**Auditing For The Australian Capital Territory**

The Auditor-General is head of the Auditor-General's Office. He and his Office act independently of the Government. The Office assists the Auditor-General to carry out his duties, which are set out in the Audit Act 1989, by undertaking audits of management performance and the financial statements of public sector bodies. The aim is to improve public sector management and accountability by firstly, ensuring the Legislative Assembly and the electorate are provided with accurate and useful information about the management of public sector resources and secondly, by providing independent advice and recommendations for improving the management of public resources.

14 December 1995

The Speaker of the Australian Capital Territory
Legislative Assembly
South Building
London Circuit
CANBERRA ACT 2601

Dear Mr Speaker

In accordance with the Authority contained in the *Audit Act 1989*, I transmit to the Legislative Assembly a Report on the ACT Government Service.

Yours sincerely

John A. Parkinson

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## *ANNEXURE*

# CHAPTER 1 INTRODUCTION

## CONTENT OF THIS REPORT

This Report is based mainly on the audits of Agencies' financial statements for years ended between 31 December 1994 and 30 June 1995. The Report is organised into Chapters for Ministerial portfolios as they existed at 30 June 1995 and the results of each audit are reported separately, within those Chapters.

The opportunity has also been taken to advise the current position with matters which were raised in the corresponding report for 1994 on financial statement audits *(Report No. 8 of 1994).*

During the conduct of financial audits, some matters of compliance and efficiency regularly come to notice. Significant matters of this nature are also described in this Report.

In previous Auditor-General's Reports, general comments have been made about financial reporting and accountability in the ACT Public Sector. This topic is also addressed in this Report.

## SIGNIFICANT ISSUES IN THIS REPORT

The most significant issues in this Report are summarised following:

**Financial Reporting And Accountability (*Page 9*)**

- ***In past years, many agencies' financial statements were prepared and published too late after the end of the financial year to be of value. This timeliness problem has now been overcome.***

- ***Important, major financial reforms are being developed in 1995-96 for implementation from 1 July 1996; and***

- ***The Office of Financial Management is preparing a Whole of Government Balance Sheet as at 30 June 1995 for the ACT Public Sector which, when finalised, will provide information on the complete state of the Territory's financial position at 30 June 1995.***

**Budget Reporting And Auditing (*Page 17*)**

- ***The Audit Office attempted to audit the 1994-95 Budget Outcome, however, because of various factors, the audit was not completed; consequently the Audit Office is unable to advise the Legislative Assembly whether the reported deficit is materially correct;***

- ***The Audit Office also attempted to reconcile the movement in the Territory's "net indebtedness" reported in the budget papers to the budget deficit, however this proved to be impractical; and***

- ***The timing and nature of certain large transactions could have had a significant impact on the reported deficit.***

**Aggregate Financial Statement (*Page 25*)**

- ***The Aggregate Financial Statement, which is required by the Audit Act to be prepared, audited, and tabled in the Legislative Assembly now provides little useful assistance for judging whether financial accountabilities have been satisfactorily met.***

**Department of Public Administration (*Page 30*)**

- ***The Department overspent it's budget by $1.0m or 5.1% in 1994-95. This was due to a number of the Department's Sections being omitted from Budget calculations at the commencement of the year.***

**Treasury (*Page 32*)**

- ***The issues which led to audit qualifications in the audit opinion on the 1993-94 Treasury financial statement were corrected in 1994-95 and an unqualified opinion issued; and***

- ***For the first time, Treasury produced its Departmental financial statements using accrual accounting principles in accordance with the relevant Australian Accounting Standard (AAS 29).***

**Act Superannuation Provision Trust Account (*Page 36*)**

- ***The level of unfunded superannuation liabilities as at 30 June 1995 was $384.3m. The level of unfunded superannuation liabilities has increased***

***significantly over the past three years and will continue to increase for the next three years at least.***

**Act Borrowing and Investment Trust Account (*Page 40*)**

- ***An external consultant engaged in 1993-94 to review ACTBIT's structure and operations made important recommendations which are planned to be implemented in 1995-96;***

- ***ACTBIT's average return on investments was 7.35% which was slightly less than the "benchmark" return of 7.89%; and***

- ***The amount of investments managed by ACTBIT significantly declined due to the Territory's 1994-95 deficit being financed from realisation of ACTBIT investments, and to a proportion of the Superannuation Provision Trust Account's funds being invested through external fund managers rather than ACTBIT.***

**Department of Health and Community Care (*Page 43*)**

- ***Operating expenditure increased by $40.6m (13.9%) during 1994-95. Of the increase, approximately $28m was generated by revised responsibilities for meeting costs ($16.6m), an accounting adjustment required due to revision of an applicable accounting standard ($1.9m), and increased depreciation ($9.4m). The "controllable" increase was therefore around $11.0m;***

- ***In 1994-95, expenditure on employee entitlements increased by $12.3m, partly due to a net increase in staff of 230 officers (5.2%). The 230 staff increase was predominantly a direct result of the Administrative Arrangement Order of 14 March 1995. Increases in wages to administration, nursing and trade staff as well as increases in superannuation also contributed to the increase;***

- ***Revenue from patient fees decreased by $1.3m (8.3%) in 1994-95 due to a decrease in private patient admissions;***

- ***Weaknesses were found in internal controls over accounting of trust moneys and equipment in Central Equipment Pool;***

- ***Weaknesses in internal controls over cash collections continued to exist; and***

- ***The method of preparation of internal financial reports as well as the non-existence of benchmarks for the purpose of assessing the results of the accrued based internal financial reports are largely the same as the previous year.***

**Department of Urban Services (*Page 55*)**

- ***Management continued throughout 1994-95 not to have appropriate procedures to ensure that all monies due from a car park leasing contract have been received (this matter was reported in 1993-94), however, subsequent to the matter being raised again in the 1994-95 audit, the procedures have been implemented; and***

- ***The Department has leased a public car park to private business at a rent of $2,000 per month, however no records could be produced to show how the rent was set.***

**The Trustees of the Canberra Public Cemeteries (*Page 60*)**

- ***The Trustees' insurance cover is limited to building contents and motor vehicles. This is because Trust management incorrectly assumed that the Trust was covered by ACT Government insurance for all other risks.***

**Act Internal Omnibus Network (ACTION) (*Page 61*)**

- ***ACTION almost achieved its target savings level of $10m as specified in the 'Three-Year Funding Agreement' commenced in 1992-93. The saving as calculated by the Audit Office was $9.9m;***

- ***Redundancy payments of $5.8m made in 1994-95 will not directly reduce future costs as savings generated by the reduced number of drivers have been almost fully off-set by increases in salary rates to the remaining drivers; and***

- ***After making adjustments necessary for comparability purposes and excluding abnormal items, ACTION's net cost of services fell by $2.4m between 1993-94 and 1994-95. Of this, $0.8m was generated by reductions in costs and $1.6m from increased revenue.***

**ACT Fleet (*Page 68*)**

- ***Vehicle operations continue to produce a large surplus which has funded the vehicle replacement program; and***

- ***Plant and workshop operations continue in deficit, however the deficits are decreasing.***

**Business, Employment and Tourism Bureau (*Page 71*)**

- ***The Bureau made grants of $3.149m from the Treasurer's Advance to ACT Totalisator Administration Board and $300,000 to Exhibition Park In Canberra in late 1994-95 to meet liabilities which these authorities were unable to pay from their own resources.***

**ACT Construction Industry Long Service Leave Board (*Page 74*)**

- ***As at 30 June 1995 the Board still holds funds $18 million in excess of its estimated liabilities for long service leave payments.***

**Agents Board of the ACT (*Page 76*)**

- ***The requirement for banks to transfer to the Board interest earned by agents' trust accounts is not currently included in the Agents Act.***

**National Exhibition Centre Trust (*Page 77*)**

- ***The Trust has experienced significant operating losses over the last four years. Operating losses at 30 June 1995 totalled $1.9m; and***

- ***The Trust's ability to meet its liabilities as they fall due is of concern. The Government has provided a financial guarantee that all liabilities will be met in full. To meet this guarantee the Government made a grant of $300,000 to the Trust in late June 1995 to enable it to meet its current liabilities.***

**Australian Capital Territory Totalisator Administration Board (ACTTAB) (*Page 80*)**

- ***ACTTAB received a grant from the Government of $3.15m in 1994-95 enabling it to discharge its debt of the same amount to the Government; and***

- ***Based on the operating results for the prior two years, ACTTAB will, without the Government providing some relief from the current level of tax and race club distributions, have difficulty in meeting its emerging future financial obligations.***

**Canberra Tourism (*Page 83*)**

- ***The operating results for Canberra Tourism improved from a deficit of $622,000 in 1993-94 to a surplus of $18,000 in 1994-95.***

**Workers' Compensation Supplementation Fund (*Page 85*)**

- ***At 30 June 1995 the Fund held cash and reserves of $6.74m compared with $6.42m at 30 June 1994. The adequacy of these reserves has not been independently assessed.***

**Public Trustee for the ACT (*Page 90*)**

- ***There is a need for the identification of strategies to maintain the future financial viability of the Public Trustee Office.***

**Canberra Theatre Trust (*Page 93*)**

- ***The Canberra Theatre Trust achieved a significant reduction in expenses in 1994-95 when compared to the previous year and converted a large operating deficiency in 1993-94 to a surplus in 1994-95.***

**Floriade (*Page 95*)**

- ***Floriade's operating loss increased in 1994-95 to $155,802 compared to $40,375 in the prior year.***

**ACT Forests (*Page 98*)**

- ***In 1992, the ACT Government approved a long term Business Plan for ACT Forests. The Business Plan indicated that for approximately the past fifteen years ACT Forests had been logging its plantations at a rate in excess of the long term growth rate for the forests. To remedy this situation, ACT Forests is now incurring high plantation establishment, tending and maintenance costs which have reduced the present***

***profitability of its operations;***

- ***The value of the forests has increased by $15.6m (54.0%) from the end of 1990-91 to the end of 1994-95; and***

- ***The management of ACT Forests continue to anticipate a return to sustainable profitable operations in 1996-97.***

**ACT Schools Authority (*Page 103*)**

- ***Operating costs have increased steadily over the past three years, however the increases have been less than increases in CPI over the same period; and***

- ***Expenditure of $9.1m on voluntary separation packages in 1993-94 made a minor contribution to limiting increases in 1994-95 school salary costs, however the contribution would represent only a small recovery of the cost of the packages.***

**Canberra Institute of Technology (*Page 109*)**

- ***The Institute did not meet the requirement to submit accurate, complete and certified financial statements for audit within two months of year end. The Institute was granted a one month extension to 31 March 1995.***

**Act Housing (*Page 113*)**

- ***ACT Housing generated an operating loss of $4.0m in 1994-95 compared to a profit of $4.3m in 1993-94;***

- ***The change in results was mainly due to an increase in depreciation expenditure on rental properties, from $16.9m in 1993-94 to $24.6m in 1994-95. This increase was a result of the 1994-95 depreciation expense having been calculated on the fully revalued amounts for rental properties;***

- ***ACT Housing has entered into two joint venture agreements with the private sector to construct and sell units and townhouses. Financial statements for these joint ventures are audited by the Auditor-General; and***

- ***As a result of the terms of one joint venture agreement, ACT Housing is required to pay some $200,000 above the aggregate market price for 50% (i.e. 10) of the dwellings constructed. This will result in a $100,000 subsidy to the joint venture partner.***

**ACT Office of Rental Bonds (*Page 117*)**

- ***It is still not possible to reconcile the Office's trust ledger to its cash and investments; and***

- ***The absence of this reconciliation means that only limited assurance can be taken that the trust ledger is a complete and correct record of all rental bonds held.***

**Sport and Recreation Programs and Facilities Trust Account (*Page 121*)**

- ***Several instances of fraud by employees were detected by management during the year. These matters have been investigated by the Police and dealt with by management and where appropriate by the courts.***

## ACKNOWLEDGMENTS

I would like to acknowledge the cooperation and assistance provided to my officers by staff of the audited Agencies during the conduct of the financial audits. Staff involved in financial statement preparation in the Agencies must again be specifically acknowledged. Without their continued improvement in knowledge and performance and dedicated efforts it would have been impossible for my staff to have efficiently conducted the audits.

I would also like to acknowledge the excellent performance of Audit Office staff who completed the program of 1994–95 audits earlier than in any previous year. This was achieved even though there were staff departures during the heaviest workload period. This necessitated increases and changes to individual workloads with little notice. All staff responded positively and flexibly, enabling the Office to meet its obligations.

# CHAPTER 2 FINANCIAL REPORTING AND ACCOUNTABILITY

## INTRODUCTION

In various Auditor-General's Reports since 1991, comments have been made on the quality of financial accounting and reporting by ACT Government Agencies. In summary, from a very poor beginning reported in 1991, each successive report has noted that steady improvement had been achieved in comparison with the previous year. In 1994-95, the rate of improvement was at least as great as in the previous years. This opinion is based on the outcomes of 1994-95 financial audits.

A review of the content of this Report discloses that there remains room for further improvement in some agencies, however most agencies are performing at acceptable levels.

The remainder of this Chapter comments on general issues related to financial reporting and accountability.

## SIGNIFICANT FINDINGS

- ***In past years, many agencies' financial statements were prepared and published too late after the end of the financial year to be of value. This timeliness problem has now been overcome.***

- ***Important, major financial reforms are being developed in 1995-96 for implementation from 1 July 1996; and***

- ***The Office of Financial Management is preparing a Whole of Government Balance Sheet as at 30 June 1995 for the ACT Public Sector which, when finalised, will provide information on the complete state of the Territory's financial position at 30 June 1995.***

# FINANCIAL REPORTING

## Matters Raised in Previous Years

### *Timeliness of Financial Reporting*

The lateness of the completion of many agencies' 1989–90 financial statements was a subject for severe criticism by the then Auditor-General. There has been a high degree of progressive improvement since then which is illustrated by the table on the following page which lists the dates on which the audit opinions were provided for agencies' financial statements over the past four years. The timeliness position can now be reported as good for the second year in succession. This issue will therefore not be reported in future years unless a negative trend in timeliness begins to emerge again.

### *Timeliness of Issue of Financial Statement Guidelines*

Agencies' financial statements are required to follow formats specified by the Treasurer. For Departments these are the *Unitary Financial Statement Guidelines for Administrative Heads.* Statutory authorities and special operations of administrative units must follow the *Guidelines for Financial Statements of ACT Entities*. Both sets of guidelines are issued under authority of the Treasurer. Territory owned corporations report under Corporations Law.

The late issuing of Financial Statement Guidelines has been a cause of concern in the past. For 1994-95, however, the guidelines were issued in sufficient time to enable agencies to plan for the preparation of their financial statements.

### *1994–95 Departmental Financial Statement Preparation*

In previous years, comment has been made about the need to improve the quality of financial statement preparation. As for 1993-94, the 1994–95 financial statements prepared by Statutory Authorities and commercial operations of Departments were generally well prepared and timely. Opportunity for improvements, however, continue to be available in the preparation of some Departments' financial statements.

As in past years, for 1994-95, the Treasurer's financial statements guidelines for Departments required that cash financial statements be prepared with reporting of supplementary accrual information also being required. Most Departments are proficient regarding preparation of the cash based financial

statements. For Departmental financial statements the area where the most improvement is

## *INSERT 'Audit Opinion Dates'*

required is in reporting accrual information. Some Departments currently do not have staff with adequate training in accounting to prepare the required accrual information. Errors in accrual information occurred in some Departments through a lack of understanding by Departmental officers of accounting concepts and principles. The Audit Office again spent considerable time in the correction of these types of errors and assisting with actual preparation of some financial statements.

As reported later in this Chapter, Departments are moving to full accrual based financial reporting for 1995-96 and accrual based budgeting from 1996-97. Some Departments may presently not be well placed for this transition mainly due to the already mentioned lack of suitably trained officers involved with accounting related functions. To enable the transition to successfully occur, there appears to be a need for Departments to recruit a limited number of officers with formal accounting qualifications and appropriate accounting experience.

### *Accounting Advice to Agencies*

The relatively low level of accounting experience in Departments and, to a lesser extent, Statutory Authorities requires that the Office of Financial Management (OFM) needs to be able to provide advice which is clear, timely and authoritative. OFM has been responsible for providing guidance and advice through issue of the 'Financial Statement Guidelines' and responding to issues raised by Departments. In previous years, it was reported that the Audit Office had concerns with the ability of the Accounting Policy Section to provide the necessary guidance and advice. In 1994-95, OFM employed an additional three staff in the relevant area and also used the services of a major accounting firm to supplement knowledge and skills available in-house.

The need for sound and timely guidance and advice to Departments has now grown significantly as a result of the Government's current financial management reforms.

## FINANCIAL MANAGEMENT REFORMS

It was reported last year that a project was being undertaken by the then Treasury to design a new financial management framework including reviewing the existing Audit Act 1989 and developing an accrual accounting model for use by Government Departments. The project has now been re-defined. A summary description of the revised reforms, as provided to the Audit Office by

the Office of Financial Management, is set out in the box on the following pages.

## *FINANCIAL MANAGEMENT REFORM*

### *The Approach*

*The Territory is currently undertaking a set of financial management reforms, designed to enhance the transparency in budget decision-making at all levels, including the Assembly, the Executive and the public service. In so doing, these reforms are intended to promote the highest standards of financial accountability to the Assembly and to the community and to reinforce the Assembly's role in the parliamentary budget and financial accountability processes.*

*These reforms will require improved reporting, showing the value of services provided as well as the state of assets and liabilities associated with Government activities. They will also promote improved and better informed decision-making, together with a more rational and professional approach to capital investment and spending decisions, all leading to improvements in public sector management and its accountability.*

*The principal changes proposed are that Departments will be appropriated a cost-based price for the delivery of well-defined outputs which will have been agreed, ex-ante, to contribute towards the outcomes desire by the Government.*

*The project is being managed by the Chief Minister's Department, through a Project Team.*

*Proposed legislation is being drafted in the form of a Financial Management Bill and an Auditor-General Bill.*

### *Basis of Appropriation*

*There are proposed to be three types of Appropriations.*

*One of these will be "for the purpose of outputs", which will define and describe outputs and output classes within that line of appropriation in the budget. The "price" for these outputs will be based on their full costs, on a normal accruals accounting basis.*

*A number of agencies and Departments make payments, on behalf of Government, to third parties. These may be in the form of welfare benefits, grants or they may constitute purchases of services, on Government's behalf. In all cases where a Department makes such payments on Government's behalf, the appropriation for these would be "for incurring expense on behalf of the Territory". Such would constitute the second type of appropriation.*

*To the extent that an agency requires and seeks additional capital, for instance to finance the acquisition of fixed assets, if approved, that would constitute an increase in the Government's investment in that agency. The appropriation which gives effect to that would be in the nature of a "capital injection" and this would be the third type of appropriation.*

***Accounting, Costing and Reporting***

*In order to recognise the "price" of outputs, for appropriation purposes, the cost of each output (class) will need to be estimated in a materially accurate fashion and ex-post reporting, monthly and annually, will need to be based on actual costs. Under a cash accounting system, the costs of services are not recognised, only the associated cash flows. To recognise and measure costs, it is necessary to account on a normal accruals basis. Consequently, an important part of these reforms involves a move to accounting, budgeting, managing and reporting on an accruals basis. Up to now, over the last two years, annual financial statements have been prepared with due regard to accruals principles, but based on cash accounting. These reforms involve the introduction of accrual accounting and the adoption of generally accepted accounting practice.*

*One of the benefits will be that the Budget, periodic reports and financial statements will all be prepared on the same basis, very similar formats and should be much more readily comparable than at present.*

***Implementation***

*A project has been completed to select a new financial management computer system. The Canberra Institute of Technology (CIT) has been the first to implement the new system. Other agencies are now following and all Departments/agencies will need to have live systems by 30 June 1996.*

*In parallel to the introduction of the new accounting system, agencies are developing their output descriptions and estimated costs for 1996-97 budget purposes. They are also undertaking the necessary steps to manage the delivery of the outputs; to forecast cash flows and effectively operate bank accounts; and to achieve the financial plans which will be in the 1996-97 budget.*

*The reforms should also deliver a culture change which focuses management more on service delivery, the clients, customers and communities they serve; and on doing so in an efficient and financially responsible manner which gives real value for money.*

* * * * *

For the initial development and implementation of the reforms, experienced consultants are being used to provide the necessary expertise in the reform process. It is agreed this is the only practical approach as, other than for isolated individuals, the ACT Public Sector does not possess financial staff with the knowledge, experience and capacity to guide the extensive reform process.

As stated, the use of consultants for the initial development and implementation is appropriate, however adequate steps must be taken during this process to ensure that a high level of knowledge remains with permanent public sector staff when the consultants have completed their assignments, which is understood to be in July 1996.

In Auditor-General's Report No. 5 of 1992, comments were provided on the benefits of accrual accounting and a recommendation was made that consideration be given to moving towards this form of accounting and reporting for all ACT agencies. It is pleasing to see the rapid progress that is now being made, with the ACT Public Sector going significantly further than the recommendations by implementing accrual budgeting on an output basis as well as accrual reporting.

