the event of a disaster.
- The Department's methods for measuring satisfaction with public high school and primarily school education, and the timeliness of home education registration reviews need to be improved.



## Financial results

**Table 6.28: Key results – departmental**

	<b>Actual 2007-08 \$m</b>	<b>Actual 2008-09 \$m</b>	<b>Budget 2008-09 \$m</b>
Expenses	(479.6)	(513.0)	(511.9)
Income	33.7	37.8	33.5
<b>Net cost of services</b>	<b>(445.9)</b>	<b>(475.2)</b>	<b>(478.4)</b>
Government contributions	418.0	441.4	436.4
Increase in the estimate of the liability for employee benefits due to a change in the estimation methodology	-	(15.8)	-
<b>Operating (deficit)</b>	<b>(27.9)</b>	<b>(49.6)</b>	<b>(42.0)</b>
<b>Capital injections</b>	<b>68.4</b>	<b>99.7</b>	<b>140.3</b>

- 6.129 A large proportion of the Department's expenses consist of employee related costs, supplies and services, depreciation and school operating costs. Income mainly consists of voluntary contributions, fundraising revenue, excursion funds and income from international private students.
- 6.130 The Department's net cost of services (\$475.2 million) was in line with the budgeted cost (\$478.4 million).
- 6.131 The Department's net cost of services increased by \$29.3 million (6.6 percent) due mainly to increased wages and salaries and the full year impact of 2007-08 asset revaluations on the current year's depreciation. Additional funding provided by the ACT Government largely met the increased cost for wages and salaries.
- 6.132 The Department did not draw down \$40.6 million (28.9 percent) of the funds appropriated for capital works due to deferral of major capital projects relating to the new Gungahlin College and the refurbishment of schools infrastructure.

**Table 6.29: Key results – territorial expenses**

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Grants to non-government schools	152.4	171.5	171.6
Other	0.3	0.4	0.5
	<b>152.7</b>	<b>171.9</b>	<b>172.1</b>

6.133 Grants to non-government schools increased by \$19.1 million (12.5 percent) in 2008-09 due primarily to additional funding provided by the Commonwealth Government. This increase was anticipated in the budget.

**Audit findings**

**Table 6.30: Status of audit findings (number of findings)**

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

6.134 One of the two audit findings previously reported to the Department was addressed in 2008-09.

6.135 The Department finalised its business continuity plan. Implementation of this plan should provide the Department with assurance that its critical systems will be recovered promptly in the event of a disaster.

6.136 The new audit findings mainly relate to the methods used by the Department to measure the results for two of its performance measures.

- In relation to the measures of satisfaction with public high school and primary school education, the Office considers that the Department’s practice of including survey responses with a ‘neither agree or disagree’ rating (i.e. neutral responses) as a ‘satisfied’ response result was not appropriate, and causes an overstatement of the Department’s performance in relation to these performance measures; and
- The measure of the timeliness of home education registration reviews<sup>5</sup> (Output Class 2.1: ‘Non-Government Education’) could be improved. For example, the date of the completion of these reviews should be consistently recorded to support the reported results.

<sup>5</sup> Section 130(1) of the *Education Act 2004* allows parents to apply, in writing, to the Chief Executive for registration for home education of a child. The application for the renewal of registration for home education must be made at least three months before the expiry of the current registration. On receipt of an application, a registration visit or review is conducted with the parents by an authorised person of the Department to ensure that the conditions of the registration are met.

- 6.137 The Audit Office also found that salary break-up reports were not being consistently prepared and reviewed on a timely basis in a small number of business units. Addressing this issue will reduce the risk of incorrect payments or irregularities (including fraud).
- 6.138 The Department has advised the Audit Office that these audit findings will be addressed.

## EXHIBITION PARK CORPORATION

- 6.139 The primary role of Exhibition Park Corporation is to operate Exhibition Park in Canberra (a Territory-owned multi-purpose events facility).
- 6.140 The Corporation seeks to maximise the use of the facility to hold trade shows, exhibitions, meetings, sporting, cultural and recreational events and corporate and private functions. The Corporation also leases an investment property, consisting of a service station and restaurant, to a private sector tenant.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on the Corporation's 2008-09 financial report and an unqualified report of factual findings on the 2008-09 statement of performance.
- The Corporation's net cost of services was \$0.2 million (20.0 percent) higher than the budgeted cost.
- The Corporation has addressed all previously reported audit findings.
- The Corporation did not always have the minimum number of board members required by the *Exhibition Park Corporation Act 1976*.
- The Audit Office found that controls over payments and assets need to be improved to reduce the risk of payment errors, irregularities and fraud.
- The performance measures included in the Corporation's statement of intent do not always provide an adequate basis for a meaningful assessment of the Corporation's performance. This increases the risk of inaccurate reporting and potentially reduces the Corporation's accountability for achieving planned levels of performance.

**Table 6.31: Key results**

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Expenses	(3.4)	(4.0)	(3.5)
Income	3.0	2.8	2.5
<b>Net cost of services</b>	<b>(0.4)</b>	<b>(1.2)</b>	<b>(1.0)</b>
Government contributions	0.3	0.6	0.5
Gains from the acquisition of assets and revaluation of investment properties	1.9	-	-
<b>Operating surplus/(deficit)</b>	<b>1.8</b>	<b>(0.6)</b>	<b>(0.5)</b>

- 6.141 The Corporation's major costs are mainly related to maintaining and operating Exhibition Park in Canberra, including meeting the costs of the various events held at the facility. These include the cost of catering supplies, contractors and consultants, building and ground maintenance, water, sewerage and electricity and employees.
- 6.142 Expenses exceeded the budgeted cost by \$0.5 million (14.3 percent). This was mainly due to:
- the higher than expected costs of catering supplies, water consumption and grounds maintenance; and
  - an impairment loss being incurred in relation to an amount owing to the Corporation from the company running the 'Summernats' event.
- 6.143 The Corporation generates most of its revenue from customers that use the Exhibition Park in Canberra and from leasing its investment property.
- 6.144 Total income was \$0.3 million (12.0 percent) higher than budgeted and was mostly due to higher revenue from camping and catering sales.
- 6.145 The Corporation's net cost of services was \$0.2 million (20.0 percent) higher than the budgeted cost due mainly to the higher costs referred to above.

**Audit findings**

**Table 6.32: Status of audit findings (number of findings)**

Previously Reported	Resolved	New	Balance
2	(2)	8	8

- 6.146 The Corporation resolved all previously reported audit findings. In particular, the Corporation amended its 2008-09 statement of intent to include performance targets. This enabled a comparison to be made of the Corporation’s actual to planned performance in the statement of performance as required by the *Financial Management Act 1996*.
- 6.147 The Audit Office found that during 2008-09 the Corporation did not always have the minimum number of board members required by the *Exhibition Park Corporation Act 1976*. The failure to maintain adequate board numbers increases the risk that the board will not collectively have an adequate mix of skills and experience as intended by the Act and may diminish the board’s capacity to form the quorum needed to make legally binding decisions. The failure to maintain the minimum number of board members also occurred in 2006-07.
- 6.148 The Audit Office found that some aspects of the Corporation’s internal controls could be improved. In particular, the Audit Office found that:
- purchase orders were not always completed and authorised by an approved delegate prior to the payment for goods and services, thereby increasing the risk of errors, irregularities and fraud; and
  - the Corporation’s asset management policy was not formally documented and approved. This increases the risk that the Corporation’s assets may not be well managed.
- 6.149 The Audit Office found that the Corporation’s performance in meeting its objectives was not always explained meaningfully in its statement of performance. For example, the Corporation’s statement of performance includes, as performance measures, a series of activities such as upgrading the Terrace Restaurant, providing indoor and outdoor furniture, creating recycling and rubbish removal facilities and completing trade waste disposal modifications.
- 6.150 Although the Corporation amended its statement of performance to include brief explanatory information on each performance measure, its statement of intent does not clearly and concisely define what each of these activities mean or how well these activities were to be performed. This increases the risk of inaccurate reporting and potentially reduces the Corporation’s accountability for achieving planned levels of performance.

## HOUSING ACT

6.151 Housing ACT's principal objective is to provide those in the community that are socially and financially disadvantaged with safe, affordable and appropriate housing that responds to their individual circumstances and needs.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on Housing ACT's 2008-09 financial report.
- A qualified report of factual findings was issued on Housing ACT's 2008-09 statement of performance because two performance measures, relating to the overall satisfaction of tenants with the provision of public and community housing, were not measured.
- Housing ACT's net cost of services (\$14.9 million) was well below the budgeted cost (\$23.9 million).
- Housing ACT improved controls over payments made to employees and sales of public housing.
- Housing ACT also improved its business continuity planning arrangements.

### Financial results

**Table 6.33: Key results - departmental**

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Expenses	(104.1)	(110.2)	(114.4)
Income	89.5	84.4	81.1
Gains from the sale of properties	1.6	10.9	9.4
<b>Net cost of services</b>	<b>(13.0)</b>	<b>(14.9)</b>	<b>(23.9)</b>
Government contributions	22.8	26.5	23.4
Assets transferred from ACT Government agencies	-	0.7	-
Increase in the estimate of the liability for employee benefits due to a change in the estimation methodology	-	(0.5)	-
<b>Operating surplus/(deficit)</b>	<b>9.8</b>	<b>11.8</b>	<b>(0.5)</b>

6.152 Most of Housing ACT's expenses consist of supplies and services, employee related and depreciation expenses.

- 6.153 Total expenses were \$4.2 million (3.7 percent) below the budgeted cost due mainly to lower than expected information technology, general rates and depreciation expenses.
- 6.154 Income consists largely of rent received from public housing tenants.
- 6.155 Income exceeded budget expectations by \$3.3 million (4.1 percent) due to better than expected recoveries from tenants for ‘tenant responsible maintenance’ and higher market rents.
- 6.156 Gains from the sale of properties were \$1.5 million (16.0 percent) higher than anticipated due mainly to the sale price obtained for Fraser Court (a multi-unit housing complex) during the year.
- 6.157 Housing ACT’s net cost of services (\$14.9 million) was well below the budgeted cost (\$23.9 million). This is a result of the combined effects of lower operating costs, higher than expected income levels and increased revenue from property sales mentioned above.
- 6.158 Government contributions were \$3.1 million (13.2 percent) higher than budgeted. Housing ACT received additional appropriation funding as a result of the Commonwealth Government’s Nation Building and Jobs Plan Stimulus Package for Social Housing.

