

MEDIA RELEASE

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2008-09 Financial Audits

The ACT Auditor-General, Mrs Tu Pham, has today presented Report No. 8 of 2009 titled '**2008-09 Financial Audits**' to the Speaker of the ACT Legislative Assembly.

This report presents a summary of the results of the audits of the financial reports for the Territory and its agencies.

Results of Financial Audits

- The Audit Office issued 70 unqualified audit reports and one qualified audit report. An unqualified audit report is issued when the Office is satisfied that, in all material respects, a financial report prepared by the agency complies with the Australian Accounting Standards and fairly reflects the agency's financial position and performance. One financial report was qualified because the Audit Office was unable to independently verify information included in the financial report.
- The Audit Office issued two qualified reports on agencies' statements of performance because some performance measures had not been measured.

Audit Findings

- During 2008-09, agencies resolved 168 (65 percent) of the 260 previously reported audit findings as several agencies improved aspects of their governance arrangements, internal controls and reporting practices.
- A significant proportion (35 percent) of the previous audit findings were not resolved or were only partially resolved. This indicates that some agencies need to implement better processes for addressing audit findings in a timely manner.
- The increase in new audit findings also indicates that some agencies need to improve the internal controls and processes used to prepare their financial reports and statements of performance.
- The overall quality of statements of performance declined in 2008-09. There continues to be many instances where the performance of agencies is not explained meaningfully in their statements of performance.
- Agencies do not plan to address several control weaknesses for the key revenue systems until these systems have been upgraded or replaced. These weaknesses expose the relevant agencies to a higher risk of errors, irregularities and fraud. Areas in particular need of improvement include password controls, reviewing user access, monitoring of audit logs and the restoration of backed up data.
- In 2008-09, most agencies, with a few significant exceptions, met their budgets or did not significantly exceed their budgets.

The Territory's Financial Results

- In 2008-09, the Territory received \$3 652 million in revenue, and incurred expenses of \$3 685 million.

- Two key indicators of the Territory's overall financial performance are the **net operating balance** and the **operating result**.
 1. The **net operating balance** consists of revenue and expenses that arise from mutually agreed transactions such as Commonwealth grants, taxation, land development revenue, employee costs, supplies and services costs and depreciation expenses. This result excludes **other economic flows**.
 2. The **operating result** consists of the **net operating balance** and **other economic flows**. **Other economic flows** for the Territory largely consist of gains and losses on investments and the estimated component of land sales attributable to movements in the markets for investments and land.
- In 2008-09, the Territory incurred a small deficit of \$33 million for the net operating balance. This result was in line with budget expectations, but represented a much lower result than the surpluses generated in recent years of \$171 million in 2007-08 and \$53 million in 2006-07. The Territory is expected to incur significantly higher deficits in the net operating balance ranging from \$245 million to \$350 million over the period covered by the budget forward estimates.
- The Territory incurred a significant operating deficit of \$283 million in 2008-09, compared to a budgeted surplus of \$400 million and the surpluses of recent years of \$131 million in 2007-08 and \$372 million in 2006-07. This deficit was due mainly to losses on superannuation investments caused by adverse conditions in financial markets and declining land revenue due to a weakening of the property market.
- There is a continuing and significant risk that the Territory will incur large operating deficits over the next few years, particularly if unfavourable conditions persist in investment and property markets.
- The Territory's short and long-term financial positions have weakened significantly during 2008-09. Over the period of the budget forward estimates, the Territory's long-term financial position is expected to continue to weaken further. The main contributing factors are the growing unfunded superannuation liability and planned increases in borrowings to fund major capital works projects including ACTEW water projects.
- Funding provided for capital works in the 2008-09 Budget (\$588 million) increased by \$113 million over the 2007-08 Budget. This was due mainly to funding provided for major capital works including the Kingsford Smith (West Belconnen) High School, schools infrastructure, health system infrastructure and upgrades of roads and paths. However, a large proportion of this funding (\$244 million or 41.5 percent) was not spent during the year because capital works did not proceed as planned.

Commentary on ACT Government Agencies

- This report also includes a commentary on the financial results of ACT Government agencies, and provides additional information on the matters identified in each agency during the completion of financial audits.

FURTHER INFORMATION

For further information, please contact Mr Bernie Sheville (Director, Financial Audits) on 6207 0833.

Copies of the report are available at the ACT Auditor-General's Office (Level 4, 11 Moore Street, Canberra City, ACT 2601) and from the website, www.audit.act.gov.au.