The Audit Office continues to strongly support the principles of the financial reform agenda. Care, however, needs to be taken that the requirements by central agencies for regular reports of detailed results for monitoring purposes does not deflect attention from the main purposes of the reforms which are better information for management decisions by agency executives and

Ministers, and better information to the Legislative Assembly and the community for accountability purposes.

The current implementation agenda provides for detailed monthly reporting by agencies to the Office of Financial Management. As the reporting process will be costly and time-consuming, it is recommended that the requirement for the frequency and detail of reporting should be thoroughly analysed in terms of what the monitoring will "value add" and whether the same or similar value can be achieved through less frequent and/or less detailed reporting.

## WHOLE OF GOVERNMENT FINANCIAL REPORTING

For 1994-95, Departments produced audited financial reports on a cash basis, identifying the main elements of revenue and expenditure. As well, they prepared supplementary statements of assets and liabilities on a modified accrual basis. Statutory authorities, in accordance with long-standing procedures, reported on an accrual basis.

The Office of Financial Management has been consolidating the supplementary statements of Departments with those of statutory authorities and Territory Owned Corporations to compile a Whole of Government Balance Sheet for the ACT Public Sector as at 30 June 1995.

It had been intended to publish the Whole of Government Balance Sheet in this Report, however at the time of finalising this Report, work on the Balance Sheet was not complete.

Nevertheless, preparation of the Whole of Government Balance Sheet has proven to be a valuable exercise for identifying the difficulties and inconsistencies which will need to be overcome for future years as whole of government financial reporting is an integral part of the Government's financial management reforms.

The Office of Financial Management is to be commended for undertaking this task and should take it to its completion. Consideration should be given to publishing the Whole of Government Balance Sheet in order to provide information to the Legislative Assembly and the community on the complete state of the Territory's financial position at 30 June 1995.

# CHAPTER 3 BUDGET REPORTING AND AUDITING

## INTRODUCTION

The budget presentation for 1995-96 was the first complete presentation using the Australian Bureau of Statistics (ABS) Government Finance Statistics (GFS) format. Prior to this, GFS information on budgets, including budget outcomes, has been provided in the budget papers at a whole of government level since 1990-1991, however the Consolidated Fund Budget has been the prime basis for planning and assessing Government performance. 1995-96 is the first year that GFS budgets have been prepared for individual government programs and sub-programs.

A comprehensive description of the GFS presentation is included in Budget Paper No. 3 (Budget Overview). The use of the GFS format, which was agreed at the 1991 Premiers' Conference, has the principal objective of improving disclosure of public sector finances and ensuring a measure of the public sector deficit (or surplus) not influenced or determined by the particular administrative arrangements or accounting structures adopted in each jurisdiction.

In general, the GFS format is seen by the ACT Government as having three key advantages in that it provides:

- *more complete disclosure of the scope of public finances than traditional presentations.* Outlays must be disclosed whether they are funded from the Consolidated Fund, the Trust Fund or from bank accounts established outside the Public Account;

- *more consistent measures of the underlying public sector deficit or surplus; and*

- *a clear distinction between receipts which are independent of particular expenditure (for example, taxes) and receipts which relate to specific services provided such as user charges.*

On *page xviii* of the preface to Budget Paper No. 3, some limitations of the GFS presentation were listed. There are also well known limitations which stem

from GFS being a cash based approach. For example, it does not recognise accrued expenses such as employee benefits payable in the future.

## SIGNIFICANT FINDINGS

- ***The Audit Office attempted to audit the 1994-95 budget outcome, however, because of various factors, the audit was not completed; consequently the Audit Office is unable to advise the Legislative Assembly whether the reported deficit is materially correct;***

- ***The Audit Office also attempted to reconcile the movement in the Territory's "net indebtedness" reported in the budget papers to the budget deficit, however this proved to be impractical; and***

- ***The timing and nature of certain large transactions could have had a significant impact on the reported deficit.***

## AUDITING THE BUDGET OUTCOME AND NET INDEBTEDNESS

### Background

Within the public sector, the budget and the achievement of the budget are regarded as indicators of the "performance" of the Government. The Legislative Assembly, as the provider of funds to Government, has a major interest in knowing that the moneys provided have had the outcome intended.

Important financial information such as budget outcome reports and summaries of net indebtedness tabled in the Legislative Assembly needs to have absolute credibility if the information is to be relied upon to form judgements on a Government's discharge of its financial accountabilities. This credibility should be added to the information through an independent auditing process. At present, however, there is no legislative requirement for the GFS format budget outcome to be independently audited.

Although there was no legislative requirement, as 1994-95 was the first budget outcome presented in GFS format, the Audit Office attempted to conduct an audit of the outcome figures. This proved to be extremely complex and given the time-frame available and the resources which would have been required, the audit was not completed. Consequently, the Audit Office is unable to advise the Legislative Assembly whether the reported deficit for 1994-95 is materially correct. It should be added that the work which was performed by the Audit Office did not produce any specific concerns about the budget outcome or process.

It is understood that the principles followed by OFM to prepare the GFS statements have been thoroughly reviewed by the ABS which is satisfied that the principles followed are consistent with ABS requirements. The audit "uncertainty" therefore relates to figures presented rather than whether correct GFS principles have been applied.

The reasons for the complexities are outlined following.

**Audit of 1994-95 Budget Outcome**

The 1995-96 budget speech and Budget Paper 3 *(page 45)* disclosed the budget outcome for 1994-95 as a deficit of $32m.

In preparing the budget outcome for 1994-95 (and the budget estimates for 1995-96 onwards), the Office of Financial Management re-classified Departmental financial ledger items to the GFS basis. The data was also amended extensively to reflect the full year effect of organisational re-arrangements through the year and the devolution of functions between existing Departments and agencies. This procedure (known as "backcasting") was carried out so that 1994-95 actuals were consistent with the 1995-96 budget presentation and forward year details.

The previous paragraph briefly summarises only part of the large task which OFM was required to perform in the relatively short time-frame between the close of the financial year and tabling of the budget papers in the Legislative Assembly. Many aspects of the task were being undertaken for the first time.

The process followed by OFM included many revisions to its computer data base as it stood when the 1994-95 outcome was calculated. Amongst other reasons, revisions were necessary for the reclassifications and backcasting referred to earlier. The revised data base was the source for the 1995-96 budget papers.

As stated, although there were no legislative requirements, the Audit Office attempted to audit the budget outcome. This, however, was impractical as the Office of Financial Management (OFM) did not maintain an "audit trail" which could be used to validate the effects of the revisions to the data base. It was therefore not possible without the commitment of a great deal of OFM and Audit Office time to, in effect, reverse OFM's data base revisions in order to verify the reported 1994-95 budget outcome in GFS terms.

The Audit Office is of the opinion that the omission to maintain the "audit trail" was due to the attention required to be given to OFM's prime task at the time, which was to prepare the 1995-96 budget papers rather than any negligent or deliberate action.

## Net Indebtedness at 30 June 1995

There is an inconsistency between the movement in "net indebtedness" of the General Government Sector reported at *page 67* of Budget Paper No. 3 and the budget outcome reported at *page 45*. The movement in indebtedness is reported as $49m while the deficit is reported as $32m, a difference of $17m. It would be expected that these two figures should be reconcilable. Net indebtedness is the difference between the aggregate of assets such as cash and investments, and the aggregate of liabilities such as borrowings, etc. It follows then that if the budget outcome is the difference between all revenue and expenditure transactions, a budget surplus would reduce net indebtedness by the amount of the surplus and conversely a deficit would increase net indebtedness by the amount of the deficit.

Factors which could have contributed to the difference between the budget outcome and the movements in net indebtedness, and which could be accounted for in a "reconciliation", include the effects of revaluations of financial assets and liabilities not reflected in budget outcome calculations, and debt transfers.

A reconciliation between the budget outcome and the movement in net indebtedness was not performed by OFM and an attempted reconciliation by the Audit Office proved impractical due to time constraints, etc.

OFM have advised that for the year ended 30 June 1996, a reconciliation will be undertaken between the budget outcome and the movement in net indebtedness. It is recommended this reconciliation be included in a prominent position in any budget outcome reports provided to the Legislative Assembly.

This Report elsewhere refers to the proposed implementation of accrual budgeting and accounting methodology by the ACT Government. Whenever this methodology is used, an automatic relationship between operating results and movements in assets and liabilities exists. The eventual introduction by the Government of the accrual method will eliminate a need for the reconciliation which OFM have undertaken to carry out for 1995-96.

### General Recommendation

It is recommended that for future years, the main budget paper information anticipated to be used for "accountability" purposes should be independently audited. This should be a legislative requirement. The knowledge that an audit of this information is required by legislation should ensure that preparers of the information maintain adequate documentation of the method of creating the information and the sources of the information.

## INCONSISTENCIES BETWEEN BUDGET RESULTS AND FINANCIAL REPORTING

### Background

It is important that audited financial reports be presented on a similar basis as the budget since the statements are a major indicator of whether the Government and its agencies have effectively discharged their accountabilities to the Legislative Assembly for achievement of the budget objectives. This apparently will not happen for 1995-96. As the audited financial reports will not be prepared on the same basis, or at least consistently with the budget, it may be difficult and costly for an independent audit to be performed which will give the Legislative Assembly independent assurance that the intended budget results have been achieved.

The reasons why the audited financial reports apparently will not be presented on a similar basis as the budget are set out in the following paragraphs.

### Anticipated Difficulties

For the financial year 1995-96, the Government has announced that Departments will prepare financial statements on the basis of Australian Accounting Standard (AAS) 29. This Standard provides for accrual based financial statements for government departments which are consistent with accrual reporting requirements for statutory authorities. The use of this uniform basis of financial reporting across the ACT public sector will assist the preparation of a Whole of Government Operating Statement and Balance Sheet.

The 1995-96 budget outcome must necessarily be presented following GFS principles as this was how the budget was prepared. The AAS 29 basis of Departmental reporting, however, is not consistent with the GFS format. For example, Departmental operating statements will present transactions on an

accrual basis rather than the cash basis used for GFS. The GFS presentation, for example, will not include accrued expenses such as depreciation, employee entitlements and superannuation while Departmental AAS 29 statements will.

Departments will be required to prepare financial reports for auditing and publication in their annual reports using the AAS 29 accrual method. They will also apparently be required to prepare cash-based statements in GFS format for inclusion in budget outcome reports so that 1995-96 outcomes can be compared with the original budget which was prepared in that format. As it stands at present, the GFS statements will not be audited.

As outlined, there is some confusion as to the scope and content of financial reports which agencies will be required to prepare for 1995-96. It is recommended that the requirements be clarified as soon as possible.

In order to provide independent assurance to the Legislative Assembly that the Government's reported 1995-96 outcome has actually been achieved, the Audit Office intends to audit the GFS budget result and the Territory's net indebtedness. This will require co-operative planning in advance with OFM to ensure suitable "audit trails" and other documentation are maintained. There will probably be a need for the audited Departmental financial statements to be reconciled to the budget outcome information.

## REPORTING LARGE AND/OR UNPLANNED TRANSACTIONS WHICH AFFECT THE BUDGET RESULT

The reported budget result for 1994-95 for the General Government Sector, was a deficit of $32m. Details of the outcome are presented below:

| | **1994/95 Outcome $m** |
|---|---|
| Current Outlays | 1,080 |
| Capital Outlays | 148 |
| **Total Outlays** | **1,228** |
| Total Revenue | 1,196 |
| **Deficit/(Surplus)** | **32** |

In performing the audit of Departmental and statutory authority financial statements, a matter which had a significant impact on the reported amount for

outlays, and hence the Deficit, came to attention. The matter had the effect of inflating the deficit by $10m.

During discussions on this issue, two other matters were brought to attention by OFM which had the opposite effect, i.e. the unanticipated occurrence of one transaction and the deferral of another to 1995-96 reduced the 1994-95 deficit. These two occurrences totalled $9.8m and consisted of an over-payment of $3.2m received from the Commonwealth through the Australian National Training Authority (ANTA), which is being repaid in 1995-96; and deferral of payment of Comcare premiums totalling $6.6m.

There is currently no provision or requirement in the GFS format for the existence and effect of these types of transactions to be disclosed separately. As can be readily appreciated, transactions of this size could potentially impact the budget outcome to the extent that an inappropriate representation of the Government's management of its operations is produced.

The proposed introduction of accrual budgeting and accounting referred to earlier in this Report will remove the potential for reported budget outcomes to be "distorted" through the timing of cash transactions. Accounting standards relevant to the accrual accounting presentation method also provide for extraordinary and abnormal transactions to be separately disclosed, ensuring that the effects of large unexpected or unusual transactions can be readily identified.

In the intervening periods to the introduction of the accrual method of budgeting and accounting (i.e. while the GFS presentation continues as the prime method for preparing and reporting budgets and outcomes), it is recommended that reports to the Assembly on budget outcomes should include in a prominent position a table disclosing all significant transactions of sufficient size and nature that they could distort the outcome so that it becomes materially different to that which would have been generated from normal and planned operations. This includes transactions which have been deferred to a later year as well as transactions which occurred during the year.

The matter identified by the Audit Office is described following.

## Finance Leases

Included in the amount shown for Capital Outlays ($148m) is an amount of $12.3m for financing leases. These leases were mainly taken out to finance the acquisition of garbage and recycling trucks and bins ($10m) by the Department of Urban Services. The remaining amounts relate to the acquisition of information technology equipment in various Departments.

The decision by the Department of Urban Services to finance lease the trucks and bins was taken on commercial grounds as it represented a lower overall cost option for providing the garbage services than the initially planned method. It was originally planned that the garbage service would be awarded to a contractor who would supply all equipment, management and employees. The more economical method proved to be for the Government to acquire the equipment through finance leases and the contractor to manage and staff the service using the Government's equipment. Budgeting for 1994-95 was on the basis that the full service would be contracted and no capital outlay would be incurred.

Under the leases, the ACT makes a stream of payments on the equipment over the period of the lease (i.e. seven years). The payments have an interest component and a capital component. At the end of the lease, there is an option to purchase the equipment outright.

Under GFS principles, the complete value of the leased equipment has to be brought to account in the year of acquisition. In the case of the DUS equipment, this treatment resulted in an amount of $10m being included in Capital Outlays.

The effect of the GFS treatment is that the capital component of the future lease payments are brought to account as current year outlays even though the cash has not been expended in the current year. As explained, these payments were not "budgeted" as a different form of service delivery was envisaged when the budget was being formulated. The result is that the deficit was increased by $10m as a direct result of a "good" management decision.

# CHAPTER 4 AGGREGATE FINANCIAL STATEMENT

## INTRODUCTION

The Audit Act 1989 ("the Act") requires that the Treasurer prepare a financial statement providing particulars of the total receipts and expenditures during the financial year of the Consolidated Fund and the Trust Funds as well as other information required by the financial statements guidelines. This statement is known as the Aggregate Financial Statement (AFS). The Act also requires that as soon as practicable after the preparation of the statement, the Chief Minister shall submit the statement to the Auditor-General. The Auditor-General's Report on the statement is subsequently to be forwarded to the Legislative Assembly together with a signed copy of the statement.

## SIGNIFICANT FINDING

- ***The Aggregate Financial Statement, which is required by the Audit Act to be prepared, audited, and tabled in the Legislative Assembly now provides little useful assistance for judging whether financial accountabilities have been satisfactorily met.***

## AUDIT OF THE 1994-95 AGGREGATE FINANCIAL STATEMENT

### Unqualified Opinion

An ***unqualified*** audit opinion on the Aggregate Financial Statement for 1994-95 was provided to the Chief Minister and Treasurer on 16 October 1995. A copy of the Aggregate Financial Statement and the audit opinion is included at Appendix 1 of this Report.

### Observations Made in the Unqualified Audit Opinion

The audit opinion noted that the Aggregate Financial Statement included an extraordinary item consisting of an accounting adjustment made to bring to account an unexplained surplus of funds held. This surplus was determined by the Office of Financial Management after extensive and detailed reconciliations of the ledger with bank balances and investments held. Overall, the aggregate of bank balances and investments held were greater than the ledger balances.

The amount of the adjustment was approximately $1.6m. The majority of the surplus arose through omitted, inaccurate or incomplete recording of transactions in the early periods of self-government. Auditor-General's Report No. 8 of 1994 (*page 20*) included a recommendation that the adjustment should be made.

### Timing of the Aggregate Financial Statement

Although the audit opinion was not qualified, concern was expressed by letter to the Chief Minister about the delay in providing the Aggregate Financial Statement to the Auditor-General.

The Aggregate Financial Statement was signed by the Chief Minister on 6 October 1995 and provided to the Audit Office on 10 October 1995. This delay prevented the statement from being tabled in the Legislative Assembly with other audited financial statements for consideration by the Estimates Committee. As a result, the Statement lost some of its relevance as a means of informing the Estimates Committee about the overall transactions and balances of the Consolidated Fund, the Trust Fund and the Territory Public Account, however, as described later, the Statement has only limited information use.

### Compliance with Conventions or Standards

Report No. 5 of 1992 commented that although there is a requirement in the Audit Act that the statement be prepared in accordance with guidelines, no guidelines have been prepared. There is also no requirement for the statement to conform with Australian Accounting Standards. Report No. 5 of 1992 recommended that guidelines should be prepared setting standards for the preparation and content of the Aggregate Financial Statement. Report No. 11 of 1993 commented that this issue had not been addressed during 1993-94. The issue was also not addressed in 1994-95.

## LIMITED USE OF THE AGGREGATE FINANCIAL STATEMENT

It is considered that the Aggregate Financial Statement now provides little useful assistance to judge whether financial accountabilities have been satisfactorily met. The Aggregate Financial Statement provides limited information to the Assembly or to the community on how well the Government and the ACT Public Sector have managed the community's resources. It does not show useful comparative information of performance against previous year actuals or against the current year's budget. From 1995-96, comparison against

the budget cannot be done as the Aggregate Financial Statement is prepared on a Consolidated Fund and Trust Fund basis, while the budget has been prepared on a Government Finance Statistics (GFS) basis. As well, there is no overall summary of the assets and liabilities of the Territory in the Aggregate Financial Statement.

It should be noted that the Aggregate Financial Statement is currently the only whole of government statement of financial performance, which is required by legislation to be independently audited.

As stated, the Aggregate Financial Statement contains information on the transactions and balances of the Consolidated and Trust Funds and of the Public Account. This information is of some interest, however it is also provided in the detailed financial statements of the Chief Minister's Department.

It is understood that the Financial Management Reforms now being developed will incorporate comprehensive whole of government financial reporting. To ensure the credibility and reliability of these whole of government statements for accountability and planning purposes, it is clearly essential they be independently audited and this should be part of the legislation prepared to support financial reforms. The reforms should make it unnecessary for the Aggregate Financial Statement in its current form to be prepared and audited.

The OFM has advised that it intends to prepare accrual-based, whole of government statements for 1995-96 and, as indicated earlier, is preparing a whole of government balance sheet as at 30 June 1995.

# CHAPTER 5 CHIEF MINISTER TREASURER HEALTH AND COMMUNITY CARE

## CHIEF MINISTER'S DEPARTMENT

### INTRODUCTION

In 1994-95, the Chief Minister's Department administered the Government and Co-ordination Program and Economic Development Program. The objectives of the Government and Co-Ordination Program were: to provide strategic direction for the conduct of government business and the development and implementation of government policies, provide advice and support to the Chief Minister and Cabinet, and promote the social and economic development of the region. Through the Economic Development Program, the Department was responsible for the co-ordination of economic development policies, the promotion of industrial and commercial development, industry and occupational regulation, and for encouraging the development of the tourism industry in the ACT.

As a result of an Administrative Arrangements Order of 14 March 1995, responsibility for the Economic Development Program was transferred to the Business, Employment and Tourism Bureau. As well, responsibility for the following functions was also devolved to other departments:

- ACT Government Library
- Labour Relations Office
- ACT Workcover
- ACT Electoral Commission
- Youth Affairs Unit
- Disability Function
- Aging
- Women's Information Referral Centre

### AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Chief Minister on 14 September 1995.

## OTHER MATTERS

A number of issues were noted during the audit concerning the operation of internal controls and accounting procedures. These were raised with Departmental management and included:

- up to date delegations of authority did not exist during 1994-95. While draft delegations had been prepared, at year end they had still to be approved; and

- some deficiencies in asset recording existed, including no documented reconciliation between the assets register and asset purchases as per the general ledger.

Audit recommendations to rectify these issues have been accepted by management.

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# DEPARTMENT OF PUBLIC ADMINISTRATION

## INTRODUCTION

The Department of Public Administration was responsible for management improvement across the Service, employment policy and legislation, public sector industrial relations and occupational health and safety, the Senior Executive Service, Government structures and programs, and for a range of services in the human resource, administrative support and information technology areas.

Following changes in administrative arrangements the responsibilities of the Department have been transferred to the Office of Public Administration and Management with the Chief Minister's Department.