## Financial results

**Table 6.34: Key results - territorial**

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Commonwealth grants	19.2	9.8	19.6
	<b>19.2</b>	<b>9.8</b>	<b>19.6</b>

- 6.159 Housing ACT received Commonwealth grants in accordance with the Commonwealth State Housing Agreement. The purpose of these grants is to provide housing assistance to the community. The Territory is required to match approximately 50 percent of this Commonwealth funding.
- 6.160 Commonwealth grants were \$9.8 million (50.0 percent) lower than the budgeted amount. Under new funding arrangements, payments of Commonwealth Government grants were made directly to the Department of Treasury instead of individual agencies from 1 January 2009.



## Property portfolio

**Table 6.35: Value of land and dwellings**

As at 30 June	Actual 2007	Actual 2008	Actual 2009
Number of land parcels	6 887	6 899	6 961
<b>Land value (\$m)</b>	<b>\$2 168</b>	<b>\$2 657</b>	<b>\$2 672</b>
Number of dwellings	11 232	11 306	11 340
<b>Dwellings value (\$m)</b>	<b>\$1 079</b>	<b>\$1 092</b>	<b>\$1 121</b>
<b>Total value of land and dwellings (\$m)</b>	<b>\$3 247</b>	<b>\$3 749</b>	<b>\$3 793</b>

6.161 Housing ACT manages its property portfolio through property acquisitions and sales.

6.162 The increase in the total property portfolio in 2008-09 of \$44 million or 1.2 percent is mainly due to an increase in property values following a property revaluation that was conducted in March 2009.

## Audit findings

**Table 6.36: Status of audit findings (number of findings)**

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
8	(5)	2	1	2	5

6.163 Housing ACT addressed five of the eight previously reported audit findings. The Audit Office found that Housing ACT:

- consistently retained evidence of the review of fortnightly salary payments. This reduces the risk of incorrect payments or irregularities, including fraud, not being detected in a timely manner;
- implemented a business continuity plan. This should provide Housing ACT with greater assurance that it can recover its operations in a timely manner in the event of a disaster; and
- updated its list of financial delegations for the sale of public housing properties. This reduces the risk of unauthorised transactions and fraud.

- 6.164 The Audit Office found that two previously reported audit findings were partially resolved. In particular:
- Housing ACT has implemented a formal process for the reconciliation between Homenet and Oracle. However, these reconciliations were not being consistently performed and reviewed in a timely manner; and
  - reconciliations for bank accounts held in trust by law firms for property settlements are now received by Housing ACT on a monthly basis. However, these accounts were not being fully reconciled to the general ledger.
- 6.165 The Audit Office recommended that Housing ACT perform these reconciliations on a regular basis to reduce the risk of errors, irregularities and fraud.
- 6.166 The Audit Office issued a qualified report of factual findings on Housing ACT's statement of performance because Housing ACT did not measure the results for two of its performance measures as required by the *Financial Management Act 1996*. In 2008-09, Housing ACT did not perform the surveys needed to measure the overall satisfaction of tenants with the provision of public and community housing.
- 6.167 Housing ACT has advised that it plans to address these audit findings.

## INSURANCE AUTHORITY

6.168 The Insurance Authority operates under the *Insurance Authority Act 2005*. The Authority takes out insurance cover for risks relating to ACT Government agencies and settles insurance claims. The Authority also develops and promotes the implementation of sound risk management practices by agencies.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on the Authority's 2008-09 financial report and an unqualified report of factual findings on the 2008-09 statement of performance.
- The Authority's operating surplus (\$1.6 million) was slightly better than its budgeted deficit (\$0.7 million), as the large increase in claims expenses, including those related to the 2003 Canberra bushfires, was covered by higher insurance premiums charged to agencies and reinsurance recoveries.
- In 2008-09, the Authority revised its assessment of the bushfire related claims liability and recognised a large bushfire related claims expense of \$102.6 million. Although this substantial expense was not anticipated in the budget, it was largely offset by reinsurance recoveries.
- The Authority has sufficient assets to meet its short and long-term liabilities.
- The Authority's short and long-term financial positions at 30 June 2009 were better than anticipated in the budget.
- The Audit Office found that the Authority's performance was not always explained meaningfully in its statement of performance and that the Authority needs to improve processes for preparing its financial report.

Financial results

Table 6.37: Key results

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Income excluding bushfire related reinsurance recoveries	56.1	63.0	62.5
Expenses excluding bushfire related claims expenses	(36.7)	(59.7)	(63.2)
<b>Operating surplus/(deficit) - excluding bushfire related reinsurance recoveries and claims expenses</b>	<b>19.4</b>	<b>3.3</b>	<b>(0.7)</b>
Bushfire related reinsurance recoveries	30.3	100.9	-
Bushfire related claims expenses	(30.8)	(102.6)	-
<b>Operating surplus/(deficit)</b>	<b>18.9</b>	<b>1.6</b>	<b>(0.7)</b>

- 6.169 The Authority's income consists mainly of insurance premiums collected from ACT Government agencies, recoveries under reinsurance arrangements and interest on its investments. The Authority's expenses are largely represented by the costs of insurance claims and reinsurance premiums.
- 6.170 Income, excluding reinsurance recoveries relating to the 2003 Canberra bushfires, increased by \$6.9 million (12.3 percent) as the Authority increased the premiums charged to agencies to cover additional insurance claims expenses. This increase in premiums, which was anticipated in the budget, was sufficient to cover a large increase in expenses, excluding bushfire related claims, of \$23.0 million or 62.7 percent.
- 6.171 The Authority's expenses, excluding bushfire related claims (\$59.7 million), were slightly below budget estimates (\$63.2 million).
- 6.172 In 2008-09, the Authority revised its assessment of the bushfire related claims liability and recognised a bushfire related claims expense of \$102.6 million. Although this substantial expense was not anticipated in the budget, it was largely offset by reinsurance recoveries.
- 6.173 The Authority's operating surplus (\$1.6 million) was slightly better than budgeted (a small deficit of \$0.7 million), as the large increase in claims expenses, including those related to the 2003 Canberra bushfires, was covered by higher insurance premiums charged to agencies and reinsurance recoveries.

**Short-term financial position**

**Table 6.38: Short-term financial position**

	<b>Actual 2008 \$m</b>	<b>Actual 2009 \$m</b>	<b>Budget 2009 \$m</b>
Short-term assets	137.0	178.5	156.6
Short-term liabilities	(52.3)	(31.0)	(56.8)
<b>Net short-term assets</b>	<b>84.7</b>	<b>147.5</b>	<b>99.8</b>
<b>Short-term liquidity ratio</b>	<b>2.6 to 1</b>	<b>5.8 to 1</b>	<b>2.8 to 1</b>

6.174 The Authority’s short-term financial position is much stronger than anticipated in the budget and has improved significantly since the prior year.

6.175 The Authority has sufficient current assets to meet its current liabilities.

**Long-term financial position**

**Table 6.39: Long-term financial position**

	<b>Actual 2008 \$m</b>	<b>Actual 2009 \$m</b>	<b>Budget 2009 \$m</b>
Total assets	234.0	375.2	196.0
Total liabilities	(237.6)	(367.2)	(213.1)
<b>Net (liabilities)/assets</b>	<b>(3.6)</b>	<b>8.0</b>	<b>(17.1)</b>
<b>Ratio of total assets to total liabilities</b>	<b>1.0 to 1</b>	<b>1.0 to 1</b>	<b>0.9 to 1</b>

6.176 The Authority’s long-term financial position is better than anticipated in the budget and has improved to the point where its estimated assets slightly exceeded its estimated liabilities.

**Audit findings**

**Table 6.40: Status of audit findings (number of findings)**

Previously Reported	Resolved	New	Balance
-	-	3	3

- 6.177 The Audit Office found that the Authority’s statement of performance includes performance measures that provide no indication of how the Authority was meeting its objectives. For example, the statement of performance:
- discloses the number of ‘insurance invoices issued’. Such information does not relate directly to the extent to which the Authority achieved its objective of effectively insuring the Territory’s risks; and
  - indicates whether an ‘annual customer satisfaction survey’ was conducted. Without providing information on the results of the survey, including the degree of customer satisfaction and feedback provided by the customers, this measure was not useful.
- 6.178 The Audit Office also observed that information on the Authority’s performance could be improved by including additional performance measures on the cost of the Authority’s insurance operations, such as the costs of assessing claims and insurance.
- 6.179 The processes implemented by the Authority to prepare its financial report need to be improved as numerous drafts of this report were required to bring it to an acceptable standard.
- 6.180 The Authority has agreed to address these audit findings.

## JUSTICE AND COMMUNITY SAFETY

6.181 The Department aims to provide fair civil and criminal justice systems and to keep the community safe, maintain the rule of law, promote the protection of human rights in the Territory, protect life, property and the environment, provide effective emergency responses and management, and implement and enforce legislation.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on the Department's 2008-09 financial report and an unqualified report of factual findings on its 2008-09 statement of performance.
- The Department's net cost of services (\$198.1 million) was in line with the budgeted cost (\$198.5 million).
- The Department did not draw down \$35.4 million (64.0 percent) of the funds appropriated for capital works. This was due mainly to delays in major projects relating to the Emergency Services Agency.
- Territorial expenses exceeded the budgeted cost by \$5.4 million or 4.2 percent due to higher than expected legal expenses and legal settlement payments.
- In 2008-09, payments to the Australian Federal Police for policing services increased by \$6.5 million or 5.5 percent. This increase was anticipated in the budget.
- The Department resolved previously reported control weaknesses over parking revenue reconciliations. The Department also implemented and tested its business continuity plan.
- The Department undertook a review of its performance measures to improve the usefulness of the performance measures included in its statement of performance. New performance measures are expected to be reported in the 2009-10 statement of performance.
- The Department's statement of performance submitted to the Audit Office for review contained several errors that were subsequently corrected. These errors indicate that the controls implemented by the Department do not consistently provide sufficient assurance that its results will be accurately reported and supported by sufficient and appropriate evidence.

Financial results

Table 6.41: Key results – departmental

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Expenses	(196.2)	(220.5)	(218.2)
Income	20.9	22.4	19.7
<b>Net cost of services</b>	<b>(175.3)</b>	<b>(198.1)</b>	<b>(198.5)</b>
Government contributions	164.4	186.4	183.7
Gains from contributed assets/asset transfers	-	4.0	-
Increase in the estimate of the liability for employee benefits due to a change in the estimation methodology	-	(10.0)	-
<b>Operating (deficit)</b>	<b>(10.9)</b>	<b>(17.7)</b>	<b>(14.8)</b>
<b>Capital injections</b>	<b>83.0</b>	<b>19.9</b>	<b>55.3</b>

6.182 Most of the Department’s expenses are related to employees, computing and information technology, rent and accommodation and depreciation. Income consists mainly of fees charged for fire protection, ambulance transport services and professional services.

6.183 The Department’s net cost of services (\$198.1 million) was in line with the budgeted cost (\$198.5 million).

6.184 There was a significant increase in expenses (\$24.3 million or 12.3 percent) from the prior year. This increase was anticipated in the budget.

6.185 The growth in expenses was mainly associated with new budget initiatives, including the new Alexander Maconochie Centre, increased wage agreement expenses and superannuation contributions, the 2008 ACT election costs and higher depreciation expenses.

6.186 As anticipated in the budget, government contributions were increased to meet these higher costs.



6.187 The Department did not draw down \$35.4 million (64.0 percent) of the funds appropriated for capital works due to delays in major projects. The capital projects delayed included those relating to the Emergency Services Agency's headquarters (\$11.7 million), fire vehicle replacement program (\$3.1 million) and upgrade of communications (\$3.1 million) and the Alexander Maconochie Centre (\$3.7 million).

**Table 6.42: Key results – territorial**

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Payments to the Australian Federal Police	117.4	123.9	123.9
Other expenses	8.3	11.3	5.9
	<b>125.7</b>	<b>135.2</b>	<b>129.8</b>

Source: Budget information was provided by the Department of Justice and Community Safety.

6.188 The Department's territorial expenses largely consist of payments to the Australian Federal Police for the provision of policing services in the Territory.

6.189 Territorial expenses (\$135.2 million) exceeded the budgeted cost (\$129.8 million) due mainly to higher than expected legal expenses, legal settlement and compensation payments.

6.190 Additional payments were made to the Australian Federal Police (\$6.5 million or 5.5 percent) primarily to strengthen police patrols and to meet the costs of salary increases. These higher costs were anticipated in the budget.

### Audit findings

**Table 6.43: Status of audit findings (number of findings)**

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

6.191 The Audit Office found that the Department resolved two of the four audit findings reported in 2007-08. In particular:

- reconciliations of parking operations revenue were consistently being reviewed and evidenced as such. This reduces the risk of errors, irregularities and fraud not being detected in a timely manner; and
- the Department's business continuity plan was implemented and tested. This should provide increased assurance that the Department will be able to resume its operations without the loss of information in the event of a disaster or other disruption.

- 6.192 The Department also undertook a review of its performance measures to improve the usefulness of the measures included in its statement of performance. New performance measures will be reported in the 2009-10 statement of performance of the Department.
- 6.193 The Audit Office again found a significant proportion of the leave taken in the ACT Fire Brigade was not recorded in Chris 21. The ACT Fire Brigade has advised that a range of measures to improve its processes for the recording of leave have been implemented.
- 6.194 The Department's statement of performance submitted to the Audit Office for review contained several errors that were subsequently corrected. These errors indicate that the controls implemented by the Department do not consistently provide sufficient assurance that its results will be accurately reported and supported by sufficient and appropriate evidence.
- 6.195 The Department has advised the Audit Office that the above audit findings will be addressed.

## **LAND DEVELOPMENT AGENCY (INCLUDING LAND JOINT VENTURES)**

- 6.196 The Land Development Agency (the LDA) carries out urban development projects and develops and sells residential, commercial and industrial land.
- 6.197 The LDA is also responsible for managing the ACT Government's interest in the Forde, Woden East and Crace land joint ventures.

### **HIGHLIGHTS**

#### **Land Development Agency**

- The Audit Office issued an unqualified audit report on the LDA's 2008-09 financial report and an unqualified report of factual findings on the 2008-09 statement of performance.
- Weaker conditions in the property market caused the LDA's operating profit (\$45.6 million) to be well below the budgeted profit (\$59.9 million).
- The LDA addressed all previously reported audit findings. In particular, the LDA has reduced the risk of errors in its financial report by improving the arrangements for the purchase of land from the Department of Territory and Municipal Services.
- The Audit Office found that some of the non-financial aspects of the Agency's performance were not explained meaningfully in the 2008-09 statement of performance. The Agency has, however, largely resolved this issue in relation to the future reporting of its performance.

#### **Land Joint Ventures**

- The Audit Office issued unqualified audit reports on the financial reports of the Forde, Woden East and Crace land joint ventures.

## Financial results

**Table 6.44: Key results**

	<b>Actual 2007-08 \$m</b>	<b>Actual 2008-09 \$m</b>	<b>Budget 2008-09 \$m</b>
Income	488.0	234.5	487.1
Expenses	(276.8)	(177.6)	(423.2)
Share of operating profit from Joint Venture accounted for using the equity method	6.1	8.0	21.7
<b>Operating profit before income tax expense</b>	<b>217.3</b>	<b>64.9</b>	<b>85.6</b>
Income tax expense	(65.2)	(19.3)	(25.7)
<b>Operating profit</b>	<b>152.1</b>	<b>45.6</b>	<b>59.9</b>

6.198 Most of the LDA's income and expenses consist of land sales and the costs relating to these sales respectively.

6.199 Income was \$252.6 million or 51.9 percent below the budgeted amount. This was mainly due to lower land sales resulting from:

- the deferral of some land releases to 2009-10; and
- lower demand for commercial and industrial sites due to weaker conditions in the property market.

6.200 Expenses (\$177.6 million) were \$245.6 million (58.0 percent) lower than budgeted, as the costs associated with land sales fell due to the reduction in land sales.

6.201 The LDA's share of operating profit from the land joint ventures was lower than budgeted due to the deferral of some land releases to 2009-10.

6.202 Weaker conditions in the property market and the deferral of some land releases caused the LDA's operating profit (\$45.6 million) to be below the budgeted profit (\$59.9 million).

## Land Joint Ventures

### *Forde*

6.203 The Forde Joint Venture was established in 2005 as a joint venture between Forde Development (ACT) Pty Limited and the LDA for the development of the suburb of Forde. Land sales commenced in July 2007.

- 6.204 The LDA's investment in this joint venture at 30 June 2009 was \$12.9 million.
- 6.205 The Audit Office issued unqualified audit reports on the joint venture's half and full-year financial reports.

**Woden East**

- 6.206 The Woden East Joint Venture was established in 2006 to develop land in the suburb of Phillip into a multi-generational lifestyle residential estate.
- 6.207 The LDA and Woden East Pty Limited each have a 50 percent interest in the joint venture. At 30 June 2009, the LDA's interest in this joint venture was \$12.1 million.
- 6.208 The Audit Office issued an unqualified audit report on the joint venture's financial report.

**Crace**

- 6.209 The Crace Joint Venture commenced operations in January 2008. The principal objective of the joint venture is the development of the suburb of Crace.
- 6.210 The LDA and Crace Development Pty Limited each contributed 50 percent to the joint venture's capital. The value of the LDA's share in this joint venture at 30 June 2009 is \$43.9 million.
- 6.211 The Audit Office issued unqualified audit reports on the joint venture's half and full year financial reports.

**Audit findings**

**Table 6.45: Status of audit findings (number of findings)**

Previously Reported	Resolved	New	Balance
3	(3)	2	2

- 6.212 The LDA resolved all previously reported audit findings. In particular, the LDA reduced the risk of material errors in its financial report by improving the arrangements for the purchase of land from the Department of Territory and Municipal Services.

- 6.213 The Audit Office found that some of the non-financial aspects of the Agency's performance were not explained meaningfully in the 2008-09 statement of performance. The performance measures were usually expressed as an activity and provided little meaningful information on what the planned activity meant or how well the activity was to be performed. For example, measures included in the statement of performance refer generally to 'moving towards' or 'assisting' in the completion of planned activities or tasks. Examples of such performance measures include:
- with the assistance of other government agencies move towards building a pipeline of Estate Development Plan ready land equating to 8 to 12 months supply;
  - moving towards establishing a serviced blocks inventory of 8 months of estimated demand;
  - assisting in identifying land for the institutional investor initiative to increase available rental accommodation; and
  - assisting the Chief Minister's Department in the development of the builders and developers pipeline.
- 6.214 The LDA's statement of performance includes a performance measure relating to sustainability reporting. The LDA considered the achievement of this target to have been met by including a section on sustainability reporting elsewhere in the LDA's annual report. As a result, the statement of performance itself did not provide sufficient information in relation to LDA's performance on sustainability issues.
- 6.215 The Audit Office notes that the LDA has improved the non-financial performance measures included in its 2009-10 statement of intent and that these measures should facilitate a more meaningful assessment of the Agency's performance in 2009-10.

## LEGAL AID COMMISSION

- 6.216 The services provided by the Legal Aid Commission include the provision of legal information, legal advice, duty lawyer services, grants for legal assistance and community legal education.
- 6.217 The Commission's services are provided through its offices in Civic and Woden and through the Domestic Violence Unit in the ACT Magistrates' Court and the Youth Law Centre.
- 6.218 The Commission also uses the services of private legal practitioners to provide its services.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on the Commission's 2008-09 financial report and an unqualified report of factual findings on the 2008-09 statement of performance.
- The Commission's net cost of services (\$3.4 million) was slightly under the budgeted cost (\$3.5 million).
- The Commission addressed most previously reported control weaknesses. This included improving controls over business continuity and disaster recovery arrangements and changes made to vendor master files.
- The Commission also improved important aspects of its governance arrangements by implementing an internal audit function and commencing the development of its fraud control policy and control plan.
- The Audit Office found that the Commission's processes for preparing its statement of performance need to be improved. In addition, the Commission should improve controls over the write-off of debtors, salary reconciliations and the recording of leave liabilities.

**Financial results**

**Table 6.46: Key results**

	<b>Actual 2007-08 \$m</b>	<b>Actual 2008-09 \$m</b>	<b>Budget 2008-09 \$m</b>
Expenses	(9.1)	(9.6)	(9.3)
Income	5.9	6.2	5.8
<b>Net cost of services</b>	<b>(3.2)</b>	<b>(3.4)</b>	<b>(3.5)</b>
Government contributions	3.2	3.5	3.5
Increase in the estimate of the liability for employee benefits due to a change in the estimation methodology	-	(0.3)	-
<b>Operating (deficit)</b>	<b>-</b>	<b>(0.2)</b>	<b>-</b>

6.219 The Commission’s major expenses consist of employee costs and payments to private legal practitioners.

6.220 The Commission’s income consists mainly of Commonwealth Government grants and interest received from the Statutory Interest Account maintained by the Law Society of the ACT.