## SIGNIFICANT FINDING

- ***The Department overspent it's budget by $1.0m or 5.1% in 1994-95. This was due to a number of the Department's Sections being omitted from Budget estimations at the commencement of the year.***

## AUDIT OF 1994-95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Chief Minister on 8 September 1995.

## BUDGET OVERRUN

The Department's budget overrun of $1.0m was due to the following Sections' expenditure not being included in the Department's budget when it was formulated:

- Austouch - expenditure in 1994-95 of approximately $436,000;
- Standards Development - expenditure in 1994-95 of approximately $340,000; and
- Employment Reform - expenditure in 1994-95 of approximately $77,000.

The Department advised:

> *"The new Department was formed in April 1994 after the 1994-95 budget had been finalised. It was recognised at the time that any requirements for additional funding would be addressed in the mid-year review and funded from the Treasurer's advance. In the event, an additional provision of about $1m was required as you have outlined."*

## OTHER MATTERS

A number of issues were noted during the audit concerning the operation of internal controls and accounting procedures. These have been raised with departmental management. Audit recommendations were made in relation to these matters and were accepted by management.

# CASINO SURVEILLANCE AUTHORITY

## INTRODUCTION

The Casino Surveillance Authority was established by Section 22 of the Casino Control Act 1988. The Act provides for the establishment and control of a casino in the Australian Capital Territory. The Casino Surveillance Authority supervises the operation of the casino in Canberra and provides policy advice to the Government on related matters. The casino licence for the permanent casino was issued on 28 July 1994.

The Casino Control Act 1988 requires that the casino licensee remit an annual licence fee, together with monthly taxation payments. The taxation payments are paid into the Consolidated Fund, while the licence fee is paid to the Authority. Casino taxation payable is calculated as 20% of the gross profit derived by the Casino licensee from the gaming operations of the Casino. In accordance with the licence agreement, an additional tax of 7.5% applies until 31 December 1995.

## AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion was provided to the Chief Minister on 21 August 1995.

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# TREASURY

## INTRODUCTION

The Treasury was responsible for the development, co-ordination and implementation of ACT Public Sector financial and budget strategies, inter-governmental financial arrangements, administration of the capital works program and collection of taxes and municipal rates.

Following changes in administrative arrangements, the responsibilities of Treasury have been transferred to the Office of Financial Management within the Chief Minister's Department.

## SIGNIFICANT FINDINGS

- ***The issues which led to audit qualifications in the audit opinion on the 1993-94 Treasury financial statement were corrected in 1994-95 and an unqualified opinion issued; and***

- ***For the first time, Treasury produced its Departmental financial statements using accrual accounting principles in accordance with the relevant Australian Accounting Standard (AAS 29).***

## AUDIT OF THE 1994-95 FINANCIAL STATEMENTS

Treasury undertook and successfully piloted the implementation of AAS 29 financial statements for 30 June 1995. An ***unqualified*** audit opinion was provided to the Treasurer on 15 September 1995.

## MATTERS RAISED IN PREVIOUS REPORTS

### Qualification of the 1993-94 Financial Statements

The audit opinion on the 1993-94 financial statements was qualified in two respects.

The first qualification related to full bank reconciliations not being performed during 1993-94 for the Territory Public Account (TPA) and Drawing Account No. 1. For 1994-95, Treasury had implemented procedures and adequately completed bank reconciliations for both accounts.

The second qualification related to bank reconciliations not being performed during 1993-94 for the 'Credit Card Settlement Account', which is used for the recovery of funds due from Departments which have acquired services, etc, through the use of credit cards. For 1994-95, the Credit Card Settlement account had been adequately maintained and bank reconciliations adequately performed.

The issues regarding the lack of reconciliations and non-compliance with Finance Regulations and Treasury Directions have been addressed by Treasury with daily reconciliations now being performed for the TPA and Drawing

Accounts, while the Credit Card Settlement Account is reconciled on a monthly basis.

**Agency Service Item (ASI)**

Auditor General's Report No. 8 1994 (*page 38*) noted that the Treasury training ASI account was being incorrectly used with not all training costs being recorded.

The incorrect use of ASIs by Treasury has continued in 1994-95. As at 30 June 1994 Treasury operated one ASI with only one identified purpose in recording transactions relating to the provision of external training by Treasury to other agencies. As at 30 June 1995 Treasury expanded the use of the ASI to include the recording of specific transactions relating to the implementation of the new financial reporting and management system by Treasury to other Agencies. A trust account was also utilised to record similar transactions for agencies classified as external to the ACT Government.

The 1994-95 audit determined that the basis for charging costs to these accounts did not reflect true costs, and were derived in order to produce a break-even result. Unless all true costs are recorded and fees charged reflect the recovery of these costs, then the use of the ASI and trust account as a financial management tool is very limited.

**Qualifications of Accounting Staff**

Treasury are responsible for preparation of financial statements for:

- Treasury;
- ACT Superannuation Provision Trust Account;
- ACT Borrowing and Investment Trust Account (ACTBIT); and
- ACT Registrar of Financial Institutions.

In 1993-94 a limited number of trained and qualified accounting staff within Treasury were involved with the preparation of financial statements. Apart from the Registrar of Financial Institutions statements, none of the officers involved with the preparation of the 1993-94 financial statements had accounting qualifications and assistance was necessary from a firm of private accountants to prepare the Treasury financial statements.

For 1994-95 it was noted that trained and qualified officers were utilised with some assistance from private accountants to prepare the 1994-95 financial

statements, which resulted in substantial improvements in the quality and timeliness of statements provided for audit. Private accountants were not needed for the preparation of the Registrar of Financial Institutions' statements.

## OTHER MATTERS

### 1994-95 Financial Statements

Treasury undertook and was successful in producing, with the assistance of consultants, timely 1994-95 financial statements in accordance with the requirements of AAS 29 (Financial Reporting by Government Departments). Apart from the Department of Health and Community Care, they were the only ACT Government Department to produce statements in this format.

### Asset Management

Issues regarding assets management within Treasury have continually been reported with little subsequent action being forthcoming despite repeated assurances from management that issues would be addressed. The control environment regarding in particular the recording of asset acquisitions and disposals is unsatisfactory, with procedures needed to be implemented to ensure the safeguarding of assets and the prevention of fraudulent activity.

## OTHER MATTERS

Other matters of a procedural and control nature have also been raised with management and recommendations made. Intended remedial action has been advised.

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# ACT REGISTRAR OF FINANCIAL INSTITUTIONS

## INTRODUCTION

The ACT Registrar of Financial Institutions is a corporation sole established by the Financial Institutions (Supervisory Authority) Act 1992 to supervise non-bank financial institutions in the ACT as part of a uniform national scheme.

## AUDIT OF THE 1994-95 FINANCIAL STATEMENTS

The ACT Registrar of Financial Institutions prepares two sets of financial statements. Firstly, statements are prepared for the ACT Credit Unions Contingency Fund, which records the accumulation of funds to indemnify for losses of credit unions, and the Supervision Fund, which record expenses of the Supervisory Authority.

***Unqualified*** audit opinions were issued and provided to the Treasurer on 1 August 1995 for both sets of financial statements.

## OTHER MATTERS

An actuarial assessment of the contingency fund was commissioned in May 1995 and received in July 1995. The report is still under consideration by the Registrar of Financial Institutions.

The industry is currently assessing the need for contingency funds across Australia given the very low levels of claims in relation to losses by credit unions.

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# ACT SUPERANNUATION PROVISION TRUST ACCOUNT

## INTRODUCTION

The ACT Superannuation Provision Trust Account was established to receive funds and make payments in connection with the management of the superannuation liabilities of the Territory, Territory Authorities and Territory Owned Corporations.

## SIGNIFICANT FINDING

- ***The level of unfunded superannuation liabilities as at 30 June 1995 was $384.3m. The level of unfunded superannuation liabilities has increased significantly over the past three years and will continue to increase for the next three years at least.***

## AUDIT OF THE 1994-95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion was provided to the Treasurer on 15 September 1995.

## OTHER MATTERS

### Preparation of Financial Statements

Auditor General's Report No. 8 1994 (*page 41*) noted that the Trust had no formal accounting system from which accrual financial statements could be prepared. During 1994-95 the Trust introduced for the first time a general ledger accounting package to record its transactions. This system was used to prepare the 1994-95 financial statements.

While acknowledging this considerable improvement, some errors were still found in the financial statements presented for audit. The main causes for these errors were:

- a lack of experience by accounting staff in recording external funds managers' transactions and in the use of the new system;
- a lack of appropriate information formatting by external funds managers; and
- a lack of quality control procedures.

### Review of Agency Employer Contributions

Comment was made in the 1994 Report regarding the lack of checking processes to ensure that contributions paid by Agencies are correct and are paid on a timely basis. It has been advised that procedures have been developed and

documented to address this issue but were not implemented during 1994-95. Trust officials have advised the procedures will be implemented in 1995-96.

### Other

Other matters of a procedural and control nature were raised with management and intended remedial action has been advised.

## UNFUNDED SUPERANNUATION LIABILITIES

The level of *unfunded liabilities* for superannuation over the past three years has been as follows:

| | **1992-93 $'000** | **1993-94 $'000** | **1994-95 $'000** |
|---|---|---|---|
| Total Superannuation Liabs. | 357,605 | 464,463 | 577,456 |
| Less Investments Held | 118,794 | 148,721 | 193,165 |
| Unfunded Liabilities | 238,811 | 315,742 | 384,291 |
| Unfunded Liabs. as a % of Total Liabs. | 66.8% | 68.0% | 66.5% |

As at 30 June 1995 the ACT Government had total unfunded superannuation liabilities of $384.3m, funding for which will need to be obtained from future revenues. This equates to approximately $1,265 of superannuation debt for every person in the ACT. The proportion of unfunded liabilities will continue to significantly increase over future years with the government adopting the strategy of only budgeting funds to cover the anticipated payments which are expected to fall due in the coming year.

The level of liability payments which are anticipated to fall due during 1995-96 is $10.3m which is a $2.4m (30%) increase from the 1994-95 level of $7.9m.

It is sometimes argued that the level of unfunded superannuation liabilities is irrelevant and that only the actual payments which need to be funded during the current year are of relevance. Such a viewpoint is considered to be imprudent. Due to an aging population, in future years there are likely to be higher levels

of actual superannuation payments and unless the superannuation liabilities are funded as they are incurred, the burden for meeting these liabilities will be passed to future generations.

The need for full funding of superannuation liabilities has been recognised by some State Governments, with Queensland fully funding its superannuation liabilities and NSW intending to move within the next three years to full funding of its superannuation liabilities.

## PERFORMANCE OF INVESTMENTS

Prior to 1993-94 all of the Trust's funds were invested through ACTBIT. During 1993-94, it was decided that some of the Trust's funds should be externally managed and funds were allocated to three external fund managers. The allocation of further funds to external fund managers was made in 1994-95.

As at 30 June 1995, $17.339m of the Trust's funds were invested through ACTBIT and $175.826m were externally managed.

### ACTBIT Managed Investments

The funds managed by ACTBIT are invested in Australian fixed interest securities and performance is measured against the Swiss Banking Corporation's Semi-Government index of all maturities. The return to the Trust prior to 30 June 1994 was calculated on a mark to market basis where investments are revalued and any unrealised capital gain or loss is included in the return or loss to the Trust. For 1994-95 the Superannuation Trust was treated as per all other contributing agencies with a blended running yield being applied where the return earned is the weighted average book yield of the combined liquidity and core portfolio's less a 30 basis point commission to cover ACTBIT's administration and management fees.

A net return on ACTBIT managed investments for 1994-95 was $3.109m, which represented a return of 8.3% on the average invested balance.

### Externally Managed Investments

The performance of the Trust's five external fund managers during 1994-95 was as follows:

| Manager | Actual Return % | Benchmark Return % | Variance % |
|---|---|---|---|
| County Natwest | 7.0 | 5.7 | 1.3 |
| Bankers Trust | 6.2 | 10.6 | -4.4 |
| National Mutual | 12.7 | 11.8 | .9 |
| CFM | 5.38 | 5.33 | .05 |
| Clay Finlay | 20.0 | 19.3 | .7 |

The above table indicates that four of the specialist managers exceeded their specific market benchmark.

During 1994-95, the return on externally managed investments was $12.238m, which represents a 9.3% rate of return on the average invested balance. The significant improvement from 1993-94 was due to improvements in both the fixed interest sector and Australian equities.

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## ACT BORROWING AND INVESTMENT TRUST ACCOUNT

### INTRODUCTION

The ACT Borrowing and Investment Trust Account (ACTBIT) was established to account for the borrowing and investment activities of the ACT Government.

### SIGNIFICANT FINDINGS

- ***An external consultant engaged in 1993-94 to review ACTBIT's structure and operations made important recommendations which are planned to be implemented in 1995-96;***

- ***ACTBIT's average return on investments was 7.35% which was slightly less than the "benchmark" return of 7.89%; and***

- ***The amount of investments managed by ACTBIT significantly declined due to the Territory's 1994-95 deficit being financed from realisation of ACTBIT investments, and to a proportion of the Superannuation Provision Trust Account's funds being invested through external fund managers rather than ACTBIT.***

## AUDIT OF THE 1994-95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion was provided to the Treasurer on 14 September 1995.

## MATTERS RAISED IN PREVIOUS REPORTS

Report No. 8 of 1994 (*page 46*) commented on the difficulties which result from ACTBIT operations being recorded through the Territory Public Account and the ambiguity which existed regarding the ACTBIT information to be reported in the Treasury financial statements.

During 1994-95, Treasury engaged Bankers Trust Australia Limited to review the operation of ACTBIT, in particular the management of the ACT's investment and borrowing portfolios. The consultant was asked to report on the effectiveness of the current decision making, dealing, administration and reporting in the Capital Markets Section and to consider whether any or all functions could be more effectively performed by external managers. The consultant's review has been completed and a report was issued in February 1995.

The major findings of the review were:

- there was a need to adopt a more active management regime for the ACT's interest rate exposures on the Territory's borrowing programs;

- that Treasury should offer separate cash management and term investment facilities with interest paid to clients on the basis of current market valuations; and

- that a separate Central Financing Authority be established within the Treasury structure, reporting to the Under-Treasurer.

It was also recommended that if Treasury under-performs against benchmark (equivalent industry performance) on either the cash management or term investment facilities for a period of 12 months or more, then a portion of these funds should be put out to external management.

During 1995-96 a major task for ACTBIT will be to implement the recommendations of the BT review. Treasury's 1994-95 Annual Management Report advised that:

> *'significant progress has occurred in the establishment of separate investment facilities and it is anticipated that the proposed funds will be established in the first half of 1995-96. Capital Markets Section has been established as a separate Sub Program for reporting purposes in 1995-96. During the year options for the further separation of Capital Market activities from the Office of Financial Management will be further explored. More active management of interest rate exposures will be pursued during 1995-96'.*

## OVERVIEW OF FINANCIAL OPERATIONS

During 1994-95 ACTBIT generated a return of $22.2m on investments including a net capital gain of $0.250m. In addition, a net return of $0.084m was earned from arbitrage activities in 1994-95.

ACTBIT paid a total of $9.934 million in interest to clients during 1994-95. A charge of 0.3% to 0.5% is made by ACTBIT for all borrowing and investment activity undertaken. This charge is made to fund the total costs of ACTBIT. Total operational costs for 1994-95 were $0.558m.

On a mark to market basis, the core investment portfolio generated a return of 7.35% against a benchmark return of 7.89%. In monetary terms this represents a loss of $600,000 against the benchmark. The majority of the loss against benchmark occurred between March and June 1995. During this period the average maturity of the portfolio was set at a level significantly below that of the benchmark portfolio on the expectation of a rise in interest rates. Interest rates over this period actually declined so that the loss against benchmark was accentuated.

On an accrual basis, ACTBIT generated an operating profit of $4.273m in 1994-95. A dividend $5.521m was paid to the Consolidated Fund during 1994-95 based on ACTBIT's operating results. The 1994-95 result was a significant improvement on the 1993-94 result and is directly attributable to a general improvement in the market and a restructuring of the invested balance away from Bonds.

The amount of investments managed by ACTBIT significantly declined from $215.231m as at 30 June 1994 to $133.970m as at 30 June 1995. This was mainly due to:

- the reduction by the Territory of surplus funds used to fund the 1994-95 budget deficit ($47m); and

- the redeployment of investment funds ($40m) by the Superannuation Provision Trust Account from ACTBIT to external fund managers following a change in investment strategy.

The 1994-95 budget papers indicated an estimated borrowing requirement of $36.1m for the Government. The actual borrowing requirement for 1994-95 was $45.5m which was funded through ACTBIT using the Government's Commercial Paper Program. As at 30 June 1995, a total face value amount of $173.9m of Commercial Paper remained on issue. In addition, Housing Trust borrowed an additional $35.9m through off-budget financing arrangements to raise its level of borrowings through these means to $81.9m.

Also during the year, as part of its annual review of the Territory's credit rating, Standard and Poors Australian Ratings re-affirmed the Territory's long term rating as AAA and re-affirmed its A1+ short term rating. Both are the highest available ratings and will assist in reducing future debt funding costs.

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# DEPARTMENT OF HEALTH AND COMMUNITY CARE

## INTRODUCTION

The Department of Health and Community Care has the principal function of providing health services in the ACT. Following the changes on 15 March 1995 to administrative units, the Intellectual and Disability Services Program

was transferred to the Department from the Housing and Family Services Bureau. Ambulances and Child Health and Development were transferred from the Health Department to the Emergency Services Bureau and the Children's and Youth Services Bureau respectively.

## SIGNIFICANT FINDINGS

- ***Operating expenditure increased by $40.6m (13.9%) during 1994-95. Of the increase, approximately $28m was generated by revised responsibilities for meeting costs ($16.6m), an accounting adjustment required due to revision of an applicable accounting standard ($1.9m), and increased depreciation ($9.4m). The "controllable" increase was therefore around $11.0m;***

- ***In 1994-95, expenditure on employee entitlements increased by $12.3m, partly due to a net increase in staff of 230 officers (5.2%). The 230 staff increase was predominantly a direct result of the Administrative Arrangement Order of 14 March 1995. Increases in wages to administration, nursing and trade staff as well as increases in superannuation also contributed to the increase;***

- ***Revenue from patient fees decreased by $1.3m (8.3%) in 1994-95 due to a decrease in private patient admissions;***

- ***Weaknesses were found in internal controls over accounting of trust moneys and equipment in Central Equipment Pool;***

- ***Weaknesses in internal controls over cash collections continued to exist; and***

- ***The method of preparation of internal financial reports as well as the non-existence of benchmarks for the purpose of assessing the results of the accrued based internal financial reports are largely the same as the previous year.***

## AUDIT OF THE 1994-95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion on the 1994-95 financial statements was provided to the Minister on 11 September 1995. However, more than 30 issues were identified during the audit where the operation of controls could be improved. These have been raised with management and recommendations made.

## MATTERS RAISED IN PREVIOUS AUDITS

Report No. 8 of 1994 (*page 50*) commented on several issues which arose from the audit of the 1993-94 financial statements. These issues included:

### Internal Financial Reporting

Report No. 8 of 1994 advised that the Department's financial systems did not enable the timely preparation of internal financial reports, and that there were no established benchmarks to assess the results of the accrual based internal financial reports. These issues were partially addressed by the Department during 1994-95, however the comments remain largely the same although the Department has recently advised that ongoing improvements are planned.

### Collection of Cash

In 1993-94, 'Rehabilitation and Aged Care Services' collections were not being regularly banked and the amounts when banked were not being reconciled to receipts drawn. In 'Food Services', it was found that only one officer was removing money from food vending machines. In both cases, there were no effective controls to prevent or detect mistakes or fraud.

The Department has advised that 'Rehabilitation and Aged Care Services' has been separated into two distinct units and the present 'Aged Care Service' does not collect or carry any cash. During the 1994-95 audit, it was found that the present Rehabilitation Service is reconciling collections to amounts received but delays still occur in depositing the collections into the bank. In the case of 'Food Services', the Department advised that two officers are now collecting money from the vending machines.

## Mental Health Rehabilitation "Businesses"

It was reported last year that the Department was operating a number of mental health rehabilitation programs which operated as "businesses", with an aim to rehabilitate mental health sufferers. These "businesses" were:

- O'Connor Gardens Centre;
- Northside Contractors; and
- Moore Street coffee shop, namely Cafe Pazzini.

The O'Connor Gardens Centre was closed during 1994-95.

Both the Northside Contractors and Moore Street coffee shop were established under the auspices of the Canberra Schizophrenia Fellowship Inc (the Fellowship). The Audit Office has reviewed the agreements between the Department and the Fellowship for the operation of the "businesses". The agreement for the Coffee Shop was signed on 7 September 1994, and agreement for Northside Contractors was signed on 24 August 1995. According to the agreements, the Fellowship is the registered owner of the business names of the "businesses". The Department also advised that the "businesses" operated through separate bank accounts.