6.221 The Commission’s net cost of services (\$3.4 million) was slightly under the budgeted cost (\$3.5 million).

**Audit findings**

**Table 6.47: Status of audit findings (number of findings)**

<b>Previously Reported</b>	<b>Resolved</b>	<b>Partially Resolved</b>	<b>Not Resolved</b>	<b>New</b>	<b>Balance</b>
12	(8)	1	3	3	7

6.222 The Commission resolved eight of the twelve previously reported audit findings. In particular, the Commission has:

- implemented a business continuity and disaster recovery plan to reduce the risk that its operations would not recover effectively in the event of a disaster or other adverse event; and
- improved controls over changes being made to vendor master files to reduce the risk of inappropriate or fraudulent payments.



- 6.223 The Audit Office found that the Commission improved important aspects of its governance arrangements by implementing an internal audit function and commencing the development of its fraud control policy and control plan. Implementation of this plan would provide the Commission with increased assurance that its fraud risks will be effectively identified, monitored and managed.
- 6.224 The Commission also improved its systems for recording the results for some of its performance measures. However, despite these improvements, the Audit Office found that the statement of performance originally prepared by the Commission was not in the required format, calculations of variances from targeted performance were incorrect, and explanations of major variances were not always clear.
- 6.225 The Audit Office also noted that:
- the Commission does not have documented and approved policies and procedures for the write-off of debtors;
  - salary reconciliations were not being performed and reviewed in a timely manner. This increases the risk that errors in the financial records would not be identified and corrected on a regular basis; and
  - the leave liability report provided by the Commission's external service provider was incorrect and manual calculations of accrued leave were incorrectly calculated.
- 6.226 The Commission has indicated that it will address these audit findings.

## LEGISLATIVE ASSEMBLY SECRETARIAT

6.227 The Legislative Assembly Secretariat provides procedural, policy and administrative services to the ACT Legislative Assembly. These services include the provision of administrative support to the non-executive members of the Assembly and their staff.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on the 2008-09 financial report of the Secretariat.
- The Secretariat's net cost of services exceeded the budgeted cost by \$0.3 million (5.1 percent) due mainly to higher than expected supplies and services costs.
- All audit findings previously reported in 2007-08 were resolved.
- In 2008-09, the Audit Office found control weaknesses in relation to the receipting of goods and services and the reconciliation of payroll and asset information. The Office also found that Secretariat's business continuity plan was in draft form and had not been tested.

### Financial results

**Table 6.48: Key results**

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Expenses	(6.2)	(6.5)	(6.2)
Income	0.4	0.3	0.3
<b>Net cost of services</b>	<b>(5.8)</b>	<b>(6.2)</b>	<b>(5.9)</b>
Government contributions	5.8	5.9	5.9
Increase in the estimate of the liability for employee benefits due to a change in the estimation methodology	-	(0.2)	-
<b>Operating (deficit)</b>	<b>-</b>	<b>(0.5)</b>	<b>-</b>

6.228 The Secretariat operates on a cost recovery basis and relies on ACT Government contributions to meet its expenses. These expenses mostly consist of employee related and supplies and services costs.

6.229 The Secretariat's net cost of services exceeded its budgeted cost by \$0.3 million (5.1 percent) due mainly to higher than expected supplies and services costs. These higher costs resulted from the full year effect of having the Secretariat's financial processes outsourced to the Shared Services Centre, the costs associated with the 2008 Election and the costs of staging an event for the 20<sup>th</sup> Anniversary of Self-Government in the ACT.

### Audit findings

**Table 6.49: Status of audit findings (number of findings)**

Previously Reported	Resolved	New	Balance
2	(2)	6	6

6.230 In 2007-08, the Audit Office reported that monthly management financial reports were not prepared or reviewed by senior management for two months of the year and that the documentation of leave and overtime approvals could be improved. The Audit Office found that these control weaknesses were resolved in 2008-09.

6.231 In 2008-09, the Audit Office found that:

- payments for goods and services were sometimes made without evidence that goods and services had been satisfactorily received, leading to a higher risk of errors, irregularities and fraud;
- assets and payroll information reconciliation procedures were not consistently performed. These procedures provide assurance that the financial report and the underlying supporting financial records are accurate; and
- the Secretariat's business continuity plan, including disaster recovery procedures, was in draft form and untested. Critical systems may not be able to be recovered, operations may not be resumed in a timely manner and there is a higher risk of loss of information, files etc. in the event of a disaster, when an approved business continuity plan, including disaster recovery procedures, is not in place and tested.

6.232 The Secretariat has indicated that these audit findings will be addressed in 2009-10.

## **RHODIUM**

- 6.233 Rhodium provides asset financing and fleet management services to the ACT Government and to some Commonwealth government agencies and private sector organisations.
- 6.234 Consistent with an ACT Government decision to wind down Rhodium's operations, the ACT Legislative Assembly provided its consent to the disposal of Rhodium's main undertakings. The winding down of Rhodium's operations has been delayed due to a slow market interest in Rhodium's remaining leases and is now expected to be completed by July 2010.

### **HIGHLIGHTS**

- The Audit Office issued an unqualified audit report on Rhodium's 2008-09 financial report.
- Rhodium incurred a loss of \$1.3 million in 2008-09; a similar result to the loss of \$1.2 million incurred in 2007-08.
- Despite the expected delay in the winding down of its operations, Rhodium expects to have sufficient funds to settle its liabilities during the winding down process.
- Rhodium addressed five of the six previously reported audit findings and partially addressed the sixth finding.
- In particular, controls over information technology systems were significantly improved. Some information technology control weaknesses were found to exist in the period covered by the audit, however, these control weaknesses were largely resolved by the time the audit was completed.

**Financial results**

**Table 6.50: Key results**

	<b>Actual 2007-08 \$m</b>	<b>Actual 2008-09 \$m</b>
Income	23.5	23.2
Expenses	(24.7)	(24.5)
<b>Net (loss)</b>	<b>(1.2)</b>	<b>(1.3)</b>

6.235 Rhodium generates revenue from providing asset financing and fleet management services and leasing assets. Its expenses are largely related to the costs of providing these services.

6.236 In 2008-09, Rhodium’s income and expenses were not significantly different from the previous year.

6.237 Rhodium incurred a loss of \$1.3 million in 2008-09; a similar result to the loss of \$1.2 million incurred in 2007-08.

**Financial position**

**Table 6.51: Financial position**

	<b>Actual 2008 \$m</b>	<b>Actual 2009 \$m</b>
Assets	96.5	48.6
Liabilities	(91.8)	(45.2)
<b>Net assets</b>	<b>4.7</b>	<b>3.4</b>

6.238 Rhodium’s assets consist mainly of receivables relating to the leasing out of new motor cars, trucks and machinery. Its liabilities mostly relate to the financing of these assets.

6.239 Consistent with the winding down of its operations, Rhodium is progressively reducing its assets and liabilities.

6.240 Rhodium expects to have sufficient funds to settle all liabilities and is further supported by an indemnity from the ACT Treasurer covering all liabilities, claims, demands, costs and expenses incurred in relation to, or arising out of, its operations.

**Audit findings**

**Table 6.52: Status of audit findings (number of findings)**

Previously Reported	Resolved	Partially Resolved	New	Balance
6	(5)	1	8	9

6.241 Rhodium addressed five of the six previously reported audit findings and partially addressed the sixth finding. Eight new audit findings were identified during the audit, however, six of these were subsequently resolved.

6.242 In particular, Rhodium improved controls over its information technology systems by implementing an information technology disaster plan and strengthening controls over remote access to Rhodium’s network. Rhodium also developed systems administration documentation covering the roles and responsibilities in relation to systems administration, security and audit logging for key business applications.

6.243 The Audit Office found that weaknesses existed in information technology controls implemented by Rhodium during the period covered by the audit. These weaknesses needed to be addressed through:

- restricting the use of ‘super user’ access to only the performance of system administration tasks to reduce the risk of erroneous or fraudulent transactions;
- improving documentation of requests made for changes to systems and user access; and
- implementing audit logging and monitoring of data records.

6.244 The Audit Office noted that these control weaknesses were largely resolved by the time the audit was completed.

## SHARED SERVICES CENTRE

- 6.245 The Shared Services Centre (Shared Services) provides a wide range of services to ACT Government agencies, including information and communication technology, procurement, publishing, records management, human resource and finance services.
- 6.246 In November 2008, Shared Services was transferred from the Department of Treasury to the Department of Territory and Municipal Services as part of an administrative restructure. Shared Services remains a separate entity for reporting purposes.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on Shared Services' 2008-09 financial report and an unqualified report of factual findings on the 2008-09 statement of performance.
- Shared Services' net cost of services (\$9.6 million) was \$4.8 million (33.3 percent) lower than the budgeted cost (\$14.4 million). Shared Services obtained more income due to an increase in the use of information and communication technology services by ACT Government agencies and for managing capital works for these agencies.
- Shared Services addressed most previously reported audit findings by improving controls over overtime and pay variations and the asset and salary reconciliations process. However, controls over the restriction of access to the ACT Government network could be improved.
- The Audit Office found that sufficient and appropriate documentation was not always readily available to support the statement of performance.

Financial results

Table 6.53: Key results

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Expenses	(148.0)	(166.4)	(160.5)
Income	137.4	156.8	146.1
<b>Net cost of services</b>	<b>(10.6)</b>	<b>(9.6)</b>	<b>(14.4)</b>
Government revenue	5.4	5.7	5.7
Other gains	1.2	0.1	-
Increase in the estimate of the liability for employee benefits due to a change in the estimation methodology	-	(3.9)	-
<b>Operating (deficit)</b>	<b>(4.0)</b>	<b>(7.7)</b>	<b>(8.7)</b>

- 6.247 Most of Shared Services' income is derived from fees charged to ACT Government agencies for providing information and communication technology, procurement, publishing, records management, human resource and finance services.
- 6.248 Expenses mainly consist of employee and contractor costs, costs associated with the provision of information and communication technology services to other agencies (for example, voice and data charges, repairs and minor upgrades to systems) and depreciation of information and communication technology assets.
- 6.249 Expenses were \$5.9 million (3.7 percent) higher than the budgeted amount. This was mainly due to an increase in information and communication technology project expenditure being incurred on behalf of ACT Government agencies, and the impairment of disputed receivables relating to Housing ACT which was not anticipated in the budget.
- 6.250 Income exceeded the budgeted amount by \$10.7 million (7.3 percent). This was mainly due to the recovery of higher information and communication technology costs and an increase in fees for managing capital works for agencies. The increased fees for managing capital works for agencies indicates that there has been a growth in capital works activity in the Territory.
- 6.251 As a result of changes in income and expenditure referred to in the above paragraphs, Shared Services' net cost of services was \$4.8 million (33.3 percent) below the budgeted cost.



**Audit findings**

**Table 6.54: Status of audit findings (number of findings)**

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

6.252 The Audit Office found that Shared Services had addressed most of the reported audit findings. In particular, the Audit Office found that:

- the risk of payment errors, irregularities and fraud was reduced by ensuring overtime and pay variations were approved by a delegate acting within the relevant delegation limits; and
- the risk of errors in the financial report was minimised by improving the asset and salary reconciliations process.

6.253 Shared Services had not fully resolved two previously reported findings. The Audit Office again noted the accuracy of the records of information technology assets needed to be improved, and a few instances where former employees retained active access to the ACT Government network. This control weakness increases the risk of unauthorised access to applications and financial information.

6.254 Two new findings were identified during 2008-09. In particular, the Audit Office found that sufficient and appropriate documentation was not always readily available to support the results of some of the performance measures included in the statement of performance. This increases the risk of errors in the statement of performance.

6.255 Shared Services has agreed to address these audit findings.

## SUPERANNUATION PROVISION ACCOUNT

- 6.256 The Superannuation Provision Account was established to manage the investment of funds set aside to meet the defined benefit employer superannuation liabilities of ACT Government departments, authorities and Territory-owned Corporations.
- 6.257 Under the *Territory Superannuation Provision Protection Act 2000*, the investments held by the Superannuation Provision Account can only be used for superannuation purposes.
- 6.258 The Territory is responsible for the reimbursement of funds to the Commonwealth in relation to the emerging costs of the annual superannuation benefit payments to the members of the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS) for services provided by members from 1 July 1989. The Commonwealth is liable prior to that date.
- 6.259 As reported in previous years, annual cash payments for superannuation are expected to increase steadily for many years due to:
- the relatively short period of the Territory's responsibility for employees' superannuation. The Territory's share of the liability will grow significantly as the service with the ACT Public Service becomes a larger proportion of the total service provided by employees; and
  - the age profile of its employees. Many employees will be reaching their retirement age over the next few decades. The Territory will then be required to pay superannuation entitlements accrued over years of service. For many employees, the retirement benefits provided under the defined benefit schemes will be taken as indexed pensions that will continue over the lives of the members and their surviving spouses.
- 6.260 The CSS and PSS were closed to new members from 1 July 1990 and 1 July 2005 respectively. These defined benefit schemes were replaced with fully funded accumulation plans, including the Public Sector Superannuation Scheme Accumulation Plan (PSSAP) and schemes of employee choice. The closure of access to these schemes by new employees will assist in limiting the future growth of the unfunded superannuation liability.
- 6.261 The Superannuation Provision Account has a long term strategic target of fully funding the CSS and PSS superannuation liability by 30 June 2030 through investment returns and annual budget capital injections.<sup>6</sup>

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<sup>6</sup> Page 166 of 2009-10 Budget Paper No. 4: Budget Estimates.

## HIGHLIGHTS

- The Audit Office issued an unqualified audit report on the Superannuation Provision Account's 2008-09 financial report and an unqualified report of factual findings on the 2008-09 statement of performance.
- The Superannuation Provision Account's operating deficit (\$564.5 million) was substantially higher than the budgeted deficit (\$174.2 million). This was mainly due to substantial losses being incurred on investments stemming from adverse market conditions.
- The 2008-09 statement of performance discloses that the large investment losses incurred in 2008-09 have brought the long-term real rate of return on investments down to four percent; a result that is below the targeted minimum long-term real rate of return of five percent.
- The Superannuation Provision Account's financial position was much weaker than was anticipated in the budget due to the combined effects of large falls in the value of superannuation investments and an increase in the estimated superannuation liability as a result of a reduction in the discount rate used to estimate the present value of the liability and the accrual of an additional year's benefit (liability).
- The increasing unfunded superannuation liability does not pose a significant short term threat to the Territory's finances because most of the superannuation liability does not need to be met in the short term. However, the poor financial results of recent years will place additional pressure on the Territory to manage its finances effectively and ensure that sufficient investments are eventually set aside to address the unfunded liability.
- The poor financial results of recent years also increase the risk that the Territory will not achieve its objective of fully funding its superannuation liability by 2030.

Financial results

Table 6.55: Key results

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Income	129.8	138.3	175.0
Expenses	(629.4)	(704.5)	(357.0)
<b>Net cost of services</b>	<b>(499.6)</b>	<b>(566.2)</b>	<b>(182.0)</b>
Government contributions	0.7	1.7	7.8
<b>Operating (deficit)</b>	<b>(498.9)</b>	<b>(564.5)</b>	<b>(174.2)</b>

- 6.262 The Superannuation Provision Account's income consists largely of revenue generated by investments that have set aside to meet the Territory's superannuation liabilities. This income includes dividends, interest and capital gains on investments.
- 6.263 Investments held by the Superannuation Provision Account are subject to market risk and fluctuate in value according to the conditions that exist in domestic and international investment markets.
- 6.264 Income was \$36.7 million (21.0 percent) less than expected due largely to the continuing adverse conditions in domestic and international investment markets. Gains from investments were substantially below budget expectations as the budget is based on the assumption of achieving a real rate of return of five percent (net of fees) over the long-term. The lower gains from investments were partially offset by better than expected returns from dividends and higher interest revenue.
- 6.265 Expenses largely consist of the superannuation liability expenses and losses on superannuation investments.
- 6.266 Expenses exceeded the budgeted cost by \$347.5 million (97.3 percent) as substantial losses (\$372.4 million) were incurred on investments due to adverse market conditions. These losses caused the Superannuation Provision Account's operating deficit to be much higher (\$390.3 million or 224.1 percent) than the budgeted deficit.
- 6.267 The Superannuation Provision Account's 2008-09 statement of performance discloses that the losses incurred in 2008-09 have brought the long term real rate of return on superannuation investments down to four percent; a result that is 20 percent below the minimum long-term real rate of return target of five percent.

## Financial position

**Table 6.56: Financial position**

As at 30 June	Actual 2007 \$m	Actual 2008 \$m	Actual 2009 \$m	Budget 2009 \$m
Investments	2 140.1	2 023.4	1 809.0	2 344.1
Superannuation liability	(2 990.8)	(3 120.7)	(4 061.5)	(3 722.0)
<b>Unfunded superannuation liability</b>	<b>(850.7)</b>	<b>(1 097.3)</b>	<b>(2 252.5)</b>	<b>(1 377.9)</b>
<b>Investments to superannuation liability</b>	<b>0.72 to 1</b>	<b>0.65 to 1</b>	<b>0.45 to 1</b>	<b>0.63 to 1</b>

- 6.268 The Superannuation Provision Account's financial position is determined by the value of investments set aside to meet the superannuation liabilities and the estimated superannuation liability.
- 6.269 The unfunded superannuation liability shown in the above table indicates that there are insufficient investments set aside to meet the entire superannuation liability.
- 6.270 The unfunded superannuation liability grew considerably during 2008-09 and was much larger than was anticipated in the budget. This substantial weakening in the financial position was due to the combined effects of:
- a large fall in the value of superannuation investments due to adverse market conditions;
  - an increase in the estimated superannuation liability as a result of a reduction in the discount rate used to estimate the present value of the liability; and
  - the accrual of an additional year's benefit (liability).
- 6.271 The total superannuation liability increased by \$940.8 million (30.1 percent) due mainly to the use of a lower discount rate to estimate the present value of the liability. The required discount rate determined by the applicable annualised 10-year Commonwealth bond rate as at 30 June of each year. The discount rate used fell from 6.5 percent in 2008 to 5.6 percent in 2009 and caused an increase of \$721.3 million in the estimate of the superannuation liability. The actuarial revision of the estimate also included changes to employee demographic assumptions, including pensioner mortality and rates of resignation and retrenchment, as well as impacts from salary and pension increases being higher than assumed.

### Future superannuation obligations

6.272 The following table shows the actuarial assessment of the estimated annual amounts payable to meet superannuation payments in nominal and real terms.

**Table 6.57: Future superannuation payments schedule**

Year Ending 30 June	Nominal Terms \$m	Real Terms \$m
2010	97.2	97.2
2016	211.6	182.5
2022	325.0	241.7
2028	435.8	249.4
2034	532.6	294.5
2040	585.8	279.3
2046	572.0	235.1

Source: Information on future superannuation payments in nominal terms was obtained from the 'Report on the Actuarial Investigation as at 30 June 2008' dated 5 May 2009 prepared by the Territory's consulting actuary, Russell Investment Group. Information on future superannuation payments in real terms was obtained from the Superannuation Provision Account. These payments include a long-term consumer price estimate of 2.5 percent.

6.273 The above table shows that cash payments for superannuation are expected to increase steadily for many years.

### Unfunded superannuation liability

**Table 6.58: Projected unfunded superannuation liability**

As at 30 June	Budget 2010 \$m	Budget 2011 \$m	Budget 2012 \$m	Budget 2013 \$m
Investments	1 968.4	2 144.8	2 301.0	2 456.3
Superannuation liability	(4 059.6)	(4 315.6)	(4 567.0)	(4 814.0)
<b>Unfunded superannuation liability</b>	<b>(2 091.2)</b>	<b>(2 170.8)</b>	<b>(2 266.0)</b>	<b>(2 357.7)</b>
<b>Investments to superannuation liability</b>	<b>0.48 to 1</b>	<b>0.50 to 1</b>	<b>0.50 to 1</b>	<b>0.51 to 1</b>

Source: Budget figures were sourced from page 171 of 2009-10 Budget Paper No. 4: Budget Estimates.

6.274 The 2009-10 Budget Papers disclose that the unfunded superannuation liability is expected to increase steadily over the next few years.

- 6.275 The unfunded liability does not present a significant short-term threat to the Territory's finances because most of the superannuation liability does not need to be met in the short term. However, the poor financial results of recent years will place particular pressure on the Territory to manage its finances effectively to ensure that sufficient investments are eventually set aside to address the unfunded position.
- 6.276 These poor results also increase the risk that the Territory will not achieve its objective of fully funding its superannuation liability by 2030.

### Audit findings

**Table 6.59: Status of audit findings (number of findings)**

Previously Reported	Not Resolved	New	Balance
1	1	-	1

- 6.277 One previously reported audit finding in relation to one of the Superannuation Provision Account's performance measures was not resolved in 2008-09.
- 6.278 The performance measure is intended to highlight whether the actual investment returns outperformed the established benchmark. Although this information is useful, the method used to calculate this performance measure provides inaccurate results where the actual or benchmarked investment returns are negative.
- 6.279 The 2009-10 Budget Papers indicate that this performance measure has been replaced with a new performance measure. Under the new measure, the difference between the actual investment earnings rate and the established benchmark is compared.