The agreements have certain important terms which require the Department to incur costs or create the potential for additional costs to be incurred by the Department. The terms stipulate that:

- expenses such as repairs and maintenance, cleaning, waste removal, telephone installation, rent and charges, utilities, rates, Workers' Compensation, Cash cover and Public Liability insurances and for providing security services to the premises, are to be met or reimbursed by the Department;

- a suitably skilled staff member of the Department is to be provided to the Fellowship to assist the day to day management and running of each "business" at no cost to the Fellowship;

- the Department is to provide clinical services to staff of the "businesses" for their rehabilitation;

- assistance is to be provided by the Department to the Fellowship for the accounting, audit and clerical requirements of the "businesses" when required;

- the Department shall meet and be responsible for any losses made by the "businesses" and shall indemnify the Fellowship for those losses;

- earnings generated by the "businesses" shall be paid into an account in the name of the Fellowship and will be used to pay day-to-day operating expenditures including wages. Any profits shall be used to develop further collaborative rehabilitation programs between the Fellowship and the Department, and the review of utilisation of any profits are to be performed every day by the Department and the Fellowship; and

- the Fellowship is to indemnify the Department against all claims, demands, actions, suits and proceedings arising out of any accident or injury suffered by client, employee, agent, licensee or invitee of the Fellowship during the term of the agreements by keeping a current Public Risk insurance policy in an amount of not less than $1m for each "business" in the name of the Fellowship at its own expense.

The exposure of the Department to some potential of the liabilities arising from these trading operations has been recognised and as a result indemnity insurance has been arranged. The Department, however, also risks the incurring of additional costs as a result of unprofitable trading by the "businesses". Cafe Pazzini's operations produced sales of $95,000 and a net profit of $16,453 during 1994-95, its first year of operation.

Financial statements for the Northside Contractors were not prepared for 1994-95 as it did not formally come into being until 24 August 1995 when the agreement was signed. It is therefore not possible to report the business's operating results. The Fellowship has expressly denied ownership before the agreement was signed so it seems the Department owned the operation prior to the agreement without knowing it.

There are no records kept of the cost of support services, etc., provided to the businesses by Health.

## OTHER MATTERS

Several issues arose from the audit of the 1994-95 financial statements. These included:

**Collection of Cash**

The Department has many areas which have responsibilities involving the collection of cash. As part of the audit of the financial statements, areas which collect large amounts of revenue, for example from patient fees, are reviewed each year. Other areas which collect smaller amounts of revenue are selected on a cyclical basis for the review of cash collection procedures and controls. For the audit of the 1994-95 financial statements, two Community Health Centres, a nursing home and four non-central cash collection areas within Woden Valley Hospital were reviewed.

Although it was generally found that controls and procedures were operating effectively for the central collection of cash at Woden Valley Hospital, weaknesses in controls existed for the collection of cash from the non-central areas. For moneys collected from these areas, examples of weaknesses found were:

- collections were not being regularly banked with the result that large amounts of cash were often kept in the safe; and

- there was a general lack of review and oversight by cost centre management of cash collections and as a result, unusual fluctuations or trends, which could indicate fraud or miscoding of transactions may not be investigated.

In 1993-94, Departmental management advised that an overall review of collection and banking procedures was to be undertaken. The Department has recently advised that in relation to this issue, each relevant area was visited by officers of the Department's Financial Services Section and a training course also provided for staff involved in collecting cash. During the 1994-95 audit, it was observed that the Department has implemented a 'surprise cash count' program on a cyclical basis which targets cash collection areas. Although this program provides some benefits, it still does not address the existing shortcomings of cash collection procedures nor does it contribute to the improvements of internal controls.

**Accounting of Trusts Moneys in Central Equipment Pool ("CEP")**

The principal objective of the CEP is to lend out on a short term basis, hospital equipment which will assist patients to live more comfortably at home.

Examples of the type of equipment issued are wheelchairs and toilet seat raisers. All equipment is loaned for a maximum period of 3 months, but in certain circumstances this period can be extended. A deposit is made into the CEP account upon issue of equipment and is fully refunded when equipment is returned. Trust accounting is required to be maintained to identify the individual deposits.

In accordance with the audit program for reviewing non-central areas on a cyclical basis, the financial operations of the CEP were reviewed in 1994-95. Issues arising from the review were:

- the equipment register was not complete and reconciliation of equipment was not performed and as a result it is more difficult to identify if equipment is lost or stolen;

- blank cheques were being pre-signed by cheque signatories, which could allow money to be lost through mistake, fraud or theft;

- there was a complete lack of segregation of duties in the book-keeping function with one person performing all cash handling, banking, recording and reconciliation procedures;

- no personal identifications were required to be shown or to be recorded in the loan agreement for items issued, which could result in expensive equipment being issued but not able to be traced;

- loan agreements did not include specific terms regarding the right of Central Equipment Pool to charge to the patients a replacement fee or cost of repair if the equipment returned were damaged or not repairable;

- a cumbersome system existed for issuing of loan cards which could increase the potential for mistakes and fraud; and

- recording of receipts and payment were performed on a word processing system which provided very limited benefits and was not conducive to reconciling trust accounts.

The Department is considering whether the current requirement to obtain deposits for equipment be ceased as a result of the difficulty of maintaining trust accounts. It has been recommended by audit that deposits should continue to be collected as they act as an incentive for borrowed equipment to be

returned. The Department has indicated that the recommendations will be considered and attempts will be made to improve identified weaknesses in procedures and controls. In 1994-95, $68,000 in deposits was collected and the balance of the Trust account was $50,000 at the end of the year. The value of the annual transactions compared with the balance of the account indicates that many long unclaimed deposits exist, probably representing unreturned equipment.

## Other

Several other matters of a more procedural nature were raised with the Department regarding such issues as accounting for leave provisions, accounting for expenditures and some assets accounting issues. Management has advised of remedial action which has been taken, or is intended to be taken, regarding these issues.

## Financial Results

### *Operating Results*

Following is a summary of the ***operating expenditure and revenues*** for the Department for the past three years. To enable comparisons to be made between amounts over the three years, in some instances where expenditures were disclosed under different expenditure categories in the audited financial statements over the three years, they have been reclassified in the table to enable comparability.

## FINANCIAL AUDITS WITH YEARS ENDING TO 30 JUNE 1995

| | 1992-93 $'000 | 1993-94 $'000 | 1994-95 $'000 |
|---|---|---|---|
| **Expenditure** | | | |
| Employee Entitlements | 163,368 | 162,301 | 174,608 |
| Administrative Expenses | 46,924 | 44,873 | 71,609 |
| Calvary Hospital Grant | 29,076 | 31,926 | 34,227 |
| Medical & Surgical Supplies | 18,788 | 19,724 | 23,026 |
| Medical Fees | 11,892 | 11,532 | 13,245 |
| Other Grants | 10,673 | 7,742 | 11,459 |
| Domestic Supplies | 6,622 | 6,396 | 6,598 |
| QEII Hospital Grant | 1,180 | 1,344 | 1,071 |
| Workers' Compensation Premium | 4,296 | 5,826 | 7,880 |
| **Total Operating Expenditure** | 292,819 | 291,664 | 343,723 |
| **Net Costs Transferred Due to AA Changes** [1] | | | (11,495) |
| **Adjusted Operating Expenditure** | 292,819 | 291,664 | 332,228 |
| **Operating Revenues** | | | |
| Patient Fees | 16,852 | 15,621 | 14,245 |
| Admin. & Facility Charges | 2,130 | 2,188 | 2,206 |
| Other Revenue | 5,536 | 5,086 | 6,805 |
| Donations | 1,907 | 2,105 | 1,722 |
| **Total Operating Revenue** | 26,425 | 25,000 | 24,978 |
| **Net Cost of Services** [2] | **266,394** | **266,664** | **307,250** |

1. As mentioned previously, Ambulance and Child Health and Development were transferred from Health, and Intellectual Disability Services was transferred to Health on 15 March 1995. Net operating costs for such functions lost and gained from that date to 30 June 1995 have been included in this table to enable 1994-95 costs to be compared with previous years for the same range of functions.
2. As a result of changing from an authority to a department in 1993-94, Health is required to return revenue to the Consolidated Fund and is appropriated funds through Appropriations. Amounts returned to the Consolidated Fund were $22.0m in 1993-94 and $20.7m for 1994-95. To enable comparison of the net cost to the ACT Government of operating the Department, the *net cost of services* is determined as the difference between total operating expenditure and *all* revenue generated by operations of the Department.

### *Expenditure*

*Total operating expenditure* increased by $50.9m (17.4%) from $292.8m in 1992-93 to $343.7m in 1994-95. When costs transferred out as a result of AAO are added back for comparative purposes, the increase over the two years is $39.4m (13.5%). Of this increase, $18.5m was generated by Health being required to meet for the first time repairs and maintenance costs previously met by the Department of Urban Services ($16.6m) and an accounting adjustment required by a change in accounting standards related to quantifying employee entitlements ($1.9m). A further $9.4m was generated by increased depreciation charges necessary to recognise the increasing value of capital investment in Health assets. The remainder of approximately $11.4m is an indication of the increase in the Department's "controllable" operating costs between 1993-94 and 1994-95.

The main areas of increase have been:

- *employee entitlements* increased by $12.3m (7.6%) from $162.3m in 1993-94 to $174.6m in 1994-95. The cost increases include an accounting adjustment of $1.9m for changes resulting from implementation of revised accounting requirements for employee provisions and of $2.1m arising from revisions to arrangements affecting workers' compensation insurance premiums. The remaining $8.3m increase was the result of a net increase in staff numbers of approximately 230 (5.2%) which occurred due to the effect of the Administrative Arrangements Orders of 14 March 1995. Additional wages incurred in relation to the AAO were a net $4.9m up to 30 June 1995. Other increases include increase in wages for administration, nursing and trade staff to the amount of $3.2m as well as increase in superannuation of $2.5m offset by a decrease in redundancy payments of $2.3m;

- *administrative expenses* increased by $26.7m (59.5%) from $44.9m in 1993-94 to $71.6m in 1994-95. The main reasons for the increase were recognition for the first time in the Department's financial statements of costs incurred by the Department of Urban Services on behalf of the Department of Health and Community Care for major repairs and maintenance to buildings. In 1994-95 these costs were approximately $16.6m. During 1994-95 depreciation on buildings, which has been classified within administrative expenses, increased by $9.4m;

- *grant payments* increased by $5.8m (14.1%) from $41.0m in 1993-94 to $46.8m in 1994-95; and

- *workers' compensation premiums* increased by $2.1m (36.2%) from $5.8m in 1993-94 to $7.9m in 1994-95.

***Operating Revenue***

Changes in *operating revenue* were as follows:

- *patient fees* decreased $1.3m (7.7%) from $16.9m in 1992-93 to $15.6 in 1993-94 and decreased by $1.3m (8.3%) from $15.6m in 1993-94 to $14.3m in 1994-95. This decrease in revenue mostly resulted from decreasing numbers of people attending the hospital as private patients; and

- *donations* increased by $0.2m from $1.9m in 1992-93 to $2.1m in 1993-94 and decreased $0.4m in 1994-95 to $1.7m. The donations relate mainly to amounts allocated from doctors' private practice revenues and are required to be used for specified purposes. The levels of this donation are outside the control of management of the Department.

***Revenues from Government***

A table showing *Revenues from Government* follows. To enable comparisons to be made between amounts over the three years, in some instances where revenues from Government were disclosed under different revenue categories in the audited financial statements over the three years, they have been reclassified in the following table to enable comparability.

| **Revenues from Government** | **1992-93 $'000** | **1993-94 $'000** | **1994-95 $'000** |
|---|---|---|---|
| Recurrent Appropriations [1] | 253,584 | 255,911 | 272,743 |
| Capital Appropriations | 8,318 | 7,592 | 3,959 |
| Nursing Home Benefits [2] | 1,634 | 1,639 | 0 |
| Other Grants | 1,687 | 2,499 | 2,109 |
| Revenue for Assumed Expenses | 12,648 | 19,124 | 19,369 |
| Govt. Services Free of Charge | 9,521 | 41,701 | 30,565 |
| **Total Revenues from Government** | 287,392 | 328,466 | 328,745 |
| **Net Approp. Transferred Out Due to AA Changes** [3] | | | (6,735) |
| **Total Revenues from Government** | **287,392** | **328,466** | **335,480** |

1. Until 1992-93 the Department was funded on a net basis which enabled patient fees and other revenue to be used for funding departmental expenditure. As previously mentioned, Health is required to return revenue to the Consolidated Fund and is appropriated funds through Appropriations as a result of changing from an authority to a Department in 1993-94. To enable comparison of 1992-93 *Recurrent Appropriations*, $24.8m of patient fees has been added to allow such comparison.
2. Nursing home benefits for 1994-95 has been directly paid by the Commonwealth into Treasury, thus the amount received has been reflected in *Recurrent Appropriations*.
3. As mentioned previously, Ambulance and Child Health and Development were transferred from Health, and Intellectual Disability Services was transferred to Health on 15 March 1995. Net receipts for such functions lost and gained from that date to 30 June 1995 have been included in this table to enable 1994-95 appropriations to be compared with previous years for the same range of functions.

# CHAPTER 6 URBAN SERVICES INDUSTRIAL RELATIONS BUSINESS, EMPLOYMENT AND TOURISM

## DEPARTMENT OF URBAN SERVICES

### INTRODUCTION

The Department of Urban Services is responsible for the delivery of a wide range of state and municipal services to the community such as public transport, waste management and fire services. The Department also provides a range of key services, including the design, construction and maintenance of buildings for other ACT Government agencies.

### SIGNIFICANT FINDINGS

- ***Management continued throughout 1994-95 not to have appropriate procedures to ensure that all monies due from a car park leasing contract have been received (this matter was reported in 1993-94), however, subsequent to the matter being raised again in the 1994-95 audit, the procedures have been implemented; and***

- ***The Department has leased a public car park to private business at a rent of $2,000 per month, however no records could be produced to show how the rent was set.***

### AUDIT OF 1994-95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion was provided to the Minister for Urban Services on 15 September 1995.

## MATTERS RAISED IN PREVIOUS AUDITS

### Qualification of 1993-94 Financial Statements

The 1993-94 financial statements were qualified on the grounds that the Department did not have sufficient quantitative data to support the valuation of roads and stormwater assets. The audit found that in 1994-95 the necessary supporting information had been obtained and therefore no qualification was necessary.

### Parking Fees

It was reported last year (Report No. 8 of 1994 - *page 118*) that a private sector organisation, under lease from the ACT Government, operates three boom-gate parking facilities at a town centre. The lease contract requires that the operator pays a percentage of gross collections to the ACT Government on a quarterly basis.

Specifically, the contract requires that the lessee submit a quarterly statement supported by a duplicate of the respective cash register tapes (cash registers are situated in the booths at each of the three facilities). Also, there is a further requirement that the lessee provide the ACT Government, within two months of a financial year end, a registered company auditor's report confirming the receipts collected in the previous year.

Audit was informed, by the manager of parking operations that neither the cash register tapes or an annual audit report are obtained from the lessee. Management therefore does not have appropriate procedures to ensure that all fees due have been received.

In response to this matter the Department advised last year that: *'Actions will be implemented to enforce the terms of the contract.'* A review of this matter in the 1994-95 audit found that no action had been taken by the Department to enforce the terms of the contract and obtain the necessary information from the lessee. The Department has provided a recent advice as follows:

> *"This matter was overlooked until pointed out by an audit review in the 1994-95 audit. On receiving this review report, immediate remedial action was taken and procedures are now in place, as required by the lease, for the lessee to:*

- *provide a quarterly statement supported by duplicate cash register tapes (the first quarterly statement has now been received without the duplicate tapes, and these are being sought for the lessee); and*

- *provide within two months of the end of a financial year a registered company auditor's report confirming the receipts collected in the previous year. A report has been obtained for the 1994-95 financial year stating that a review of the appropriate documentation has revealed nothing to indicate the returns lodged by the lessee do not present fairly the financial information required to calculate fees due. This information is on file for inspection if required."*

## OTHER MATTERS

### Car Park Rental

The audit found that a carpark in Mort Street, Braddon is being rented to a local car dealer (during construction work on the dealer's premises) for $2,000 per month. The site is used to store cars. The lease is for twelve months from January 1995. The Department was unable to produce any records on how the rental charge was set. The Department advised that the business rejected an initial offer by the Department to rent the carpark for $4,000 per month as too expensive and suggested that staff may have to be retrenched.

The Department has now advised:

> *"A senior officer directly involved in the lease agreement has now been identified and has provided details of the lease process indicating the rent negotiated represented a rent equivalent to the amount which might reasonably have been obtained from long term users had the site not been leased.*
>
> *The licence for occupation of the area commenced on 1 February 1995. Records of cash collected from voucher machines in the carpark in question indicated that actual revenue collected over the period 5 July to 20 December 1994 averaged $22.95 per parking bay per week. The area leased contains 23 parking bays and was assumed to have produced on average the order of $2,100 per four-week period based on the July/December collections. Applying the 10% discount available for*

*long term parking vouchers, it was then assessed that the lowest fee which should be accepted would be of the order of $1,900 per month.*

*The applicant was initially offered a lease at $4,000 per month. Following several days' negotiation, a fee of $2,000 per month was agreed.*

*The original records of these arrangements have not been located. Calculations compiled between 20 and 22 November 1995 are on file for inspection if required."*

The absence of records on transactions such as this could leave the Department open to accusations including negligent decision-making, lack of accountability, corruption, etc. It is considered basic good management that records of decisions such as these should be maintained.

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# ACT ELECTRICITY AND WATER AUTHORITY (ACTEW)

## INTRODUCTION

The Australian Capital Territory Electricity and Water Authority (ACTEW) is responsible for the supply, promotion and management of water and electricity and the provisions and management of sewerage services within the Territory. ACTEW was established under the Australian Capital Territory Electricity and Water Act 1988. From 1 July 1995, ACTEW became a corporation in accordance with the Territory Owned Corporation Act (1990).

## MATTERS RAISED IN PREVIOUS REPORTS

Report No. 8 of 1994 (*page 130*) advised that during 1993-94 ACTEW had incorrectly capitalised costs which were more in the nature of repairs and maintenance. For the 1993-94 financial statements adjustments were processed by ACTEW to correct the amounts and ACTEW advised that it would review its policy during 1994-95 for capitalisation of expenditure. During 1994-95 a revised policy for capitalisation of expenditure was prepared by ACTEW and works-in-progress costs were correctly accounted for in accordance with the policy.

## AUDIT OF THE 1994–95 FINANCIAL STATEMENTS

### Qualified Audit Opinion

An ***qualified*** audit opinion on the 1994-95 financial statements was provided to the Minister on 4 September 1995. The financial statements were qualified in regard to the accounting for water and sewerage developer assets. Water and sewerage infrastructure, e.g. pipes, are installed by private property developers and transferred to ACTEW free-of-charge with ACTEW becoming the owner and controller of the assets. For 1994-95 water and sewerage developer assets, valued by ACTEW at $12.8m, were received free-of-charge. The Treasurer's 'Financial Statement Guidelines for ACT Entities' requires that assets received free-of-charge be treated as revenue. ACTEW did not record the receipt of the water and sewerage developer assets as revenue, but rather recorded the amounts directly against the asset revaluation reserve in the balance sheet.

From 1995-96, as a Territory Owned Corporation, ACTEW is not required to comply with the financial reporting requirements of the Treasurer's 'Financial Statement Guidelines of ACT Entities'. ACTEW have advised that during 1994-95 it will be further reviewing its policy for accounting for developer assets.

Other more minor matters of a procedural nature were found regarding the accounting for inventory, fixed assets and the payment of wages and salaries. Management have advised of remedial action taken, or intended, to address these issues.

## PERFORMANCE AUDIT OF ACTEW

A performance audit of ACTEW was conducted during 1995. The report on the audit which was tabled in November 1995 contained financial information on ACTEW operations. For this reason, financial data is not reproduced in this report.

# THE TRUSTEES OF THE CANBERRA PUBLIC CEMETERIES

## INTRODUCTION

The principal activities of the Trustees consist of the management and operation of the Gungahlin, Hall and Woden cemeteries. This includes the laying out and ornamentation of each cemetery and their maintenance in a clean and orderly condition. The Trustees operate pursuant to the provisions of the Cemeteries Act 1933. The Trustees are required to keep accounts in accordance with commercial practice.

## SIGNIFICANT FINDING

- ***The Trustees' insurance cover is limited to building contents and motor vehicles. This is because Trust management incorrectly assumed that the Trust was covered by ACT Government insurance for all other risks.***

## AUDIT OF THE 1994 - 95 FINANCIAL STATEMENTS

An ***unqualified*** audit report on the financial statements was provided to the Minister for Urban Services on 18 September 1995.

## OTHER MATTERS

As in previous years it was found that the financial statements were well prepared and documented. Several issues concerning the operation of internal controls were raised with management. These included:

- lack of controls in the administration of burial contracts; and

- the Trust may not be optimising investment return on surplus funds.