## TERRITORY AND MUNICIPAL SERVICES

6.280 The Department of Territory and Municipal Services (TAMS) provides a wide range of services. These services include the provision of:

- public transport, libraries, Canberra Connect shopfronts and online services, ranger services, property management and capital linen services; and
- waste and recycling services and the development, management and maintenance of the Territory's infrastructure asset base.

6.281 In November 2008:

- the Shared Services Centre was transferred from the Department of Treasury to TAMS. The Shared Services Centre remains a separate entity for reporting purposes; and
- the following functions were transferred from TAMS to the Department of the Environment, Climate Change, Energy and Water:
  - sustainability and environmental policy coordination;
  - sustainability programs and projects (excluding the no waste program);
  - environment protection (excluding trees and heritage); and
  - energy efficiency projects.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on TAMS' 2008-09 financial report.
- The Audit Office issued a qualified report of factual findings on TAMS' 2008-09 statement of performance because one performance measure was not measured as required by the *Financial Management Act 1996*.
- TAMS' net cost of services (\$398.3 million) was in line with the budgeted cost (\$398.2 million).
- TAMS resolved most previously reported audit findings. However, only limited progress has been made in addressing weaknesses in TAMS' business planning and business continuity arrangements.
- The Audit Office found that TAMS' financial report and statement of performance contained material errors. The financial report and statement of performance were corrected during the audit process.
- The reporting of customer satisfaction in the statement of performance needs to be improved.



## Financial results

**Table 6.60: Key results**

	<b>Actual 2007-08 \$m</b>	<b>Actual 2008-09 \$m</b>	<b>Budget 2008-09 \$m</b>
Expenses	(529.4)	(513.3)	(508.6)
Income	112.0	115.0	110.4
<b>Net cost of services</b>	<b>(417.4)</b>	<b>(398.3)</b>	<b>(398.2)</b>
Government contributions	284.8	301.1	306.3
Net gains from asset transfers and revaluations	85.7	83.3	46.3
Increase in the estimate of the liability for employee benefits due to a change in the estimation methodology	-	(4.2)	-
Additional depreciation expense associated with the correction of a prior period error – Note 1	(28.0)	(31.8)	-
<b>Operating (deficit)</b>	<b>(74.9)</b>	<b>(49.9)</b>	<b>(45.6)</b>
<b>Capital injections</b>	<b>81.3</b>	<b>127.2</b>	<b>172.3</b>

Note 1: The correction of a material prior period error increased the value of infrastructure assets and resulted in increased depreciation expenses for 2007-08 and 2008-09. For the purpose of this analysis, the increase in the depreciation expense due to this error has been excluded from the analysis of the Department's net cost of services.

- 6.282 TAMS' major expenses include supplies and services (mainly repairs and maintenance and operating costs associated with buildings and facilities), depreciation and amortisation, employee costs and grants and purchased services.
- 6.283 TAMS' income is mainly derived from fees charged for its property management and linen services.
- 6.284 Expenses (\$513.3 million) exceeded the budgeted amount (\$508.6 million) by \$4.7 million (0.9 percent). The higher costs relate to the capital works program and the land restoration provisions for Mugga Lane and Belconnen landfill sites, partially offset by lower than expected supplies and services expenses due to the transfer of functions to the Department of Environment, Climate Change, Energy and Water.
- 6.285 Income exceeded the budgeted amount by \$4.6 million (4.2 percent). This was mainly due to a greater than anticipated demand for Capital Linen services and greater than expected Floriade revenue.

- 6.286 TAMS' net cost of services (\$398.3 million) was in line with the budgeted cost (\$398.2 million).
- 6.287 TAMS did not draw down \$45.1 million (26.2 percent) of the funds appropriated for capital works due to delays in infrastructure projects, including several major roads and community facilities.

### Audit findings

**Table 6.61: Status of audit findings (number of findings)**

Previously Reported	Resolved	Not Resolved	New	Balance
11	(7)	4	16	20

- 6.288 TAMS addressed most previously reported audit findings.
- 6.289 In particular, TAMS has:
- improved aspects of its reporting by reporting a result for taxi waiting times in its statement of performance, improving its procedures for recording creditors for capital works projects and recognising fire trails as an asset in its financial report; and
  - reduced the risk of fraud and errors in ACT Government shopfronts by ensuring that reports that provide information on changes to prices for transactions at ACT Government Shopfronts (price override reports) and daily cash reconciliations were reviewed by an independent officer.
- 6.290 However, TAMS has only made limited progress in addressing weaknesses in its business planning and business continuity arrangements. The Audit Office found that:
- business plans were in place for most of TAMS' business units. However, as these plans were often approved late, up to six months after the commencement date of the plan, they may not be effectively monitored and achieved; and
  - business continuity plans have not been finalised for all of TAMS' business units. Finalising these plans would provide additional assurance that critical systems would recover and that operations would resume promptly should a disaster or other adverse event occur.
- 6.291 Most new audit findings relate to TAMS' current financial and performance reporting arrangements.
- 6.292 The Audit Office found that TAMS' financial report contained a number of material errors. For example:
- the value of infrastructure assets, totalling \$7.8 billion at 30 June 2009, was understated by approximately one billion dollars due to a lack of substantive evidence to support some of the key estimates used in the valuation of these assets;

- while TAMS improved the financial report by recognising the value of fire trails, the Audit Office found that the initial recognition of fire trails was incorrectly accounted for as a gain of \$121.9 million instead of being recognised as a prior period error and accounted for through equity; and
- although there was adequate disclosure of most accounting policies in the financial report, a number of material changes in accounting policies had not been disclosed, or were not disclosed to the extent to be useful to readers of the financial report.

6.293 The financial report was corrected during the audit process.

6.294 The Audit Office also found that TAMS' processes for preparing its statement of performance need to be significantly improved. For example:

- a qualified report of factual findings was issued on TAMS' statement of performance because TAMS did not measure the result for one of its performance measures as required by the *Financial Management Act 1996*; and
- interim audit work indicated that the processes used by TAMS to measure the results for its performance measures were often unreliable with results not always agreeing with the related supporting records.

6.295 TAMS uses customer surveys to measure and report, in its statement of performance, the results on overall customer satisfaction. For each performance measure, TAMS disclosed two results, one included neutral customer survey responses (i.e. survey responses with a 'neither satisfied nor dissatisfied' rating) and another which excluded neutral customer survey responses.

6.296 The Audit Office believes TAMS' practice of including neutral responses in the results for these measures results in an overstatement of TAMS' performance because neutral responses do not equate to a 'satisfied' customer response. The Office therefore believes that TAMS should only report results that exclude neutral responses for future reporting purposes.

6.297 The Audit Office also found that:

- there was often no evidence that salary reports were being reviewed to reduce the risk of errors, irregularities and fraud in relation to employee payments;
- the Ministerially determined 'perpetual care trust percentage' used to allocate funds from the Canberra Public Cemeteries Authority to perpetual care trusts to meet the repairs and maintenance needs of cemeteries located in Gungahlin Woden and Hall, has not been reviewed since the Trusts were created in 2002-03. The funding provided to the trusts to meet their repairs and maintenance costs is less likely to be appropriate where this percentage is not reviewed on a sufficiently regular basis; and

- there is no IT strategic plan in operation at TAMS. The finalisation and implementation of an IT strategic plan would provide more assurance that the IT systems and associated infrastructure will meet TAMS' emerging priorities and needs.

## TREASURY

6.298 The Department of Treasury provides whole-of-government financial and economic policy advice and services to the ACT Government. Treasury is also responsible for facilitating the prudent financial and economic management of the Territory and its agencies, collection of taxes and rates and monitoring the performance of government business enterprises.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on Treasury's 2008-09 financial report and an unqualified report of factual findings on the 2008-09 statement of performance.
- Treasury's net cost of services (\$32.0 million) was significantly below the budgeted cost (\$51.7 million) due mainly to lower than anticipated payments to agencies from the Restructure Fund and the Capital Improvement Project Fund.
- Treasury has improved key aspects of its business continuity planning and risk management arrangements.

### Financial results

Table 6.62: Key results

	Actual 2007-08 \$m	Actual 2008-09 \$m	Budget 2008-09 \$m
Expenses	(36.2)	(34.7)	(53.6)
Income	1.3	2.7	1.9
<b>Net cost of services</b>	<b>(34.9)</b>	<b>(32.0)</b>	<b>(51.7)</b>
Government contributions	34.6	32.4	49.6
Increase in the estimate of the liability for employee benefits due to a change in the estimation methodology	-	(0.8)	-
<b>Operating (deficit)</b>	<b>(0.3)</b>	<b>(0.4)</b>	<b>(2.1)</b>

6.299 Treasury's expenses largely consist of employee costs, supplies and services expenditures and payments to agencies from the Restructure Fund and Capital Improvement Project Fund.

- 6.300 Payments are made to agencies from the Restructure Fund to meet costs incurred by agencies in restructuring their operations. This funding is generally provided when the restructuring is expected to produce cost savings. Payments are made from the Capital Improvement Project Fund to assist agencies to meet urgent, unforeseen or other capital works as they arise.
- 6.301 Treasury’s net cost of services was \$19.7 million (38.1 percent) below the budgeted cost due mainly to the lower than expected payments from the Restructure Fund and Capital Improvement Project Fund.
- 6.302 Treasury’s territorial operations consist primarily of taxes, fees and fines and Commonwealth grants. This revenue is discussed in Chapter 5 of this report.

**Audit findings**

**Table 6.63: Status of audit findings (number of findings)**

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

- 6.303 Treasury resolved four of the five previously reported audit findings. In particular:
- Treasury has finalised its business continuity plan. This plan, approved by the Chief Executive, provides Treasury with greater assurance that its operations will resume promptly in the event of a disaster; and
  - Treasury’s risk register and risk treatment plans have been updated. This provides more certainty that the risks facing Treasury are being effectively managed.
- 6.304 The Audit Office also found that revenue reconciliations relating to taxes, fees and fines were being reviewed in a timely manner and evidenced as such.
- 6.305 One previously reported audit finding relating to the management review of salary reports in one particular business unit had not been resolved. Addressing this weakness would provide Treasury with more assurance that any errors, irregularities and fraud in relation to salary payments would be promptly identified.
- 6.306 The Audit Office also found there was scope for further improving the independence of Treasury’s internal audit function.
- 6.307 Treasury has provided the following comments in relation to the above audit findings:

*‘The salary break-up reports are reviewed in a timely manner. A process is being put in place for the reviewed reports to be signed to ensure auditable evidence.*

*Treasury notes the comments by the Auditor-General in relation to the independence of Treasury’s internal audit function.*

*Treasury has recently reviewed the present arrangements and considers that the current structure, through the following measures, provides reasonable assurance on the independence and effectiveness of its internal audit function:*

- *the internal audit work program for the financial year is approved by the Chief Executive;*
- *the position responsible for the internal audit function has no operational access to any of Treasury's financial management or revenue systems;*
- *internal audits are conducted by independent audit firms that report their findings directly to the Internal Audit Committee; and*
- *the Internal Audit Committee has an independent chair person who reports directly to the Chief Executive and also includes two members from another Department.*

*Nonetheless, the Department will introduce appropriate additional controls to further strengthen the existing procedures.'*

## UCU LTD

6.308 UCU Ltd is a wholly-owned subsidiary of the University of Canberra. Its principal activities are the provision of social activities and facilities to the staff and students of the University of Canberra.

### HIGHLIGHTS

- The Audit Office issued an unqualified audit report on UCU Ltd's 2008 financial report.
- UCU Ltd incurred an operating deficit of \$0.3 million in 2008.
- UCU Ltd improved key aspects of its governance arrangements and internal controls by addressing most previously reported audit findings. However, some deficiencies continue to exist in its internal controls and financial reporting arrangements.
- UCU Ltd's processes for the management and disclosure of related party transactions continue to be inadequate.

### Financial results

**Table 6.64: Key results (calendar years)**

	Actual 2007 \$m	Actual 2008 \$m
Income	4.5	5.2
Expenses	4.8	5.5
<b>Operating (deficit)</b>	<b>(0.3)</b>	<b>(0.3)</b>

6.309 UCU Ltd generates income from the sale of food, beverage and general merchandise, hire of sport and recreation facilities, provision of conference and catering services, academic dress hire, subscriptions and staging of events. Most expenditure consists of employee costs and cost of goods sold.

6.310 UCU Ltd incurred an operating deficit of \$0.3 million in 2008. This deficit was consistent with that incurred in 2007 because the increase in revenue from catering services and the sale of food and beverages was offset by a corresponding increase in employee expenses and cost of goods sold.



**Audit findings**

**Table 6.65: Status of audit findings (number of findings)**

Previously Reported	Resolved	Not Resolved	New	Balance
13	(10)	3	7	10

- 6.311 UCU Ltd improved key aspects of its governance arrangements and internal controls by addressing most previously reported audit findings.
- 6.312 In 2008, UCU Ltd implemented approved fraud and risk management plans and an internal audit function. This should provide UCU Ltd with increased assurance that it will effectively address the major risks associated with its operations.
- 6.313 The Audit Office observed that internal controls were strengthened through the timely performance of bank and inventory reconciliations. Controls over inventory and the associated records were improved by the documentation of procedures for inventory stocktakes, independent checking of the accuracy of inventory counts and the implementation of formal delegations for the writing off of inventory.
- 6.314 The Audit Office found that UCU Ltd’s processes for managing and disclosing related party transactions continued to be inadequate. In 2008, UCU Ltd sold a motor vehicle to its former General Manager. This sale was not made on an arm’s length basis as the amount paid for the vehicle (\$11 000) was well below its assessed market value (\$17 000). UCU Ltd was also required to pay approximately \$3 500 in fringe benefits tax as a result of this transaction. Although this transaction was approved by the Board (and evidenced as such), it was not disclosed in the draft financial report submitted for audit as required by the AASB 124: ‘Related Party Disclosures’.
- 6.315 The Audit Office believes the basis for selling an asset for less than its full market value is questionable when the former General Manager has already been remunerated for services rendered. The value of the benefit (gift) is likely to be seen as excessive and inappropriate when UCU Ltd operations have incurred deficits in recent years and its operations are being subsidised by the University.
- 6.316 UCU Ltd has advised that it intends to effectively address this control weakness as follows:
  - ‘The new management and Board of Directors will develop and implement policies and procedures for the disclosure and management of related party transactions.’*

- 6.317 The Audit Office found that some deficiencies continue to exist in UCU Ltd's internal controls and financial reporting arrangements. In particular:
- management financial reports produced from the accounting system do not provide the financial information needed for financial operations of UCU Ltd to be effectively monitored and managed;
  - there was no evidence that variances between stocktake counts and inventory records were being investigated and resolved. These control weaknesses increase the risk that errors, irregularities and fraud will not be detected and addressed in a timely manner; and
  - UCU Ltd's financial report does not provide sufficient information on the extent to which the University of Canberra is supporting UCU Ltd's operations because the arrangements covering the provision of office, other space and other resources provided on a free of charge basis by the University have not been finalised.
- 6.318 The Audit Office received UCU Ltd's signed financial report one day before it was required by the *Corporations Act 2001* to be lodged with the Australian Securities and Investments Commission (ASIC). The late provision of this financial report placed UCU Ltd at risk of not complying with the lodgement requirements of the *Corporations Act 2001*.
- 6.319 UCU Ltd has indicated that it intends to address the audit findings before the completion of the audit of the 2009 financial report.

**UNIVERSITY OF CANBERRA**

6.320 The University of Canberra is governed by the *University of Canberra Act 1989*. The University is an educational institution that provides tertiary and postgraduate courses to domestic and international students.

**HIGHLIGHTS**

- The Audit Office issued an unqualified audit report on the University’s 2008 financial report.
- The University generated an operating surplus of \$0.6 million in 2008. This result represents an improvement on the deficit of \$15.8 million incurred in 2007. The 2007 result, however, included abnormal expenses which were not incurred in 2008.
- The University has made some progress in addressing previously reported weaknesses in its governance arrangements and internal controls. However, the progress continues to be slow, with several weaknesses not being addressed in a timely manner.

**Financial results**

**Table 6.66: Key results (calendar years)**

	<b>Actual 2007 \$m</b>	<b>Actual 2008 \$m</b>
Income	123.1	138.1
Expenses	(138.9)	(137.5)
<b>Operating (deficit) / surplus</b>	<b>(15.8)</b>	<b>0.6</b>

6.321 The University’s income consists mainly of financial assistance provided by the Commonwealth Government and student fees and charges. Its major expenses are employee, contractors and consultants and other administrative costs.

6.322 The University’s income increased by \$15.0 million (12.2 percent) from the prior year’s amount due mainly to higher Commonwealth grants resulting from a growth in student numbers. Total expenses were slightly lower than the prior year’s costs.

6.323 The University generated an operating surplus of \$0.6 million in 2008. Although this result represents an improvement on the 2007 deficit of \$15.8 million, the 2007 result was adversely affected by \$16.1 million in ‘abnormal’ expenses. These ‘abnormal’ expenses included:

- \$4.7 million for voluntary separation packages;
- a \$7.3 million repayment to the Commonwealth Government in respect of overpayments in both 2006 and 2007;
- a \$2.7 million increase in bad and doubtful debts largely from earlier years; and
- a \$1.4 million increase in depreciation largely because of an increase in asset values following the revaluation of assets in 2006.

### Audit findings

**Table 6.67: Status of audit findings (number of findings)**

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
24	(8)	7	9	1	17

6.324 In 2008, the University has improved important aspects of its governance arrangements and internal controls by resolving eight of the 24 previously reported audit findings. In particular:

- controls over cash and assets were improved by the timely preparation and review of bank and asset reconciliations. This provides increased assurance that any errors or irregularities (including fraud) in relation to cash and assets can be detected in a timely manner;
- the monitoring of audit recommendations by the University’s Audit and Risk Management Committee was improved;
- the University implemented an approved policy and guidelines on the receipt of hospitality and hospitality related expenditure; and
- controls over changes to the University’s information and communication technology environment were improved.

6.325 Despite these improvements, the University’s progress in resolving audit findings continues to be slow. A number of weaknesses in the governance arrangements and internal controls have not been fully addressed since first being reported to the University about two years ago. For example:

- key policies covering risk and fraud management and tender and contract management had not been finalised; and
- fortnightly payroll reports are no longer being produced and distributed to faculties and business units. This increases the risk that incorrect, irregular or fraudulent salary payments will not be detected and promptly addressed.

6.326 The Audit Office also found that limited progress was made in addressing control weaknesses identified in the information technology systems. For example:

- important policies and plans relating to computer information systems, including security and network operations policies, have not been completed and approved;
- business continuity arrangements have been finalised but they have not been approved and tested;
- access passwords for key systems and applications are not forced to change on a sufficiently regular basis and network and application security policies had not been approved; and
- audit logs are not being monitored for changes to key systems and applications.

6.327 Addressing these weaknesses will provide the University with greater assurance over the effectiveness of its IT systems, security of IT systems and associated data, continuity of operations in the event of a disaster and reduce the risk of errors, irregularities and fraud.

6.328 The University has advised the Audit Office that it plans to address the outstanding audit findings during 2009.

6.329 The University provided the following comments in relation to the above audit findings:

*‘The University is pleased to advise that since the completion of the 2008 audit, substantial progress has been made in resolving the remaining 17 audit findings.*

*As advised to the Minister for Education, in a letter dated 26 May 2009, as at that date only six of the 17 items remained outstanding. Since that date, an additional four items have been addressed, with two items remaining. These remaining items are being addressed as a priority, with the intention that all items will be resolved before the completion of the 2009 audit.’*

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## **APPENDIX A REPORTING AND AUDITING FRAMEWORK**

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This appendix provides an overview of the main legislative requirements for financial and performance reporting in the Territory's public sector and the auditing requirements under this framework.

### **REPORTING AND AUDITING FRAMEWORK**

The *Financial Management Act 1996*, *Territory-owned Corporations Act 1990*, *Annual Reports (Government Agencies) Act 2004* and *Auditor-General Act 1996* provide most of the legislative framework for financial and performance reporting and audit arrangements for the Territory's public sector. These Acts also include mechanisms for public scrutiny of the financial and operational performance of agencies in the public sector.

These reporting and audit arrangements are intended to facilitate the ACT Government's accountability to the Legislative Assembly, and the public, for its management of public sector resources.

Significant aspects of this legislation are outlined below.

#### **Financial Management Act 1996**

The *Financial Management Act 1996* addresses the financial management and associated accountability requirements of the Territory, its departments and authorities.

Amongst other things, this Act requires the Territory, its departments and authorities to prepare annual financial reports and statements of performance (departments and authorities only) that can be easily compared to budget. These reports and statements are required to be examined by the Audit Office.