Management of the Trust has taken steps to address the recommendations made by audit in relation to these and the other issues identified during the audit.

During the audit, it was found that the Cemeteries' insurance cover was limited to building contents and motor vehicles. Management assumed incorrectly that the Cemeteries were covered by the ACT Government for all other risks.

The Chairman of the Cemeteries has written to the Office of Financial Management seeking advice on the Government's policy on insurance by its instrumentalities and authorities.

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# ACT INTERNAL OMNIBUS NETWORK (ACTION)

## INTRODUCTION

ACTION's objective is to provide an efficient and effective public transport service for the ACT community. It conducts the operation of Canberra's public and school bus services, the provision of charter bus services and the administration of rural and special school bus services provided by other operators. It is also responsible for the operation of its own maintenance workshops, regional customer relations, administration, personnel and finance matters.

## SIGNIFICANT FINDINGS

- ***ACTION almost achieved its target savings level of $10m as specified in the 'Three-Year Funding Agreement' commenced in 1992-93. The saving as calculated by the Audit Office was $9.9m;***

- ***Redundancy payments of $5.8m made in 1994-95 will not directly reduce future costs as savings generated by the reduced number of drivers have been almost fully off-set by increases in salary rates to the remaining drivers; and***

- ***After making adjustments necessary for comparability purposes and excluding abnormal items, ACTION's net cost of services fell by $2.4m between 1993-94 and 1994-95. Of this, $0.8m was generated by reductions in costs and $1.6m from increased revenue.***

## AUDIT OF 1994 - 95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion on ACTION's financial statements was provided to the Minister for Urban Services on 15 September 1995.

## MATTERS RAISED IN PREVIOUS AUDITS

### Accountability for Cash Fares

Auditor-General's Report No. 11 of 1993 (*paragraph 12.125*) advised of lack of accountability for cash fares received on buses ($2.6m in 1993–94 and $2.7m in 1992–93). ACTION management indicated that the problem would be resolved with the introduction of an automated ticketing system which was to be progressively implemented during 1994-95.

The new automated ticketing system was fully implemented in June 1995. The system keeps a record of the cash fares, concession fares and non-cash trips. ACTION has introduced the use of inspectors on buses to check that all passengers use bus tickets. In addition, ACTION is in the process of introducing cash reconciliation and discrepancy follow-up procedures.

### Three Year Funding Agreement

#### *Introduction*

In January 1993, the Chief Minister agreed to a proposed strategy by ACTION and ACT Treasury to achieve a reduction of $10m in the "real" level of recurrent government funding over the three financial years commencing 1 July 1992. A funding agreement which covered this matter was settled between the Chief Minister and the Minister for Urban Services.

The following is included in the Agreement:

> *'It is a critical element of this Agreement that ACTION will achieve a reduction of $10 million in the real level of recurrent government funding during the term of the Agreement. This will be achieved through the implementation of ACTION's financial strategy and particularly by drawing upon productivity and revenue measures.'*

The Agreement allowed for the financial effect of certain factors which were outside the control of ACTION management to be excluded from the

assessment of whether the financial performance target had been achieved. Details of these factors were included in Report No. 8 of 1994 (*page 153*).

### *Achievement of the Financial Performance Target*

ACTION management, together with Treasury, has been monitoring the progress with savings and it has been stated that the financial target of $10m has been achieved.

As calculated by the Audit Office, the savings over the three years are approximately $9.9m. Some concerns exist about the approach taken by Treasury and ACTION to assess the level of savings. These concerns were discussed in Report No. 8 of 1994 (*page 158*).

### *Use Of Accrual Based Information For Assessing Savings*

It is understood that ACTION and the Office of Financial Management are currently negotiating a new agreement for the three years commencing with 1995-96.

The recently completed three-year funding agreement was based on the level of the recurrent subsidy paid from Consolidated Fund to ACTION. The savings were achieved by reducing, in stages, the level of the recurrent subsidy to a total of $10m after adjusting for factors outside ACTION's control such as the increased demand for new services.

It is suggested that accrual accounting figures such as those presented in ACTION's audited financial statements for revenue and expenses be used as the base figure from which to assess savings made. The use of the recurrent subsidy as a basis for assessing whether continuing savings have been made through efficiency improvements, etc., can be distorted by temporary situations such as agencies running down their cash balances or delaying paying creditors to enable them to manage with their reduced recurrent subsidy for the year. The use of accrual figures will enable these areas to be identified, and enable measurement of the level of 'real and permanent' savings.

## ENTERPRISE BARGAINING AGREEMENT

### *Introduction*

In 1994-95 ACTION undertook a major restructuring of its bus operations to help it achieve its 3 year financial savings target. ACTION aimed to make its bus service more flexible by reducing the number of full time bus drivers, and replacing some of them with part-time bus drivers. From this and other minor restructuring ACTION aimed to achieve full year savings in salary costs of approximately $4m or approximately 10%.

Under an Enterprise Bargaining Agreement (EBA) with the Transport Workers Union (TWU), shift penalty pay, and meal allowances were abolished and a substantial hourly wage increase was agreed upon. The pay rate increased by 12.5% from an average of $16 per hour (including shift penalties and meal allowances) to $18 per hour.

Over 150 redundancy packages were offered. About 80 drivers who took redundancy packages were re-employed on a part-time basis. The cost of redundancies was approximately $5.85m in 1994-95. There will be further redundancies in 1995-96 under the EBA.

### *Costs and Benefits of the Enterprise Bargaining Agreement*

The costs generated by the Enterprise Bargaining Agreement include the redundancy payments totalling $5.85m in 1994-95 and the 12.5% wages increase to drivers. Although the redundancy payments have enabled a reduction in driver numbers to occur, any cost savings which may have been available as a result of the reductions are fully offset by the wages increase.

As mentioned previously, ACTION has stated its aim to achieve a full year saving of $4.0m in salaries costs. As significant savings will not be generated as a result of the redundancy payments, most of this saving will need to be generated through other measures.

In relation to implementation of the EBA, ACTION have advised implementation of the EBA is to be in three stages.

> *"The first, involving many of the redundancies supported by the introduction of part-time employment and improvements in work practices, was almost budget neutral as savings from reducing the*

*numbers of drivers have been largely offset by the increase in hourly pay rates. Implementation of this stage is complete.*

*The second stage is to realise savings from a number of measures, some of them outside the area of direct driver wages. Changed rosters and working conditions for cleaner/fuellers were to save $0.41m and driver on-costs, reductions in higher duties payments and deletion of cash pays were to deliver another $0.28m. The largest part of the Stage 2 savings were to be derived from service optimisation, including the introduction of loop routes with reduced/eliminated turnaround times. This was expected to save $1.51m, mostly from driver wages. Stage 2 savings have largely been realised.*

*The final stage involves the introduction of multi-skilled mechanic/drivers and a further phase of service optimisation. Full-time drivers are being replaced by mechanics spending part of their day driving buses with projected savings of $0.68m. Training of multi-skilled mechanics has commenced and further redundancies are being offered to drivers. The network review process to achieve the final $1.0m service optimisation saving is well advanced with changes expected between December 1995 and February 1996.*

*Efforts are still required by ACTION to deliver the final $2.0m in savings from the Agreement but the process is continuing and substantial progress has been achieved. Final implementation early in the new year is anticipated."*

During the audit of ACTION's 1995-96 financial statements, the Audit Office will review the savings actually achieved.

## FINANCIAL ANALYSIS

### Net Cost of Operation

The *net cost of services* provided by ACTION decreased by $2.4m (4.7%) from $52.2m in 1993-94 to $49.8m in 1994-95. This decrease resulted from an increase in revenue from fares and charters, and profit on sale of non-current assets totalling $1.6m and an overall decrease in operating expenditure of $0.8m.

Following is a summary of ACTION's operating revenues and expenditure for the past three years.

| | 1992-93 $000 | 1993-94 $000 | 1994-95 $000 |
|---|---|---|---|
| **Revenue** | | | |
| Fares and Charter | 15,186 | 16,081 | 16,931 |
| Other | 1,409 | 1,474 | 2,243 |
| | 16,595 | 17,555 | 19,174 |
| **Expenditure** | | | |
| Employee Costs | 41,609 | 40,920 | 39,648 |
| Vehicle Operating Costs | 6,647 | 8,044 | 7,290 |
| Depreciation | 7,106 | 6,922 | 7,496 |
| Interest | 8,656 | 8,554 | 8,345 |
| Other | 6,782 | 5,347 | 6,188 |
| | 70,800 | 69,787 | 68,967 |
| **Net Cost of Service** | **(54,205)** | **(52,232)** | **(49,793)** |
| Abnormal Items | (4,588) | (482) | (1,539) |
| Adjustments for Comparability Purposes* | 322 | 0 | 815 |
| Government Contributions | | | |
| - Recurrent | 53,423 | 47,878 | 42,002 |
| - Capital | 1,289 | 9,904 | 9,421 |
| **Reported Operating Surplus/(Deficit)** | (3,759) | 5,068 | (906) |

* Represents adjustments made to the audited financial information as reported by ACTION. Adjustments were necessary to enable accurate comparison between 1992–93, 1993-94 and 1994-95 operating results.

## *Expenditure*

Total operating expenditure decreased by $0.8m in 1994-95 in comparison with 1993-94. The main movements from 1993-94 to 1994-95 were:

- employee costs decreased by about $1.3m due to a reduction in the Comcare premium and some savings achieved through redundancies;

- vehicle operating costs decreased by $0.8m due to cheaper fuel prices and lower maintenance expenditure;

- depreciation expense increased by $570,000 due to new equipment being purchased for the automatic ticketing system, and new buses being purchased as part of the bus replacement program; and

- other operating costs increased by about $0.8m due to an increase in fringe benefit tax arising from the increase in the fringe benefits tax rate, and an increase in the provision for accident damages.

***Revenue from Operations***

Operating revenue has increased by $1.6m due mainly to a rise in fare prices. As a result of this increase in revenue and the decrease in operating expenditure mentioned previously, ACTION's ability to recover its operating costs through self generated revenue has increased to 28% in 1994-95. Comparative percentages for the last four years are:

| **1992** | **1993** | **1994** | **1995** |
|---|---|---|---|
| 20% | 23% | 25% | 28% |

***Revenue from Government***

Government contributions provided as cash funding for recurrent purposes to ACTION from the Consolidated Fund over the last four years were as follows:

| **1992 $'000** | **1993 $'000** | **1994 $'000** | **1995 $'000** |
|---|---|---|---|
| 54,618 | 53,423 | 47,878 | 42,002 |

The recurrent subsidy was reduced by $5.9m in 1994-95, mainly as a result of the decrease in funding to ACTION under the three year funding agreement.

Funding of $8.9m (including $0.945m as a loan) was provided to ACTION in 1994-95 for capital purposes. Most of the capital funding was used to purchase new buses and to service existing loans.

# ACT FLEET

## INTRODUCTION

ACT Fleet ('Fleet') has three core functions:

- to provide a comprehensive range of fully maintained passenger and commercial vehicles on both long and short term hire;

- to hire out small, medium and large plant, heavy commercial vehicles and trained and licensed operators with the support of a mechanical workshop and field service which offers complete maintenance and repair services to all plant and equipment; and

- to operate welding and machine workshops that provide specialised services including pump maintenance and repair and metal fabrications to government and private enterprise on a fee for service basis.

## SIGNIFICANT FINDINGS

- ***Vehicle operations continue to produce a large surplus which has funded the vehicle replacement program; and***

- ***Plant and workshop operations continue in deficit, however the deficits are decreasing.***

## AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion was provided to the Minister for Urban Services on 31 August 1995. The results of the audit were satisfactory. The audit found some minor matters of a procedural and control nature which were raised with management. Management have advised that audit recommendations are being adopted.

## FINANCIAL ANALYSIS

This analysis compares the performance of the three cost centres in Fleet - Vehicles, Plant and Workshops over the past three years.

Fleet's audited financial statements, which were prepared in accordance with Treasury Guidelines, reported an overall profit before abnormal items in 1994-95 of $4.992m. The financial data used in this analysis differs from that presented in Fleet's audited financial statements as follows:

- only externally generated revenue directly attributable to cost centres has been recognised (Government appropriations are specifically excluded); and

- cost of services such as employer superannuation contributions, accommodation and executive support, which are provided free of charge and are outside the control of Fleet's management, have been included in this analysis. However, to facilitate the comparison between years of activities under the control of Fleet's management, these amounts have not been changed from those used in the prior years analysis.

The changes have been made to ensure only income generated by Fleet through its operations are taken into account and that the full costs of Fleet's operations are recognised. It is acknowledged that under Government policies operating in 1994-95, appropriations from Consolidated Fund are received by Fleet towards plant replacement costs in consideration for Fleet not including a replacement component in fees charged for plant hire. The appropriations however have been excluded from the analysis in order that the results presented reflect the viability of Fleet operations if it was required to operate without these supporting appropriations.

On the basis outlined the table below compares actual cost centre performance during 1994–95 with the previous year:

## Operating Statement

| | Vehicles $'000 | | Plant $'000 | | Workshop $'000 | | Total $'000 | |
|---|---|---|---|---|---|---|---|---|
| | 1994 | 1995 | 1994 | 1995 | 1994 | 1995 | 1994 | 1995 |
| Operating Revenue: | | | | | | | | |
| Hire Recoveries | 8,022 | 8,945 | 6,244 | 6,521 | 732 | 521 | 14,998 | 15,987 |
| Profit on Sale | 2,009 | 1,347 | 106 | 70 | | 8 | 2,115 | 1,425 |
| Misc Income | 512 | 379 | 51 | 192 | | 59 | 563 | 630 |
| TOTAL REVENUE | 10,543 | 10,671 | 6,401 | 6,783 | 732 | 588 | 17,676 | 18,042 |
| Operating Expenditure | 7,074 | 7,016 | 7,264 | 6,842 | 928 | 577 | 15,266 | 14,435 |
| Interest on Working Capital Advance | 76 | 76 | 97 | 97 | 7 | 7 | 180 | 180 |
| Admin. and Other | 62 | 62 | 387 | 387 | 235 | 235 | 684 | 684 |
| TOTAL OPERATING EXPENDITURE | 7,212 | 7,154 | 7,748 | 7,326 | 1,170 | 819 | 16,130 | 15,299 |
| OPERATING SURPLUS/(DEFICIT) | 3,331 | 3,517 | (1,347) | (543) | (438) | (231) | 1,546 | 2,743 |

The above table confirms that Fleet's vehicle operations continue to return a surplus while plant and workshop operations remain in deficit. These deficits, however, are being reduced. Improved performances of both the plant and workshop operations has seen Fleet's operating surplus increase by 77% over 1993-94, representing a return on capital of 9.9%.

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# ENERGY RESEARCH AND DEVELOPMENT TRUST

## INTRODUCTION

The Energy Research and Development Trust was established in 1991–92 to encourage research and development activity on energy matters considered beneficial to the ACT. The Trust is funded by a research levy imposed by Part V of the Gas Act 1992 on gas sales in the ACT. The Trust is administered by the Department of Urban Services.

## AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Minister on 14 September 1995.

## OTHER MATTERS

Project expenses were incurred by the Trust during 1994-95 for the first time since establishment of the Trust. These expenses totalled $92,000 and relate to the investigation and commissioning of suitable projects. The main criterion for projects is that they meet government priorities for gas-related research and development and provide best net benefits to the ACT.

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# BUSINESS, EMPLOYMENT AND TOURISM BUREAU

## INTRODUCTION

The Bureau was created as a result of the Administrative Arrangements Order (AAO) of 14 March 1995. At that date the Bureau acquired the Economic Development Program, Land Development, ACT Workcover, Labour Relations, ACT Construction Industry Long Service Leave Board, and Co-Ordination of Government Business Enterprises. The Bureau was abolished as of 30 June 1995 and it's responsibilities transferred to the Department of Business, the Arts, Sport and Tourism.

## SIGNIFICANT FINDING

- ***The Bureau made grants of $3.149m from the Treasurer's Advance to ACT Totalisator Administration Board and $300,000 to Exhibition Park In Canberra in late 1994-95 to meet liabilities which these authorities were unable to pay from their own resources.***

## AUDIT OF 1994-95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Minister for Business, Employment and Tourism on 15 September 1995.

## PAYMENT TO ACT TOTALISATOR AGENCY BOARD (ACTTAB)

A grant of $3.149m was paid in late June from the Treasurers Advance so that ACTTAB could repay a debt, and the accrued interest on the debt, to the ACT Borrowing and Investment Trust Account (ACTBIT).

The overall impact of these transactions was to transfer public trading enterprise sector debt to the general government sector, i.e. to transfer the debt of $3m from ACTTAB to the ACT Government.

ACTTAB originally borrowed this amount from ACTBIT to fund a legal settlement with VITAB Limited. The settlement was required after ACTTAB terminated a long term agreement with VITAB Limited.

## PAYMENT TO EXHIBITION PARK IN CANBERRA (EPIC)

As a consequence of a guarantee made by the Treasurer in 1994, a grant of $300,000 was paid to EPIC to assist in meeting expenditure overruns, and less then expected revenue for the year. The Government has recently announced a review of EPIC's operations.

## LAND DEVELOPMENT - JOINT VENTURES

As previously mentioned, on 15 March 1995 responsibility for land development was transferred from the Department of Environment Land and Planning (DELP) to the Bureau. At year end the Land Development Section was involved in eight joint venture projects. The purpose of each joint venture project is to develop land for residential home sites, as well as maintain a viable and competitive land development industry in the Territory.

The Auditor-General is not the external auditor of these joint ventures although there is a significant potential risk to Government finances arising from these ventures. The level of risk is illustrated by the fact that the Government has guaranteed one joint venture for any monies outstanding at the end of a five-year loan period. The initial loan was for $25m and this is to be reduced to a maximum of $8m by late 1998. The guarantee covers this latter amount. The

Department considers that by late 1998, the loan will be extinguished or a new loan will have been negotiated. The individual ventures, through their respective nominee companies, have been audited by private sector accounting firms.

The audited financial statements of the joint ventures were included in the Bureau's annual report which was tabled in the Legislative Assembly in September. The audit opinions on the statements were unqualified.

## MATTERS RAISED PREVIOUSLY

In last year's report (Report No. 8 of 1994 - *page 23*), comment was made on the collection of occupational health and safety revenue, as well as the carrying forward of unspent National Industry Extension Service (NIES) funds. At that time both occupational health and safety as well as (NIES) were administered by the Chief Minister's Department. Following the AAO of 14 March 1995, these areas became the responsibility of the Bureau.

### Collection of Occupational Health and Safety Revenue

ACT Workcover, the Section responsible for the collection of occupational health and safety revenue, has implemented adequate controls to ensure that monies banked reconciles with monies collected.

### NIES-Unspent Funds Carried Forward

The NIES program operates under a Commonwealth/Territory agreement. The primary aim of the program is to improve the efficiency of Australian business and therefore increase their competitiveness. The program's financial transactions are recorded in the NIES Trust Account.

As the Table below shows the balance of the NIES Trust Account has continued to steadily accumulate over a number of years:

| Year Ended | Cash Balance $ |
|---|---|
| 30 June 1991 | 507,508 |
| 30 June 1992 | 844,903 |
| 30 June 1993 | 971,471 |
| 30 June 1994 | 1,103,017 |

| | |
|---|---|
| 30 June 1995 | 1,257,159 |

The issue of the accumulating balance in the NIES Trust Account have been previously raised with officers managing NIES. Advice has been that timing differences between projects' commencements and the reimbursement of costs was responsible for the accumulating Trust Account balance. This has been shown not to be the case, as the balance of the Trust Account has continued to grow.

NIES officers have advised that $949,000 of the 30 June 1995 balance of $1.25m is committed in future expenditure. This still leaves $300,000 of uncommitted funds.

## OTHER MATTERS

Several matters were noted during the audit concerning the operation of internal controls and accounting procedures. These have been raised with management and audit recommendations in relation to these matters have been accepted.

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# ACT CONSTRUCTION INDUSTRY LONG SERVICE LEAVE BOARD

## INTRODUCTION

The ACT Construction Industry Long Service Leave Board was established by the Long Service Leave (Building and Construction Industry) Act 1981. The Board administers a scheme to provide long service leave benefits to employees and sub-contractors in the ACT construction industry based on service in the industry rather than service with a particular employer. The scheme allows employees who work in the industry for some time but who work for several employers to accrue long service leave benefits. It also provides a mechanism which ensures that money is available to meet those long service leave benefits. Similar schemes exist in the States.

The scheme is funded by a levy payable by the employer. The levy is a set percentage of the basic remuneration payable to the employees. The levy rate is

set under the Act and can be varied through a determination by the Minister for Industrial Relations.

## SIGNIFICANT FINDING

- ***As at 30 June 1995 the Board still holds funds $18 million in excess of its estimated liabilities for long service leave payments.***

## AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Minister for Business, Employment and Tourism on 19 September 1995.

## LEVEL OF FUNDS HELD

The Board is required to meet ongoing long service leave payments to employees and contractors covered by the scheme. It accumulates funds which are invested in order to meet those liabilities. Audit reviews over the last few years have indicated that the Board held a growing surplus of assets over liabilities, and this surplus was expected to continue to grow unless the rate of contributions was reduced.

The contribution rate was reduced on 1 January 1994 from 2.5% to 1.5% by way of an amendment to the Long Service Leave (Building and Construction Industry) Act. It should be noted that 10% of contributions received are payable to the Construction Industry Training Fund, effectively altering the levy from 2.25% to 1.35%. This reduction in the contribution rate has not impacted significantly on the level of surplus funds held at balance date. A determination by the Minister effected on 1 July 1995 further decreased the contribution rate from 1.5% to 1% which is payable for the period commencing on 1 May 1995.

The new contribution rate should achieve a 30% decrease in employer and contractor contributions for the 1995-96 financial year. In quantitative terms, this is estimated at approximately $400,000 based on 1994-95 contributions. The ‘roll-on’ effect of this in future years will stabilise rather than reduce the level of surplus funds held by the Board.

# MILK AUTHORITY OF THE ACT

## INTRODUCTION

The Milk Authority of the Australian Capital Territory was established by the Milk Authority Act 1971. The Authority is responsible for engaging in, regulating and controlling the supply, sale and distribution of milk in the ACT. It regulates the maximum prices at which milk may be sold and the maximum charges which can be made in connection with the sale of milk.

## AUDIT OF 1994-95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion was provided to the Minister for Business, Employment and Tourism on 19 September 1995.

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# AGENTS BOARD OF THE ACT

## INTRODUCTION

The Agents Board of the ACT was established pursuant to the Agents Act 1968, with the Agents Fidelity Guarantee Fund created on 1 July 1992 in accordance with the Agents (Amendment) Act 1992. Its purpose is to provide funds for the protection of consumers in the event that a licensed agent fails to account for moneys held in trust (other than travel agents, which operate under a separate scheme). Persons who suffer monetary loss are entitled to make a claim for compensation from the Fund.

Under the Agents Act, licensed agents are required to maintain a trust account. The banks transfer interest earned on these accounts directly to the Board. This interest is the Board's principal source of income.

## SIGNIFICANT FINDING

- ***The requirement for banks to transfer to the Board interest earned by agents' trust accounts is not currently included in the Agents Act.***

## AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Minister for Business, Employment and Tourism on 18 August 1995.

## MATTERS RAISED IN PREVIOUS AUDITS

Previous reports recommended an amendment to the Agents Act 1968 to require banks to transfer to the Board interest earned on agents' trust accounts. Currently there is only an agreement with the various banks that such interest be passed on to the Board.

During 1994-95 a review of the Agents Act 1968 was undertaken, and a "Review of Agents Act 1968 Discussion Paper" has been released. This Discussion paper recommends that the Agents Act 1968 be amended to require banks to pass onto the Board all interest earned on agents' trust accounts.

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# NATIONAL EXHIBITION CENTRE TRUST

## INTRODUCTION

The National Exhibition Centre Trust (NATEX), is a statutory authority established under the National Exhibition Centre Trust Act 1976. It is responsible for managing the Exhibition Park in Canberra (EPIC). The major objectives of NATEX, as set out in its Act, are to:

- manage the centre and to conduct exhibitions, sporting, recreational and cultural activities and any other activities approved by the Minister; and

- to provide buildings and other facilities as appropriate to the conduct of activities described above.

## SIGNIFICANT FINDINGS

- ***The Trust has experienced significant operating losses over the last four years. Operating losses at 30 June 1995 totalled $1.9m; and***

- ***The Trust's ability to meet its liabilities as they fall due is of concern. The Government has provided a financial guarantee that all liabilities will be met in full. To meet this guarantee the Government made a grant of $300,000 to the Trust in late June 1995 to enable it to meet its current liabilities.***

## AUDIT OF 1994-95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion was provided to the Minister for Business, the Arts, Sport and Tourism on 20 September 1995.

Although the audit opinion was unqualified, the opinion mentioned the provision of a grant by the Government to meet a guarantee and commented on the continuing high level of current liabilities.

## FINANCIAL ANALYSIS

### Main Finding

EPIC has experienced operating losses over the past four years. The total accumulated loss as at 30 June 1995 was $1.9m.

In Report No. 8 of 1994 (*page 167*), concern was expressed about the capacity of NATEX to meet its liabilities as they fall due. As a result of the financial position, the Government provided a financial guarantee that it will meet any financial liability which NATEX was unable to discharge. In compliance with the guarantee, a grant of $300,000 was paid to NATEX in late June 1995 to meet NATEX's expenses which needed to be paid immediately.

## Analysis of Financial Data

### *Profitability*

For the fourth year running NATEX has experienced an operating loss:

| | 1991-92 | 1992-93 | 1993-94 | 1994-95 | Accumulated Losses at 30/6/95 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Operating Loss: | | | | | |
| Before Extraordinary Item | 258,617 | 193,995 | 564,147 | 146,771 | 1,939,560 |

The operating loss in 1994-95 was incurred despite Government subsidies totalling $499,452 (including the amount on $300,000 mentioned above). Had this funding not been provided, the operating loss would have been $646,223.

### *Liquidity*

Without Government funding or other increases in revenue, or reductions in expenses, NATEX will continue to face problems in meeting its financial obligations as they fall due. The *current ratio,* which represents the ratio of current assets to current liabilities, is indicative of an entity's ability to meet its obligations in the short term. Details of the current assets and liabilities, and the current ratio, for the last three years are presented in the following table.

| | 1992-93 | 1993-94 | 1994-95 |
|---|---|---|---|
| | $ | $ | $ |
| CURRENT LIABILITIES | | | |
| Sundry Creditors | 8,271 | 188,402 | 48,489 |
| Bank Overdraft | Nil | 74,655 | 196,994 |
| Other Current Liabilities | 71,635 | 126,196 | 121,925 |
| TOTAL CURRENT LIABILITIES | 79,906 | 389,153 | 367,408 |
| CURRENT ASSETS | | | |
| Cash | 42,654 | 34,493 | 5,892 |
| Receivables | 57,466 | 77478 | 91,280 |
| Other | 641 | 672 | 17,285 |
| TOTAL CURRENT ASSETS | 100,761 | 112,643 | 114,457 |
| CURRENT RATIO | 1 to 0.79 | 1 to 3.5 | 1 to 3.2 |

A current ratio in the range of 1:1 to 1.5:1 is the minimum usually desirable in a business. That is, it is desirable to have current assets at least equal to current liabilities, and preferably to have up to at least 50% more current assets than current liabilities. The ratio in NATEX - 1:3.2 - is strong cause for commercial concern.

**Review of NATEX**

It is understood that the Minister for Business, the Arts, Sport and Tourism is considering a consultant's report on the funding and future operations of NATEX.

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# AUSTRALIAN CAPITAL TERRITORY TOTALISATOR ADMINISTRATION BOARD (ACTTAB)

## INTRODUCTION

The principal activity of ACTTAB is the provision of telephone and on course totalisator betting services, offering a wide range of bet types and betting facilities, in active competition with other gambling services.

## SIGNIFICANT FINDINGS

- ***ACTTAB received a grant from the Government of $3.15m in 1994-95 enabling it to discharge its debt of the same amount to the Government; and***

- ***Based on the operating results for the last two years ACTTAB may, without the Government providing some relief from the current level of tax and race club distributions, have difficulty in meeting its emerging future financial obligations.***

## AUDIT OF 1994-95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion was provided to the Minister for Sport on 21 September 1995.

## VITAB SETTLEMENT

As reported last year (Report No. 8 of 1994), a settlement was effected on 10 August 1994 to an Agreement by which the long term contract between ACTTAB and VITAB Limited was terminated in consideration of the payment by the Board to VITAB of $3.3m. Concurrent with the termination, $3.3m was advanced to the Board by the ACT Government, with principal and interest re-payable over eight years.

In late June 1995, the Government provided a grant of $3,149,653 to ACTTAB. This grant enabled ACTTAB to repay the loan from the Government together with a small amount of accrued interest.

## ANALYSIS OF FINANCIAL DATA

| | 1992-93 | 1993-94 | 1994-95 |
|---|---|---|---|
| Operating Costs as a % of Commission on Turnover | 41% | 43% | 49% |
| Current Ratio | 2 to 1 | 1.3 to 1 | 1.4 to 1 |

### *Profitability*

Overall, operating performance declined in 1994-95 with ACTTAB reporting an operating loss before abnormal items of $681,382 (compared with a profit of $165,920 in the previous year).

The fall in operating performance was due mainly to a fall in turnover of 5.6% over the previous year which resulted in a corresponding fall in commission revenue of $805,888 (5.3%).

Operating expenditure was comparable to the previous year with an increase of approximately $39,363 (0.2%). Although payments to the ACT Government and to the racing industry fell (due to the lower turnover level) this fall was

more than offset by increases in other areas of operating expenditure such as depreciation, staff costs and advertising. Operating costs were 49% of commission on turnover (compared with 43% in 1993-94).

***Liquidity***

The current ratio is the ratio of current assets to current liabilities. It is indicative of an entity's ability to meet its obligations in the short term. The current ratio strengthened slightly from 1.3 to 1 in 1993-94 to 1.4 to 1 in 1994-95. Although the current ratio has improved, the fall in profitability will place pressure on ACTTAB's ability to meet its financial obligations in the future without the Government does not provide some relief from the current level of tax and race club distributions.

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# TOTALCARE INDUSTRIES LIMITED

## INTRODUCTION

Totalcare Industries Limited provides linen hire, waste management, sterilising, engineering and automotive maintenance services to the ACT Department of Health and Community Care and commercial customers.

## AUDIT OF THE 1994–95 FINANCIAL STATEMENTS

The financial statements for Totalcare Industries Limited were signed by the Directors on 31 October 1995. An ***unqualified*** audit opinion was issued on 31 October 1995.

## OPERATING RESULTS

For the year ended 30 June 1995 Totalcare Industries Limited made an after tax profit of $395,356 ($338,025 for 1993-94). The directors of Totalcare Industries Limited have recommended that a dividend of $120,000 be paid to the ACT Government.

## OTHER MATTERS

The Chief Minister's Department and Totalcare Industries Limited have engaged a private consulting firm to perform a review of Totalcare Industries Limited. The review will include an assessment of the company's performance since corporatisation in early 1992 and consider means and ways by which the company's full potential may be realised. Totalcare Industries Limited's arrangements for the supply of goods and services to the Department of Health and other government agencies will be included in the review, particularly in the context of the "National Competition Policy" which has been agreed to by Federal, State and Territory Governments. At the date of this report no recommendations had been made by the consultants.

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# CANBERRA TOURISM

## INTRODUCTION

The role of Canberra Tourism is to market and promote the ACT as an attractive tourist destination. The Trust Account was established in February 1991 to account for funds provided from both the government and private sector. These funds are used to conduct marketing and promotion campaigns for the ACT and to establish cooperative marketing programs with local industry.

Canberra Tourism was administered during 1994-95 by the Business, Employment and Tourism Bureau.

## SIGNIFICANT FINDING

- ***The operating results for Canberra Tourism improved from a deficit of $622,000 in 1993-94 to a surplus of $18,000 in 1994-95.***

## AUDIT OF THE 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Minister for Business, Employment and Tourism on 5 September 1995.

## MATTERS RAISED IN PREVIOUS AUDITS

In the previous year's audit it was found that there were a number of weaknesses in controls over the collection of revenue from publication sales and cooperative marketing receipts. Subsequent review by audit has found that adequate internal controls have now been implemented to address these matters.

## FINANCIAL ANALYSIS

As shown in the following table, Canberra Tourism achieved an operating surplus of $18,000 in 1994-95 compared to a deficit of $622,000 in 1993-94.

This was due to several factors including a reduction in marketing expenditure, an increase in operating revenue, and an increase in appropriations from the Government.

| | **1992–93 $'000** | **1993–94 $'000** | **1994–95 $'000** |
|---|---|---|---|
| Operating Expenditure | (4,189) | (5,387) | (5,159) |
| Operating Revenue | 166 | 320 | 527 |
| Net Cost of Services | (4,023) | (5,067) | (4,632) |
| Govt. Appropriations | 4,440 | 4,444 | 4,650 |
| **Reported Operating Surplus/(Deficit)** | 417 | (622) | 18 |

## OTHER MATTERS

A number of issues were raised during the audit concerning the operation of internal controls and accounting procedures. These have been raised with management and audit recommendations to rectify these issues have been accepted by management.

# JOBSKILLS TRUST

## INTRODUCTION

The Jobskills Trust was established in 1991–92 to facilitate the coordination of the Jobskills program. The program provides a six month period of paid work experience and training opportunities for people aged 21 and over who have been unemployed for 12 months or more.

The programs are administered by the Department of Business, the Arts, Sport and Tourism with employment and training services being provided by private sector agencies.

## AUDIT OF THE 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Minister for Business, Employment and Tourism on 9 August 1995.

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# WORKERS' COMPENSATION SUPPLEMENTATION FUND

## INTRODUCTION

The ACT Workers' Compensation Supplementation Fund was established pursuant to the Workers' Compensation Supplementation Fund Act 1980. The purpose of the Fund is to accept responsibility for the payment of workers' compensation in the event that an insurance company failed or was unable to meet its liabilities arising from workers' compensation insurance policies.

The Manager of the Supplementation Fund is appointed by the Chief Executive under the Act, and is currently a senior officer within the Department of Business, The Arts, Sport and Tourism.

## SIGNIFICANT FINDING

- ***At 30 June 1995 the Fund held cash and reserves of $6.74m compared with $6.42m at 30 June 1994. The adequacy of these reserves has not been independently assessed.***

## AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Minister for business, Employment and Tourism on 15 September 1995.

## LEVEL OF RESERVES

A total of $472,233 was paid out in claims during 1994-95 compared to $945,008 in the previous year. The amount of claims paid each year varies depending upon the number and size of claims received. One claim for $249,338 was outstanding at year end.

At 30 June 1995 the Fund held cash and investment reserves totalling $6.74m. However whether or not this amount is sufficient (or excessive) to meet all possible future claims has not been independently assessed.

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# NOMINAL INSURER

## INTRODUCTION

The Nominal Insurer is appointed by the Minister pursuant to the Workers' Compensation Act 1951. The current Nominal Insurer is a senior officer within ACT WorkCover which is part of the Chief Minister's Department.

The purpose of the Nominal Insurer is to meet employees' entitlements to workers' compensation where employers fail to meet their obligations relating to workers' compensation insurance. The Nominal Insurer is empowered by the Act to recover from employers any payments made to injured employees.

## AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Minister for Business, Employment and Tourism on 15 September 1995.

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# CHAPTER 7 ATTORNEY-GENERAL
# ARTS AND HERITAGE
# ENVIRONMENT, LAND AND PLANNING
# POLICE
# EMERGENCY SERVICES
# CONSUMER AFFAIRS

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## ATTORNEY-GENERAL'S DEPARTMENT

### INTRODUCTION

The Attorney-General's Department is responsible for the provision of legal services to the ACT Government. It also provides programs and funding to deliver community legal services, the administration of justice, and the maintenance of law and order within the ACT.

### AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion for the 1994-95 financial statements was provided to the Attorney-General on 5 September 1995.

Generally it was found that the financial statements were well prepared and documented, and that the underlying accounting systems and internal controls were operating effectively. Several minor financial statement preparation and procedural matters were identified during the audit. Management has indicated that audit recommendations in relation to these matters will be adopted.

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# LEGAL AID OFFICE (ACT)

## INTRODUCTION

The Legal Aid Office (ACT) was established by the Legal Aid Act 1977. The Commission provides legal assistance to eligible people by arranging for the services of private legal practitioners to be made available at the expense of the Commission or by making available the services of Commission officers.

## AUDIT OF THE 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion for the 1994-95 financial statements was provided to the Minister on 30 August 1995. The results of the audit were generally satisfactory.

## FINANCIAL POSITION

Report No. 8 of 1994 (*page 69*) commented that the financial position of the Commission had significantly improved from having negative equity of $3,000 as at 30 June 1993 to having $0.619m of equity as at 30 June 1994. During 1994-95 total operating costs increased by $0.469m (8.0%) and total operating revenues decreased by $0.705m (29.4%). Although appropriation revenue increased in 1994-95 to meet increased costs for the Commission, overall a small operating loss of $0.033m resulted for 1994-95. As at 30 June 1995 the Commission had sufficient short term funds to meet anticipated short term liabilities.

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# PUBLIC TRUSTEE FOR THE ACT

## INTRODUCTION

The Public Trustee prepares wills, acts as an executor of wills or as an administrator of estates for deceased persons and as a trustee for deceased estates. The Public Trustee also acts as a trustee of moneys awarded by the

Court to minors and persons with a disability. The Office of the Public Trustee was established by the Public Trustee Act 1985.

## SIGNIFICANT FINDING

- ***There is a need for the identification of strategies to maintain the future financial viability of the Public Trustee Office.***

## AUDIT OF THE 1994–95 FINANCIAL STATEMENTS

The Public Trustee prepares two sets of financial statements: 'Corporate' financial statements which relate to the activities of operating the Office of the Public Trustee; and, secondly, the 'Trust Account' financial statements relating to deceased estates and trusts which are administered by the Public Trustee.

***Unqualified*** audit opinions for both the corporate and trust financial statements were provided to the Attorney-General on 24 August 1995. The results of audits for both the corporate and trust financial statements were generally satisfactory.

### Future Financial Viability

Report No. 8 of 1994 (*page 66*) commented on the need for the Office of the Public Trustee to develop strategies to address its funding requirements due to declining levels of Government appropriations. Appropriation funding for the Office of the Public Trustee reduced from $300,000 in 1993-94 to $132,400 in 1994-95.

Despite the reduction to appropriation funding, for 1994-95 the Office of the Public Trustee generated an operating surplus of $12,221, after appropriation revenue is included. Attainment of this operating result is to be commended. The result was assisted by the receipt of fees for administration of several large deceased estates. As at 30 June 1995 most of the fees from these estates had been received and unless further large deceased estates are referred for administration, operating deficits are likely to occur in the future. The need still remains for a strategy to be developed to address the ongoing financial viability of the Office of the Public Trustee.

## MATTERS RAISED IN PREVIOUS AUDITS

### Trust Financial Statements

Neither the 'Treasury Guidelines for Financial Statements of ACT Entities' or the Public Trustee Act 1985 require the preparation of financial statements by the Public Trustee for the administration of deceased estates and trusts. However, the Public Trustee voluntarily prepares 'Trust Account' financial statements as a demonstration of accountability for the administration of these estates and trusts. This matter has previously been taken up by the Audit Office with the Office of Financial Management regarding possible amendment to the Financial Statement Guidelines.

Report No. 8 also advised that the audit opinion on the 1993-94 Trust financial statements was qualified regarding two matters. They were:

- interest of $73,800 had been underpaid in distributions from the Common Fund to individual estates; and

- amounts in the financial statements for unrealised assets had not been correctly stated.

During 1994-95 the Office of the Public Trustee recalculated and adjusted where necessary interest distributions to correct the $73,800 underpayment in 1993-94. Unrealised assets were also correctly calculated for the 1994-95 financial statements.

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# DEPARTMENT OF THE ENVIRONMENT, LAND AND PLANNING

## INTRODUCTION

The Department was responsible for the planning, development and management of land resources and the environment. It also promoted the development, practice, and public awareness and appreciation of the arts.

Under Administrative Arrangement Orders, the Department was abolished from 1 July 1995 and its functions transferred to the Department of Business, the

Arts, Sport and Tourism, the Attorney-General's Department and the Department of Urban Services.

## AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion was provided to the Minister for the Environment, Land and Planning on 13 September 1995.

Several matters relating to internal controls, accounting procedures and reporting disclosures were raised with the Department. Audit recommendations were made in relation to these matters and generally these have been accepted by management or management has, or intends to, implement alternate controls.

## MATTERS RAISED IN PREVIOUS AUDITS

### Management of Assets

Reports in previous years referred to the need to improve the general maintenance and related record keeping of asset registers. Although further improvement can still be achieved in some areas, the audit found that generally there has been a satisfactory level of improvement in this regard.

### ACT Building Control

Report No. 8 of 1994 (*page 86*) referred to deficiencies in Building Control which effectively weakened management's control over the receipting process and increased the risk of irregularity. The audit found that a satisfactory level of control has now been achieved in this area.

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# CANBERRA THEATRE TRUST

## INTRODUCTION

The Canberra Theatre Trust was established by the Canberra Theatre Trust Act 1965. The principal function of the Trust is to manage the Canberra Theatre Centre as a venue for the presentation of artistic and cultural entertainment,

displays, exhibitions and other forms of entertainment. In fulfilling this role the Trust acts as an agent for promoters who wish to hire the venue, and also occasionally promotes and stages its own productions.