This Act requires financial reports to be prepared in accordance with generally accepted accounting practices consisting of Australian Accounting Standards and other mandatory professional reporting requirements.

#### **Territory-owned Corporations Act 1990**

The *Territory-owned Corporations Act 1990* addresses the reporting requirements of Territory-owned corporations. These corporations are required to appoint the Auditor-General as their statutory auditor under the Corporations Act. Consequently, the Audit Office performs the audit of the financial reports of these corporations under the Corporations Act.

The Corporations Act requires financial reports of these corporations to present a true and fair view and to be prepared in accordance with accounting standards and other mandatory professional reporting requirements in Australia.

### **Annual Reports (Government Agencies) Act 2004**

The *Annual Reports (Government Agencies) Act 2004* requires departments, authorities and Territory-owned corporations to prepare annual reports that provide information on their financial and operational performance. This Act also requires these annual reports to be tabled in the Legislative Assembly.

The annual financial reports and statements of performance and the accompanying audit opinions on financial reports and reports of factual findings on statements of performance are published in agencies' annual reports.

### **Auditor-General Act 1996**

The Audit Office operates principally under the *Auditor-General Act 1996*. This Act, amongst other things, provides a legislative mandate for the Auditor-General to conduct financial and performance audits of public sector agencies.

The Act supports the independence of the Audit Office by providing that the Auditor-General (and the Audit Office) is not subject to direction by the Executive or any Minister in the exercise of the Auditor-General's functions. The Auditor-General reports directly to the Legislative Assembly on any matter in the connection with the exercise of these functions.

## **FINANCIAL AUDITING**

### **Purpose of a financial audit**

The Legislative Assembly and the community rely on the Audit Office to provide an impartial opinion on whether financial reports of the Territory and its agencies present a true and fair view of reported performance.

Audits conducted by the Audit Office are required to be performed in accordance with the Australian Auditing Standards.

### **Public reporting**

#### ***Audit reports***

The main visible outcome of the Audit Office's examination of a financial report or statement of performance is an independent written opinion.

The audit report on a financial report includes an opinion on whether the financial report fairly presents the financial results of the reporting agency in accordance with Australian Accounting Standards and other mandatory professional reporting requirements.

A report of factual findings on a statement of performance advises readers whether any matters have come to the attention of the Audit Office that would indicate that the statement of performance does not fairly present the performance reported in the statement.

Audit reports and reports of factual findings are published in agencies' annual reports and accompany the audited financial reports and statements of performance.

### *Other public reporting*

In addition to the provision of audit reports, the Audit Office also publishes a report annually which provides a summary of the overall results of the financial audit program. This report also includes matters of significance identified during the audits that warrant reporting to the Legislative Assembly.

### **Types of opinion**

Under Australian Auditing Standards, audit reports and reports of factual findings may be qualified or unqualified.

### *Unqualified reports*

An unqualified opinion is issued when the Audit Office is satisfied, in all material respects, that the financial report or report of factual findings is in accordance with the relevant reporting requirements and fairly reflects the agency's financial results (financial report) and performance (statement of performance).

An unqualified report may be modified by the inclusion of an 'emphasis of matter' paragraph in the report where the auditor wishes to emphasise matters that are relevant to users of the financial report or statement of performance.

### *Qualified reports*

The types of qualified opinions are briefly explained below.

An 'except for' opinion indicates the financial report or statement of performance is in accordance with the relevant accounting standards and/or other mandatory reporting requirements 'except for' certain matter(s) etc.

An 'adverse' opinion is issued where the effect of a disagreement with management on accounting requirements or errors and deficiencies of data provided are so fundamental or pervasive that the financial report or statement of performance is misleading or of little use.

An 'inability to form an opinion' is issued where the limitation on the scope of the audit is such that an opinion is unable to be formed.

Few opinions are qualified. Before expressing a qualified opinion, the Audit Office is required by the Australian Auditing Standards to take reasonable steps to be in a position to express an unqualified opinion. Potential audit qualifications are usually averted through consultation with the agency. Often agencies amend financial reports and statements of performance through this consultative process before they are published. However, unresolved differences of opinion occasionally arise between an agency and the Audit Office on significant matters resulting in a qualification of the audit opinion.

The most common type of qualified audit opinion issued by the Audit Office has been the 'except for' opinion arising from a disagreement with management. These opinions are not necessarily a reflection on the integrity or quality of an agency's management because Chief Executives are required by the Financial Management Act to form their own views on their financial reports and statements of performance.



### *Other reporting*

The main purpose of an audit of a financial report or review of a statement of performance is to express an independent opinion on the financial report and statement of performance.

Other significant matters, such as control weaknesses or breakdowns, legislative breaches, errors or fraud may be identified during these audits or reviews. The Audit Office is required by the Australian Auditing Standards to report these matters to those responsible for the governance of the agency. Those responsible for governance generally include chief executives, chief executive officers, governing boards and the relevant ministers.

Matters reported in these management reports are not publicly reported to the Legislative Assembly unless the matter is serious (for example, significant legislative breach or fraud) or systemic (for example, major weaknesses in the control) or 'on going' (that is, have been reported for a number of years) that further public reporting is warranted to facilitate an appropriate level of accountability to the Legislative Assembly and the wider community.

## **APPENDIX B SCOPE OF A FINANCIAL AUDIT**

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### **Purpose**

The main purpose of the work performed by the Audit Office is to provide an impartial opinion to the Legislative Assembly on whether financial reports and statements of performance of the Territory and its agencies present a true and fair view of reported performance.

This work is required to be performed in accordance with the Australian Auditing Standards.

Other significant matters such as control weaknesses or breakdowns, legislative breaches, errors or fraud may be identified during an audit. The Audit Office is required by the Australian Auditing Standards to report these matters to an agency's management.

### **The Expectation Gap**

The auditing profession recognises that an expectation gap may exist because users of the financial and performance reports and the accompanying opinion on these reports issued by the Audit Office may tend to believe the auditor's roles and responsibilities are greater than they actually are.

Users of financial reports and statements of performance therefore need to have a clear understanding of the respective responsibilities of management of the reporting entity and the auditor. Key elements of those responsibilities are:

- The reporting entity's management is responsible for maintaining adequate accounting and other records and preparing the financial reports and statements of performance.
- The reporting entity's management is responsible for maintaining a system of internal controls to prevent or detect errors, irregularities and fraud.
- The auditor is required to form an opinion on whether the financial report prepared by management presents a view that is consistent with the auditor's understanding of the reporting entity's financial position, its operations and cash flows in accordance with the Australian Accounting Standards and other mandatory professional reporting requirements. Similarly, the auditor is required to form an opinion on whether the performance measures included in agencies' statement of performance fairly present the reported performance.
- The financial reports and statements of performance for departments and authorities include budget information. In examining these reports, the auditor provides no opinion on the accuracy or appropriateness of budget information or whether an agency could reasonably have been expected to achieve budget. No opinion is provided on the systems or the significant accounting policies and estimates that are used in preparing the budget.

- The Audit Office does not examine every transaction of the reporting entity, as this would be prohibitively expensive and time consuming. The Audit Office performs system checks and examination of a sample of transactions for all items that are considered material and/or high risk in nature. These are items that, if materially misstated as a result of an error or fraud, could adversely affect decisions made by users of financial or performance reports.
- The report provides users of financial reports and statements of performance with reasonable assurance that they are free of material errors. However, the examination cannot provide a guarantee of absolute accuracy of every amount and disclosure made in the financial reports and statement of performance.
- An audit report on the financial report and report of factual findings on a statement of performance do not express a view on the efficiency and effectiveness with which management conducts its affairs, nor do they guarantee an entity's future viability.
- The auditor does not express a view on the prudence of decisions made by a reporting entity's management.
- The auditor does not attest to the information accompanying the financial report or statement of performance provided by management to explain the performance of a reporting entity. The auditor is only required to check the information in any accompanying analysis is not materially inconsistent with the information reported in the reports.
- The Audit Office's responsibility is confined to providing an opinion on a reporting entity's financial report and statement of performance. The auditor's opinion only considers whether the financial report and statement of performance comply with the provisions of the legislation that apply directly to the financial report and statement of performance.



# AUDIT REPORTS

## Reports Published in 2009-10

Report No. 8 / 2009	2008-09 Financial Audits
Report No. 7 / 2009	Annual Report 2008-09
Report No. 6 / 2009	Government Office Accommodation
Report No. 5 / 2009	Administration of employment issues for staff of Members of the ACT Legislative Assembly

## Reports Published in 2008-09

Report No. 4 / 2009	Delivery of Ambulance Services to the ACT Community
Report No. 3 / 2009	Management of Respite Care Services
Report No. 2 / 2009	Follow-up Audit: Implementation of Audit Recommendations on Road Safety
Report No. 1 / 2009	Road Projects: Fairbairn Avenue Upgrade and Horse Park Drive
Report No. 8 / 2008	2007-08 Financial Audits
Report No. 7 / 2008	Proposal for a Gas-Fired Power Station and Data Centre – Site Selection Process
Report No. 6 / 2008	Annual Report 2007-08
Report No. 5 / 2008	Administration of the <i>Freedom of Information Act 1989</i>
Report No. 4 / 2008	Maintenance of Public Housing

## Reports Published in 2007-08

Report No. 3 / 2008	Records Management in ACT Government Agencies
Report No. 2 / 2008	Management of Calvary Hospital Agreements
Report No. 1 / 2008	Chris21 Human Resource Management System: Procurement and Implementation
Report No. 8 / 2007	2006-07 Financial Audits
Report No. 7 / 2007	The Aged Care Assessment Program and the Home and Community Care Program
Report No. 6 / 2007	Annual Report 2006-07
Report No. 5 / 2007	The FireLink Project

## Reports Published in 2006-07

Report No. 4 / 2007	Regulation of ACT Liquor Licences
Report No. 3 / 2007	Collection of Fees and Fines
Report No. 2 / 2007	Agency Implementation of Audit Recommendations
Report No. 1 / 2007	Credit Card Use, Hospitality and Sponsorship
Report No. 9 / 2006	Sale of Block 8, Section 48, Fyshwick
Report No. 8 / 2006	2005-06 Financial Audits
Report No. 7 / 2006	Annual Report 2005-06
Report No. 6 / 2006	Vocational Education and Training
Report No. 5 / 2006	Rhodium Asset Solutions Limited

Details of reports published prior to 2006-07 can be obtained from the ACT Auditor-General's Office or the ACT Auditor-General's homepage: <http://www.audit.act.gov.au>.



## **AVAILABILITY OF REPORTS**

Copies of reports issued by the ACT Auditor-General's Office are available from:

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Canberra City ACT 2601

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