## SIGNIFICANT FINDING

- ***The Canberra Theatre Trust achieved a significant reduction in expenses in 1994-95 when compared to the previous year and converted a large operating deficiency in 1993-94 to a surplus in 1994-95.***

## AUDIT OF 1994-95 FINANCIAL STATEMENTS

A ***qualified*** audit opinion was provided to the Minister for the Arts and Heritage on 30 August 1995.

The qualification concerned the Trust's not recognising grants received during 1994-95 as revenue for that year. The previous year's financial statements were qualified for the same reason.

The Trust's management recognises that the treatment of revenue in the financial statements departed from the Treasury Guidelines for the preparation of financial statements. It considered its treatment appropriate as the grants were provided for the staging of festivals in future years. Consequently, the grants were recorded as deferred (i.e. unearned) revenue, to be recognised as revenue in the year the productions are staged.

## FINANCIAL RESULTS

As indicated in the following table, the Theatre's net cost of operations during the 1994–95 financial period fell by $594,155 (30%) over the previous period. After taking Government appropriations of $1.46m into account, the Theatre recorded an operating surplus before abnormal items of $96,803 compared with a deficit of $684,052 in 1993-94.

| | 1992<br>$ | 1993<br>$ | 1994<br>$ | 1995<br>$ |
|---|---|---|---|---|
| Revenue from Independent Sources | 1,859,337 | 2,634,525 | 2,214,603 | 2,212,811 |
| Operating Expenses | 3,096,508 | 3,894,196 | 4,176,155 | 3,580,208 |
| **Net Cost of Operations** | 1,237,171 | 1,259,671 | 1,961,552 | 1,367,397 |

## MATTER RAISED IN PREVIOUS REPORT

Reference was made in last year's report on the financial statements to potential cash flow difficulties facing the Trust at the end of 1993-94 and in early 1994-95. To alleviate this situation, the Theatre's board arranged a $300,000 overdraft facility with the ACT Borrowing and Investment Trust. The "facility" is available for a term of three years at the end of which any outstanding amounts are to be fully re-paid.

Following the substantial cost reductions mentioned previously, cash flow difficulties did not eventuate and the overdraft was not utilised.

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# FLORIADE

## INTRODUCTION

Floriade is an annual horticultural, cultural and artistic display. It is now widely recognised as one of the premier tourist exhibits in Australia. The Floriade Trust Account through which associated receipts and payments are processed, was established on 1 November 1991.

## SIGNIFICANT FINDING

- ***Floriade's operating loss increased in 1994-95 to $155,802 compared to $40,375 in the prior year.***

## AUDIT OF 1994-95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion was provided to the Minister for the Environment, Land and Planning on 15 September 1995.

## MATTERS RAISED IN PREVIOUS AUDITS

In last years report (No. 8 of 1994 - *page 93*), it was noted that documentation supporting the calculation of administrative staff costs could be improved. This year's calculations were supported by adequate documentation.

## FINANCIAL RESULTS

Floriade suffered an operating loss of $155,802 compared to the prior years operating loss of $40,375. This years operating loss was financed by a reduction in assets and an increase in liabilities. Investments have fallen from $97,414 to $18,707 while trade creditors have increased by $48,686 to $210,601. A substantial proportion of trade creditors are ACT Government agencies.

## REPORTING PERIOD FOR FLORIADE

The Floriade event is held from mid September to mid October with preparations for the next year's event usually commencing early in the calendar year. The major expenditure for the event takes place in the months leading up to September while revenue tends to be earned between July and October.

Because the Floriade cycle is spread across the end of a financial year, there is a mismatch of the revenue and expenses for the event in the financial statements. Using the standard July-June reporting period causes many of the expenses brought to account to be for the coming event while most of the revenue relates to the event in the previous year.

Where revenue and expenses are fairly stable from year to year, this mismatch will not have a major impact on financial reporting. However, where there is a growth in revenue and expenses, the mismatch could impact on financial reporting by matching much of the revenue from one year's event with expenses for the next year's event. In periods of growth, the event will appear

to make losses from year to year. In periods of decline, events will appear to make profits.

While this reason is not necessarily the full explanation for the losses reported by Floriade in 1994 and 1995, it is probably a contributing factor. It may be useful therefore for the Department and Floriade to consider the introduction of a more appropriate reporting period such as a calendar year instead of a financial year.

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# YARRALUMLA NURSERY

## INTRODUCTION

The Yarralumla Nursery Trust Account (the 'Nursery') was established on 1 July 1992. Transactions in connection with the following activities are processed through the Trust Account:

- receipting and paying monies in connection with retail and wholesale plant nursery functions and ancillary activities; and

- meeting necessary expenditure which is consistent with the Yarralumla Nursery Trust's obligation to maintain the heritage value of the nursery site, buildings and areas surrounding the nursery.

## AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was issued to the Minister on 15 September 1995.

## MATTERS RAISED IN PREVIOUS AUDITS

The financial statements of the Nursery for 1992-93 were qualified due to uncertainty surrounding the value of closing inventories. As this also raised uncertainties regarding the value of opening inventories and operating expenses for 1993-94, the financial statements for that year were also qualified.

As mentioned in Auditor-General's Report No. 8 1994 (*page 94*), towards the end of 1993-94 the Nursery adopted an appropriate method of inventory valuation, in addition to conducting an end of year stocktake. In 1994-95 it was found that a reliable year end inventory valuation was attained.

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# EMERGENCY SERVICES BUREAU

## INTRODUCTION

The Emergency Services Bureau is responsible for the delivery of fire, ambulance, bush fire and other emergency services to the community.

The Bureau was created on 15 March 1995 by combining the Emergency Services Program from the Department of Urban Services and the Ambulance Service from the Department of Health and Community Care.

## AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion was provided to the Minister for Urban Services on 15 September 1995.

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# ACT FORESTS

## INTRODUCTION

ACT Forests is responsible for the management of pine plantations within the Territory and for the supply of logs to local timber mills on a commercial basis. ACT Forests also maintains recreational areas in the forests for the Canberra community.

## SIGNIFICANT FINDINGS

- ***In 1992, the ACT Government approved a long term Business Plan for ACT Forests. The Business Plan indicated that for approximately the past fifteen years ACT Forests had been logging its plantations at a rate in excess of the long term growth rate for the forests. To remedy this situation, ACT Forests is now incurring high plantation establishment, tending and maintenance costs which have reduced the present profitability of its operations;***

- ***The value of the forests has increased by $15.6m (54.0%) from the end of 1990-91 to the end of 1994-95; and***

- ***The management of ACT Forests continue to anticipate a return to sustainable profitable operations in 1996-97.***

## AUDIT OF THE 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion on the 1994-95 financial statements was provided to the Minister on 23 August 1995.

## FINANCIAL ANALYSIS

### Main Findings

As a result of the need to replenish forest stocks to a sustainable level for generating future profits, ACT Forests have incurred additional plantation costs over the past four years which have resulted in the incurring of operating losses since 1991-92. On current projections, operations will not return to a profitable position until 1996–97. This is in accordance with a government approved 'Business Plan' developed in 1992-93.

As a result of increased plantings and forest maintenance over recent years, growing stocks have substantially increased. This is partially indicated by the increase in forest values which have increased by $15.58m (54%) from $28.90m in 1990-91 to $44.48m in 1994-95.

## Analysis

The following is an analysis of the financial performance of ACT Forests for the three years ended 30 June 1995.

### *Operating Results*

Following is a summary of the *profit and loss* statements for the last three years:

| | 1992–93 $'000 | 1993–94 $'000 | 1994–95 $'000 |
|---|---|---|---|
| **Operating Revenue** | | | |
| Marketing and Log Trading | 8,206 | 8,616 | 8,268 |
| Plantation Operations | 401 | 658 | 816 |
| Policy and Community | 533 | 509 | 786 |
| Finance and Admin. | 92 | 249 | 484 |
| **Total Operating Revenue** | 9,232 | 10,032 | 10,354 |
| **Operating Expenditure** | | | |
| Marketing and Log Trading | 4,468 | 5,125 | 4,969 |
| Plantation Operations | 4,061 | 3,934 | 3,670 |
| Policy and Community | 606 | 492 | 819 |
| Finance and Admin. | 811 | 1,068 | 1,144 |
| **Total Operating Expenditure** | 9,946 | 10,619 | 10,602 |
| **Operating Profit/(Loss) Before Abnormal Items** | (714) | (587) | (248) |
| Abnormal Items | (51) | (30) | - |
| **Operating Profit/(Loss)** | (765) | (617) | (248) |

### *Profitability*

ACT Forests last recorded an operating profit in 1990–91 ($0.08m). The lack of profitability of ACT Forests operations during the last four years has mainly resulted from the need to incur additional costs to rehabilitate the forest estate to a level where sustainable and profitable logging operations can occur in the future.

In accordance with the need to rehabilitate the forest estate, the Business Plan does not anticipate a return to profitable operations until 1996–97.

The 1994 drought resulted in a reduced plantation establishment program in 1994-95 and delayed the completion of the plantation establishment program.

The reduced planting program has resulted in the total expenses remaining steady while revenue has increased and given a temporary improvement in the operating loss from $0.62m in 1993-94 to $0.25m in 1994-95.

### *Financial Position*

Following is a summary of the balance sheets for the past three years:

| | 1992–93 $'000 | 1993–94 $'000 | 1994–95 $'000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash | 23 | 106 | 11 |
| Investments | 175 | 68 | 165 |
| Receivables | 579 | 355 | 715 |
| Inventory | * | * | 78 |
| Growing Stock | 2,923 | 3,699 | 3,220 |
| Other | 405 | 453 | 143 |
| **Total Current Assets** | 4,105 | 4,681 | 4,332 |
| **Non-Current Assets** | | | |
| Property, Plant & Equip | 12,084 | 12,304 | 12,059 |
| Growing Stock | 36,078 | 38,676 | 41,260 |
| **Total Non-Current Assets** | 48,162 | 50,980 | 53,319 |
| **Total Assets** | 52,267 | 55,661 | 57,651 |
| **Current Liabilities** | | | |
| Creditors and Borrowings | 774 | 563 | 483 |
| Provisions | 361 | 406 | 600 |
| **Total Current Liabilities** | 1,135 | 969 | 1,083 |
| **Non-Current Liabilities** | | | |
| Creditors and Borrowings | 333 | 652 | 723 |
| Provisions | 1,124 | 1,141 | 1,219 |
| **Total Non-Current Liabilities** | 1,457 | 1,793 | 1,942 |
| **Total Liabilities** | 2,592 | 2,762 | 3,025 |
| **NET ASSETS** | 49,675 | 52,899 | 54,626 |
| **Equity** | | | |
| Capital | 30,215 | 30,215 | 30,215 |
| Reserves | 11,381 | 15,222 | 17,327 |
| Retained Profits | 8,079 | 7,462 | 7,084 |
| **TOTAL ACT GOVT. EQUITY** | 49,675 | 52,899 | 54,626 |

* 1994-95 was the first year that amounts were recorded for inventory.

### *Liquidity*

The current ratio indicates the ability of ACT Forests to meet its short term liabilities from short term assets. The ratio increased from 3.62 in 1992–93 to 4.83 in 1993–94 and marginally decreased to 4.00 in 1994–95. The ratio indicates that ACT Forests has sufficient short term funds to meet liabilities which are anticipated to fall due during 1994–95.

### *Forest Valuation*

Trees are only included in the valuation of the forests and growing stock when they reach fifteen years old as they are then considered to have a commercial value for logging. The value of the forests and growing stock is the product of the total estimated volume of logs and the royalty rate of the logs. The royalty rate represents the value of the trees, unfelled in the forests.

The total value of the forests and growing stock increased by $5.5m (14%) from $39.0m in 1992–93 to $44.5m in 1994–95. The increases have been due to both increases to the volume of the forests and to royalty rates.

# CHAPTER 8 EDUCATION AND TRAINING HOUSING AND FAMILY SERVICES SPORT AND RECREATION CHILDREN'S AND YOUTH SERVICES

## DEPARTMENT OF EDUCATION AND TRAINING

### INTRODUCTION

The main functions of the Department of Education and Training relate to the provision of advice to the ACT Government on education and training, the provision of funding support and the registration of non-government schools, and overseeing the operation of government primary schools, high schools and secondary colleges and related activities through the ACT Schools Authority. The Department also undertakes the co-ordination of higher education and training through liaison and negotiation between the providers of educational services and the ACT and Commonwealth Governments.

### AUDIT OF THE 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion for the 1994-95 financial statements was issued to the Minister on 14 September 1995. The financial statements were well prepared and documented, and the accounting systems and internal controls were generally operating effectively.

## ACT SCHOOLS AUTHORITY

### INTRODUCTION

The ACT Schools Authority was established by the Schools Authority Act 1976. The Authority's functions are to operate government primary schools, high schools and secondary colleges in the ACT and carry out related activities. Responsibilities also included government pre-schools until 15 March 1995.

Pre-school responsibility was transferred to the Children's and Youth Services Bureau from that date.

## SIGNIFICANT FINDINGS

- ***Operating costs have increased steadily over the past three years, however the increases have been less than increases in CPI over the same period; and***

- ***Expenditure of $9.1m on voluntary separation packages in 1993-94 made a minor contribution to limiting increases in 1994-95 school salary costs, however the contribution would represent only a small recovery of the cost of the packages.***

## AUDIT OF THE 1994–95 FINANCIAL STATEMENTS

### Qualified Audit Opinion

A ***qualified*** audit opinion for the 1994-95 financial statements was provided to the Minister on 14 September 1995. The audit opinion was qualified regarding the valuation of land and buildings for preschools. Following the changes on 15 March 1995 to administrative units, preschool functions were transferred from the ACT Schools Authority to the Children's and Youth Services Bureau. Due to valuation difficulties, it was not possible to separately identify the value of all preschool land and buildings values from existing land and buildings for Primary Schools. This resulted in land and buildings in the financial statements of the ACT Schools Authority being overstated by the value of the preschool land and buildings. This issue will be resolved for 1995-96 as revaluations of pre-school land and buildings are presently being conducted by the Australian Valuation Office.

The qualification issue resulting was technical in nature and did not reflect on the operation of internal controls or financial statements procedures, which were found to be satisfactory. Several minor matters of a procedural nature were raised with the Authority. Audit recommendations related to these matters have been accepted by management.

## MATTERS RAISED IN PREVIOUS AUDITS

### Run-Down of Current Assets in 1993-94

Report No. 8 of 1994 (*page 97*) advised that during 1993-94 the Authority incurred $2.066m ($0.480m for 1992-93) more in delivering services than it received in funding. This was achieved by running down current assets balances (i.e. cash at bank, pre-payments, debtors) and allowing trade creditor liabilities to increase significantly. During 1994-95 this trend stabilised and the Authority finished 1994-95 with the small amount of $0.013m more in working capital than it commenced the year with.

## FINANCIAL ANALYSIS

Following is a brief financial analysis of the current financial position and funding of the ACT Schools Authority for the year ended 30 June 1995.

### Operating Results

A summary of the ***operating expenditure and revenues*** for the Schools Authority for the past three years follows:

| | 1992-93 $'000 | 1993-94 $'000 | 1994-95 $'000 |
|---|---|---|---|
| **Expenditure** | | | |
| Schools' Operating Expenses | 203,811 | 206,850 | 211,382 |
| Administrative Expenses | 18,442 | 23,645 | 24,020 |
| Specific Purpose Program Expenses | 3,639 | 3,786 | 4,553 |
| **Total Operating Expenditure** | **225,892** | **234,281** | **239,955** |
| Pre-School Costs Transferred Out [1] | | | 2,600 |
| Computing Costs and Special Needs Transport Transferred In [2] | | (3,128) | (3,821) |
| **Adjusted Operating Expenditure** | **225,892** | **231,153** | **238,734** |
| **Operating Revenues** | **14,828** | **15,033** | **17,341** |
| **Net Cost of Services** | **211,064** | **216,120** | **221,393** |

1 As mentioned previously, responsibility for pre-schools was transferred from the Schools Authority on 15 March 1995. Approximate operating costs for pre-schools from that date to 30 June 1995 have been added back in this table to enable 1994-95 costs to be compared with previous years for the same range of functions.

2 In 1993-94, the Schools Authority became responsible for the payment of computing costs and special needs transport costs, both of which had previously been provided free of charge. In the above table, these costs have been added back to enable comparison with 1992-93 for the same range of functions.

## *Expenditure*

From 1992-93 to 1994-95 adjusted operating expenditure increased by $12.8m (5.7%) from $225.9m in 1992-93 to $238.7m in 1994-95. Increases to expenditure were significantly less than general cost increases in the ACT as indicated by increases in the ACT CPI which over the same period were 8.7%. The main areas of increase have been:

- *schools expenditure* increased by $7.6m (3.7%) from $203.8m in 1992-93 to $211.4m in 1994-95. The main area of increase was for salaries which increased by $5.7m (3.9%) from $147.1m in 1992-93 to $152.8m in 1994-95. This overall increase was the net effect of both increases and decreases to salaries costs. Increases resulted from approved pay increases and movements of teachers to higher increment levels, and decreases from marginal reductions to teacher numbers in 1993-94 and from 15 March 1995 the transfer of costs for preschool teachers from the ACT Schools Authority to the newly created Children's and Youth Services Bureau;

- *administration expenditure* increased by $5.6m (30.4%) from $18.4m in 1992-93 to $24.0m in 1994-95. In 1993-94 the Authority became responsible for the payment of services which had previously been provided free of charge. These totalled $3.1m in 1993-94 and $3.8m in 1994-95 and were for services such as special needs transport and computing support services. Salaries costs also increased by $1.9m (18.7%) from $10.5m in 1992-93 to $12.4m in 1994-95. This increase resulted from approved pay increases and a $1.6m increase during 1993-94 to non-teaching staff costs.

***Operating Revenue***

Total operating revenue has increased by $2.5m (17.0%) from $14.8m in 1992-93 to $17.3m in 1994-95. The most significant area of increase relates to moneys collected for school excursions, etc., which are used for the payment of excursion or other costs. The collection of these moneys has increased by $1.4m (23.2%) from $5.8m in 1992-93 to $7.2m in 1994-95.

***Net Cost of Services***

The *net cost of services* after adjustments to enable comparability of costs over the three years, increased by $10.4m (4.9%) from $211.0m in 1992-93 to $221.4m in 1994-95. This is the net result of a $12.8m increase in expenses and a $2.4m increase in operating revenues.

## *Revenue from Government*

Following are details of revenues from Government:

| | 1992-93 $'000 | 1993-94 $'000 | 1994-95 $'000 |
|---|---|---|---|
| Government Appropriations | 191,638 | 206,316 | *205,572 |
| Govt. Redundancy Contribution | - | 8,596 | - |
| Transfer of Land and Buildings | (4,638) | (13,216) | (268) |
| Land & Buildings from DUS | 6,875 | 7,520 | 15,326 |
| **Total Revenue from Government** | **193,875** | **209,216** | **220,630** |

* Includes $2.6m pre-schools expenditure included for comparative purposes.

### *Government Appropriations*

Funding of cash outflows for operational purposes is made by recurrent Government appropriations which have increased by $14.0m (7.3%) from $191.6m in 1992-93 to $205.6m in 1994-95. The high figure in 1993-94 was mainly generated by the occurrence of 27 pay days in 1993-94 (most years have 26).

### *Voluntary Separation Scheme*

During 1993-94 the Department of Education and Training implemented a Targeted Separation Scheme (TSS). The TSS was a voluntary separation scheme for teachers over 47 years of age who had at least 10 years of teaching experience. 204 teachers accepted the separation package at a total cost of $9.1m. The scheme involved the majority of teachers accepting the separation package being replaced with teachers at a lower pay increment. During 1994-95, the increase in school salary costs was $2.4m (1.6%). The 1993-94 separation scheme would have contributed to constraining the increase to this relatively small amount. The actual contribution has not been calculated, however it would represent only a small recovery of the $9.1m cost of the separation packages.

# CANBERRA INSTITUTE OF TECHNOLOGY

## INTRODUCTION

The Canberra Institute of Technology is a statutory authority established on 4 January 1988 under the Canberra Institute of Technology Act 1987. The functions of the Institute include conducting an educational institution in the fields of technical and further education, supporting industry and commerce, and assisting the development of industry and commerce, and the community, in the ACT. It serves the vocational, educational and training needs of the ACT and its region from six main campuses. The Institute has a 31 December year end for financial reporting.

## SIGNIFICANT FINDING

- ***The Institute did not meet the requirement to submit accurate, complete and certified financial statements for audit within two months of year end. The Institute was granted a one month extension to 31 March 1995.***

## AUDIT OF THE 1994 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion was provided to the Minister for Education and Training on 10 April 1995.

Generally, with the exception of the lateness of the statements, it was found that the financial statements were well prepared and documented. The Institute has shown a very positive approach to implementing improvements in the preparation of its financial statements.

## MATTERS RAISED IN PREVIOUS AUDITS

### Qualification of Audit Opinion on 1993 Statements

As reported in Report No. 8 of 1994 (*page 113*), the audit opinion on the financial statements at 31 December 1993 was qualified because of deficiencies in the recording of plant and equipment. The Institute carried out a full stocktake program of all campuses in 1994 and early 1995. Adjustments to the

accounts and records were reflected in the 1994 financial statements and no qualification was necessary for 1994.

## REPORTING TIMETABLE

As in the previous year, the Institute did not meet the requirement to submit draft 1994 financial statements for audit within two months of year end as required by the Office of Financial Management Guidelines. While acknowledging that draft financial statements were presented to the Audit Committee meeting attended by the Audit Office on 28 February 1995, they did not meet the requirements of the Guidelines since they were not sufficiently "accurate, complete and certified". Difficulties were experienced due to changes in key accounting personnel in 1993 and to problems in finalising and accounting for the results of the full stocktake of plant and equipment on all CIT campuses in 1994. It should be noted, however, that other agencies of similar size and complexity generally met the reporting timetable.

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# AUSTRALIAN INTERNATIONAL HOTEL SCHOOL (AIHS)

## INTRODUCTION

The AIHS is a self-funding, non-profit degree granting hotel management training institution which was formally established in early 1994 under amendments to the Canberra Institute of Technology Act 1987. The Canberra Institute of Technology acquired the Hotel Kurrajong at Barton which, after extensive refurbishment, is being used by the AIHS. The School has a 31 December year end for financial reporting.

## AUDIT OF THE 1994 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion was provided to the Minister for Education and Training on 5 April 1995.

## OPERATING RESULTS FOR 1993 AND 1994

As at 31 December 1994, the AIHS had accumulated losses of $3.3m, reflecting the expenditure incurred in 1993 and 1994 prior to commencing full operations.

Revenue was nil in 1993 and insignificant in 1994. The AIHS opened to receive students at the commencement of the 1995 calendar year.

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# CIT SOLUTIONS PTY LTD

## INTRODUCTION

The Canberra Institute of Technology formed a wholly owned company, ACTAID Pty Ltd (now known as CIT Solutions Pty Ltd) on 4 January 1989. The company was formed to undertake projects, courses and other commercial ventures connected with the Institute. As CIT Solutions is a registered company the financial statements of the company were submitted for audit pursuant to the Corporations Law. The company has a 31 December year end for financial reporting.

## AUDIT OF THE 1994 FINANCIAL STATEMENTS

An ***unqualified*** audit report was issued to the company on 6 April 1995.

## MATTERS RAISED IN PREVIOUS AUDITS

During the past two years it was noted that accounting policies underlying the information disclosed in the annual financial statements for the company needed to be clarified and documented. During the 1994 audit, it was noted that this issue had been addressed and a policy manual had been prepared by the company which contained useful information on accounting procedures and policies in place.

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# SOUTH EAST REGION TRAINING LIMITED

## INTRODUCTION

South East Region Training Limited (SERT) is a company limited by guarantee, which was incorporated in December 1994. SERT is a non-profit training organisation established to provide employment opportunities to apprentices and trainees.

## AUDIT OF 1994-95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Chairman on 28 September 1995.

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# HOUSING AND FAMILY SERVICES BUREAU

## INTRODUCTION

The Housing and Family Services Bureau (formerly the Housing and Community Services Bureau) had responsibility for the delivery and support of a wide range of community and welfare services and includes responsibility for ACT Housing and the Office of Rental Bonds.

As a result of the Administrative Arrangements Order of 14 March 1995, responsibility for the following functions were transferred to other departments:

- Aged and Disability Services - to the Department of Health and Community Care;
- Corrective Services - to the Attorney-General's Department; and
- Children's Day Care Services and the Adolescent Day Unit - to the Children's and Youth Services Bureau.

Following an Administrative Arrangements Order in late June, the remaining family responsibilities were transferred to the Children's and Youth Services Bureau on 1 July 1995. ACT Housing assumed responsibility for the Office of Rental Bonds.

## AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Minister for Housing and Family Services on 15 September 1995.

## MATTERS RAISED IN PREVIOUS AUDITS

In last year's report (Report No. 8 of 1994 - *page 75*) it was noted that the Bureau needed to improve procedures to ensure the correctness and completeness of the Statement of Supplementary Information and the associated notes to the financial statements. In addition there were some deficiencies in the records relating to plant and equipment. This year's audit found that adequate internal controls had been implemented by the Bureau to address these matters.

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# ACT HOUSING

## INTRODUCTION

ACT Housing provides assistance and services in accordance with the Housing Assistance Act 1987 and the 1989 Commonwealth State Housing Agreement (CSHA). Assistance is provided through public rental housing, rent relief for private rental tenants, home loans mortgage relief, emergency housing, supported accommodation and community based housing assistance.

## SIGNIFICANT FINDINGS

- ***ACT Housing generated an operating loss of $4.0m in 1994-95 compared to a profit of $4.3m in 1993-94;***

- ***The change in results was mainly due to an increase in depreciation expenditure on rental properties, from $16.9m in 1993-94 to $24.6m in 1994-95. This increase was a result of the 1994-95 depreciation expense having been calculated on the fully revalued amounts for rental properties;***

- ***ACT Housing has entered into two joint venture agreements with the private sector to construct and sell units and townhouses. Financial statements for these joint ventures are audited by the Auditor-General; and***

- ***As a result of the terms of one joint venture agreement, ACT Housing is required to pay some $200,000 above the aggregate market price for 50% (i.e. 10) of the dwellings constructed. This will result in a $100,000 subsidy to the joint venture partner.***

## AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit opinion was provided to the Minister on 14 September 1995.

## MATTERS RAISED IN PREVIOUS FINANCIAL STATEMENT AUDITS

In last years report, it was noted that the management and financial reporting of debtors needs to be more closely aligned to actual recovery rates. In 1994-95 it was found that some financial reporting of debtors is still not being based on actual recovery rates.

## FINANCIAL ANALYSIS

### Operating Result

ACT Housing's operating result for the year was a loss of $4.0m, compared to a profit of $4.3m in 1993-94.

### Operating Revenue

Total operating revenue increased in 1994-95 by $4.6m, due mainly to an increase of $4.0m in interest from housing loans. This increase in interest received was due to an additional $34.1m being lent out for housing loans during 1994-95.

### Operating Expenditure

Total operating expenditure increased by $12.8m in 1994-95. The two main reasons for this were:

- an increase in depreciation expenditure on rental properties of $7.7m. This increase was due to the 1994-95 depreciation expense having been calculated on the fully revalued amounts, following a revaluation process having been undertaken on 31 March 1994; and

- management expenses increased by $2.9m, due to an increase of $2.0m in salaries and related costs, plus an increase of $756,000 in payments to consultants and contractors. This increase in management expenses is mainly attributable to ACT Housing implementing the recommendations of the 1994 Report for the Housing Review. The recommendations of the Review are aimed at improving services to clients of housing programs and ensuring that the administration of programs is cost effective and accountable. Benefits arising from the Housing Review are anticipated by ACT Housing to mostly come to fruition in 1995-96.

### Assets and Liabilities

Total assets increased by $31.3m to $1,722m at 30 June 1995. The increase occurred in housing loan debtors which grew by $36.7m to $86.1m. Financing for these additional housing loans came from borrowings from Treasury. This increase in borrowings from Treasury for housing loans is also the reason why ACT Housing's total liabilities increased by $30.0m during 1994-95.

## JOINT VENTURES

### Introduction

ACT Housing 1994-95 financial statements included information relating to two joint ventures in which ACT Housing is involved. These joint ventures are

for the construction of townhouses and apartments at Holder and Braddon. Separate financial statements were prepared for each of the ventures and audited by the Auditor-General. Auditing by the Auditor-General is a result of clauses in the joint venture agreements.

**Braddon Joint Venture (Braddon Gardens)**

The apartments at Braddon are still under construction. The net assets of the project total $7.8m and primarily consist of inventories of $7.3m. ACT Housing has contributed $4.1m so far to this project.

**Holder Joint Venture**

The Holder joint venture is for the construction of twenty townhouses; ten of which ACT Housing is required to purchase in accordance with the joint venture agreement signed on 20 September 1994. The other ten townhouses are to be sold on the open market. Net assets of this joint venture at year end total $652,001 and primarily consist of inventory of $2.7m offset by a secured loan of $2.0m. ACT Housing has contributed $369,336 so far to this project.

The Holder joint venture was commenced to provide single-storey, three-bedroom, ensuite townhouse units that each have double detached carports. This type of unit was not otherwise available in the region.

The Holder Joint Venture Agreement specifies that ACT Housing is to purchase ten of the townhouses at a minimum price of $150,000 each. This amount was set as being the lower end of the market valuation (i.e. between $150,000 and $180,000) as assessed by a firm of property valuers and consultants in June 1994. At the time of preparing this report, the other townhouses were for sale at around the $130,000 to $135,000 price. The current selling price of these townhouses reflects to some extent the fall in real estate values since ACT Housing entered into this joint venture. Given the fall in real estate values, ACT Housing's decision to purchase the townhouses at a minimum price of $150,000 means ACT Housing is paying an aggregate of approximately $200,000 above the market price for these townhouses which means it is effectively subsidising its joint venture partner to around $100,000.

## OTHER MATTERS

Several issues were raised during the 1994-95 audit concerning the operation of internal controls and accounting procedures. These have been raised with management and include:

- it has not been ACT Housing's policy to obtain valuations on the properties used as security for home loans. Management has recently required that valuations from the Australian Valuation Office will be obtained before loans are approved; and

- the assets register is not being reconciled to the general ledger on a monthly basis. As well, the location codes used in the assets register are not specific enough to easily identify the physical location of assets.

Audit recommendations were made in relation to the issues. ACT Housing management have agreed to adopt the recommendations.

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# ACT OFFICE OF RENTAL BONDS

## INTRODUCTION

The ACT Office of Rental Bonds was established in 1991–92 under the Landlord and Tenant Act 1949 to hold all residential tenancy bonds on behalf of landlords and tenants. Interest earned on the bonds held is required to be applied to the administrative expenses incurred by the Office with any additional interest to be applied to landlord and tenant information programs and housing assistance for low income renters. The Office was an operation within the Housing and Family Services Bureau to 30 June 1995. It is now included in ACT Housing.

## SIGNIFICANT FINDINGS

- ***It is still not possible to reconcile the Office's trust ledger to its cash and investments; and***

- ***The absence of this reconciliation means that only limited assurance can be taken that the trust ledger is a complete and correct record of all rental bonds held.***

## AUDIT OF 1994-95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Minister on 15 September 1995.

## MATTERS RAISED IN PREVIOUS REPORTS

### Trust Ledger

In last year's Report (No. 8 of 1994 - *page 76*) it was noted that the Office did not have an adequate trust ledger. In 1994-95 a computerised trust ledger was introduced. There are however deficiencies in this trust ledger with the result that the trust ledger cannot be reconciled to cash and investments held. As a result there is no control to ensure that the trust ledger is a complete and accurate listing of all rental bonds held by the Office, and therefore that the amount of funds held as investments is correct. While no errors were found while testing the trust ledger, currently it cannot be relied upon as an accurate and complete listing of all bonds held by the Office. The Office expects that reconciliations between the trust ledger and investments will be able to be performed in 1995-96.

Recent advice has been received by the Audit Office as follows:

> *"The problems relating to the reconciliation of the Trust Ledger are being addressed. A recent independent assessment of the computer system that supports the Trust Ledger has shown that it has major design faults and will require a large effort to rectify its faults. In the meantime, the reconciliation is progressing, but will not be able to be finalised with the current computer system."*

## FINANCIAL ANALYSIS

In last year's Report (No. 8 of 1994 - *page 76*), it was noted that if the Office's level of expenditure remained constant and it's level of revenue did not

increase, then financial support from other Bureau programs would be required. In 1994-95 the Office achieved an operating surplus of $98,987 compared to an operating loss of $136,053 in 1993-94. This turnaround was due to expenditure remaining constant combined with a substantial increase in investment income, from $618,057 in 1993-94 to $850,486 in 1994-95. This increase in investment income was due to a rise in the amount invested as well as an increase in interest rates.

The following table summarises the profitability of the Office for the last three years:

| | **1992-93 $,000** | **1993-94 $,000** | **1994-95 $,000** |
|---|---|---|---|
| **Operating Revenue** | **715** | **618** | **850** |
| **Operating Expenses** | | | |
| Salary and Related | 282 | 410 | 413 |
| Other Expenses | 246 | 216 | 244 |
| **Total Operating Expenses** | **528** | **626** | **657** |
| **NET OPERATING SURPLUS** | **187** | **(8)** | **193** |
| **Grants to External Organisations** | 0 | 128 | 95 |
| **SURPLUS (LOSS) FOR YEAR** | **187** | **(136)** | **98** |

The Office's operating expenses have remained fairly stable over the last two years. Presently, investment income is sufficient to cover these costs and allow grants to be made to the Tenants Advice Service.

The Office's financial position is summarised below:

| | **1992-93 $,000** | **1993-94 $,000** | **1994-95 $,000** |
|---|---|---|---|
| Total Assets | 12,224 | 12,731 | 14,121 |
| Total Liabilities | 12,122 | 12,766 | 14,028 |

| | | | |
|---|---|---|---|
| **NET ASSETS** | **102** | **(35)** | **93** |

The overall financial position of the Office has improved since the previous year, with an increase in net assets of $128,000.

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# BUREAU OF SPORT, RECREATION AND RACING

## INTRODUCTION

The Bureau of Sport, Recreation and Racing (formerly the Office of Sport and Recreation) is responsible for encouraging community participation at all levels in sport, recreation and leisure activities and promotes and coordinates the development of sport, recreation and racing.

The Bureau provides direct financial support to groups involved in these activities and manages a range of sport and recreational facilities for public use including swimming pools and Bruce Stadium. The Bureau administers the ACT Academy of Sport and the Racecourse Development Fund, and provides administrative support to the ACT 2000 Committee.

## AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Minister for Sport and Recreation on 13 September 1995.

The audit of the Bureau's 1994-95 financial statements found that overall, the accounting systems and internal controls were operating effectively. A number of minor procedural issues were raised with management and satisfactorily resolved.

## OTHER MATTERS

The ACT Academy of Sport was established in 1988 for the purpose of providing financial assistance to elite ACT athletes. In 1993-94 the activities of the Academy were conducted through the Consolidated Fund and several bank

accounts. In 1994-95 the bank accounts were closed and activities transferred to the Sport and Recreation Programs and Facilities Trust Account as part of the Bureau's operations (as well as with the Consolidated Fund). The financial transactions of the Academy were therefore incorporated into the Bureau's and the Trust Account's financial statements.

As from 1 July 1995, the operations of the Academy are being conducted and will be reported solely through the Academy of Sport Trust Account.

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# SPORT AND RECREATION PROGRAMS AND FACILITIES TRUST ACCOUNT

## INTRODUCTION

The Sport and Recreation Programs and Facilities Trust Account is used to account for the operations of sport and recreation facilities such as swimming pools, training programs and the Academy of Sport. As from 1 July 1995, all of the activities of the ACT Academy of Sport are being conducted through the Academy of Sport Trust Account.

## SIGNIFICANT FINDING

- ***Several instances of fraud by employees were detected by management during the year. These matters have been investigated by the Police and dealt with by management and where appropriate by the courts.***

## AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Minister for Sport and Recreation on 13 September 1995.

The audit of the Trust Accounts 1994-95 financial statements found that overall, the accounting systems and internal controls were operating effectively. Concerns were raised with Trust Account management about the need for internal controls over sales revenue such as reconciliations with inventory records and tickets issued. These issues were resolved satisfactorily.

### Fraud at Erindale Leisure Centre

As disclosed in the financial statements, several instances of fraud by employees were detected through the year by bureau management. The matter was referred to the Australian Federal Police for investigation. The investigation led to diversionary conferencing, court action or disciplinary action. Only a minor amount of the moneys involved was recovered.

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## BRUCE STADIUM

### INTRODUCTION

The Bruce Stadium Trust Account was established in February 1990 under Section 85(2) of the Audit Act 1989. The purpose of the Trust is to promote and manage the Bruce Stadium which has been leased from the Australian Sports Commission. Bruce Stadium is administered by the Bureau of Sport, Recreation and Racing.

### AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Minister for Sport, Recreation and Racing on 13 September 1995.

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## RACECOURSE DEVELOPMENT FUND

### INTRODUCTION

The Racecourse Development Fund was established under the Betting (Totalisator Administration) Act 1964. The purpose of the Fund is to administer public funds set aside for the upgrading and development of horse and greyhound racecourses in the ACT. The Fund receives most of its revenue from

a levy on the turnover of ACTTAB. The operations of the Fund are administered by the Bureau of Sport, Recreation and Racing.

## AUDIT OF THE 1994–95 FINANCIAL STATEMENT

An ***unqualified*** audit report was provided to the Minister on 6 September 1995. Generally it was found that the financial statements were well prepared and documented, and that the accounting systems and internal controls were operating effectively.

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# CHILDREN'S AND YOUTH SERVICES BUREAU

## INTRODUCTION

The Children's and Youth Services Bureau is a new organisation structure, created from the new administrative arrangements of 15 March 1995. The Children's and Youth Services Bureau is responsible for early intervention services, child care, pre-schools, child health and development services, youth policy development and youth programs.

## AUDIT OF THE 1994-95 FINANCIAL STATEMENTS

### Qualified Audit Opinion

A ***qualified*** audit opinion for the 1994-95 financial statements was issued to the Minister on 14 September 1995. The audit opinion was qualified regarding the valuation of land and buildings for preschools. Following the changes on 15 March 1995 to administrative units, preschool functions were transferred from the ACT Schools Authority to the Children's and Youth Services Bureau. Due to valuation difficulties, it was not possible to separately identify the value of all preschool land and buildings values from existing land and buildings for Primary Schools. This resulted in the value of land and buildings for preschools being included in the financial statements of the ACT Schools Authority and not being included in the financial statements for the Children's and Youth Services Bureau. This issue will be resolved for 1995-96 as

revaluations of pre-school land and buildings are presently being conducted by the Australian Valuation Office.

Apart from the qualification to the financial statements which was technical in nature, the results of the audit were generally satisfactory.

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# CHAPTER 9 LEGISLATIVE ASSEMBLY

## LEGISLATIVE ASSEMBLY

### INTRODUCTION

This Program provides all the procedural and administrative machinery necessary for the conduct of the business of the Assembly and its committees. Also provided is a range of services and facilities for Members and their staff.

### AUDIT OF 1994–95 FINANCIAL STATEMENTS

An ***unqualified*** audit report was provided to the Speaker on 7 September 1995.

# ANNEXURE

## Annexure

***Reports Published in 1992***

1 Information Technology Management Policies in the ACT Government Service

2 Financial Audits with Years Ending to 30 June 1991

3 GAO Annual Management Report for Year Ended 30 June 1992

4 ACT Board of Health - Management of Information Technology

5 Budget Outcome Presentation and the Aggregate Financial Statement for the Year Ended 30 June 1992

6 Financial Audits with Years Ending to 30 June 1992

***Reports Published in 1993***

1 Management of Capital Works Projects

2 Asbestos Removal Program

3 Various Performance Audits Conducted to 30 June 1993

- Debt Recovery Operations by the ACT Revenue Office
- Publicity Unaccountable Government Activities
- Motor Vehicle Driver Testing Procedures

4 Various Performance Audits

- Government Home Loans Program
- Capital Equipment Purchases
- Human Resources Management System (HRMS)
- Selection of the ACT Government Banker

5 Visiting Medical Officers

6 Government Schooling Program

7 Annual Management Report for the Year Ended 30 June 1993

8 Redundancies

9 Overtime and Allowances

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12 Reports were issued prior to 1992. Details can be obtained from the Government Audit Office.

10 Family Services Sub-Program

11 Financial Audits with Years Endings to 30 June 1993

***Reports Published in 1994***

1 Overtime and Allowances - Part 2

2 Department of Health - Health Grants
- Management of Information Technology

3 Public Housing Maintenance

4 ACT Treasury - Gaming Machine Administration
- Banking Arrangements

5 Annual Management Report for Year Ended 30 June 1994

6 Various Agencies - Inter-Agency Charging
- Management of Private Trust Monies

7 Various Agencies - Overseas Travel - Executives and Others
- Implementation of Major IT Projects

8 Financial Audits with Years Ending to 30 June 1994

9 Performance Indicators Reporting

***Reports Published in 1995***

1 Government Passenger Cars

2 Whistleblower Investigations Completed to 30 June 1995

3 Canberra Institute of Technology - Comparative Teaching Costs and Effectiveness

4 Government Secondary Colleges

5 Annual Management Report for Year Ended 30 June 1995

6 Contract for Collection of Domestic Garbage / Non-Salary Entitlements for Senior Government Officers

7 ACTEW Benchmarked

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12 Reports were issued prior to 1992. Details can be obtained from the Government Audit Office.

**Availability of Reports**

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

ACT Government Audit Office
Scala House
11 Torrens Street
BRADDON ACT 2601

or

PO Box 275
CIVIC SQUARE ACT 2608

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