

## MEDIA RELEASE

21 December 2012

### 2011-12 Financial Audits

Today a report titled '**2011-12 Financial Audits**' was presented to the Speaker for tabling in the ACT Legislative Assembly by the ACT Auditor-General, Dr Maxine Cooper.

Audited financial results of reporting agencies (and other entities) are presented in their financial statements. The actual and targeted results for accountability indicators of reporting agencies are reported in their statements of performance.

This report contains details of the results of the audits of financial statements and reviews of statements of performance relating to the 2011-12 reporting period.

The Audit Office has made 10 recommendations to address the audit findings of this report. (See pages 12 and 13)

#### ***Results of financial audits and reviews of statements of performance***

- Unqualified audit reports mean the Audit Office has concluded that the financial statements materially comply with the relevant accounting standards, and present a true and fair view of the financial position and performance of reporting agencies. The Office audited 68 financial statements and issued 67 unqualified audit reports. (See Table 2.1 on page 15 and pages 18 to 21)
- A qualified audit report was issued on the financial statements of the Environment and Sustainable Development Directorate because the Directorate has not recorded the extension of time to build fees revenue in accordance with Australian Accounting Standard, AASB 118: 'Revenue'. (See paragraphs 6.180 to 6.184)
- The Audit Office issued 28 reports of factual findings on reporting agencies' statements of performance (See Table 2.2 on page 17 and pages 18 to 21). Four of these reports were qualified because agencies failed to implement adequate systems for capturing the information needed to measure a result for the accountability indicators and/or retaining sufficient evidence of their performance against these indicators.

#### ***Audit findings***

- In 2011-12, the performance of agencies in resolving previously reported audit findings declined significantly compared to 2010-11. This indicates that agencies need to improve their processes for rectifying weaknesses in their governance arrangements, internal controls and reporting practices. (See paragraphs 3.8 and 3.9)
- The many audit findings (297 audit findings in 2011-12) indicates that agencies need to improve their governance arrangements, internal controls and reporting practices. (See paragraphs 3.11 and 3.12)
- The overall quality of financial statements submitted for audit was similar to the previous year. The combined percentage of agencies that provided 'good' and 'satisfactory' financial statements in 2011-12 of 72 percent compared to 77 percent in 2010-11. (See paragraphs 3.17 and 3.18)

- The quality of statements of performance submitted by agencies for review improved in 2011-12, but there is scope for further significant improvement. A significant percentage of statements of performance submitted for review were 'unsatisfactory' (18 percent) or 'fair' (18 percent). (See paragraphs 3.28 to 3.31)
- In 2011-12, as in previous years, there were several instances where accountability indicators provided limited useful information about the planned and actual performance of agencies. Furthermore, information included in the budget papers did not always provide sufficient insight into the planned levels of performance. Where planned levels of performance are not clearly defined and adequately explained in agencies' budget papers or statements of intent, it is less likely that agencies can be held to account for their performance. (See paragraphs 3.33 to 3.35)
- Compliance with the whole-of-government reporting timetable improved significantly in 2011-12. (See paragraphs 3.23 and 3.38)
- The Territory and several agencies did not achieve their budgeted financial results. (See paragraphs 3.45 to 3.46)

### ***The Territory's financial results***

The '**net operating balance**' and '**operating surplus/(deficit)**' are key measures of the Territory's financial performance. These measures provide an indication of the overall financial sustainability of the ACT Government's strategies and policies, particularly when assessed over time.

The **net operating balance** consists of revenue and expenses such as Commonwealth grants, taxation, land sales, employee costs, supplies and services costs and depreciation expenses.

The operating result consists of the net operating balance and other economic flows. Other economic flows largely consist of gains and losses on investments, land revenue and other assets which result from changes in market conditions. (See Table 5.5 on page 67)

- In 2011-12, the Territory incurred a deficit in the net operating balance of \$97 million compared to a budgeted deficit of \$211 million. This lower than expected deficit was mainly due to lower than anticipated expenses. (See paragraph 5.7)
- The Territory estimates that it will incur deficits in its net operating balance over the forward years. These deficits are expected to steadily decline from a peak of \$578 million in 2012-13 to \$84 million in 2015-16. (See paragraph 5.11)
- The Territory incurred an operating deficit of \$155 million compared to a budgeted surplus of \$175 million. This unfavourable result mainly reflects lower than anticipated gains on sales of undeveloped land, and unbudgeted losses on investments; partially offset by a lower than expected deficit in the net operating balance. (See paragraph 5.9)
- The Territory's operating deficit is estimated to increase by \$240 million (154.8 percent) from \$155 million in 2011-12 to \$395 million in 2012-13, before generating surpluses over the remaining forward years from 2013-14 to 2015-16. The achievement of operating surpluses in 2013-14 and 2015-16 depends on the Territory obtaining sufficient other economic inflows, in particular, gains from investment and property markets, to counter the expected deficits in the net operating balance over the forward years. (See paragraphs 5.12 and 5.13)
- The Territory's short-term financial position remains strong and was stronger than the position anticipated in the budget. (See paragraph 5.32)

- The Territory's short-term financial position is expected to weaken from the position at 30 June 2012 but is expected to remain strong over the forward years. (See paragraph 5.33)
- The long-term financial position of the Territory is much weaker than the budgeted and prior year's positions due mainly to a substantial unexpected increase in the unfunded superannuation liability. The use of borrowings to fund the Infrastructure Investment Program has also contributed to the significant weakening of the long-term financial position since the previous year. (See paragraph 5.36)
- According to the 2012-13 Pre-Election Budget update, the Territory's long-term financial position is expected to strengthen significantly from the position that existed at 30 June 2012. However, this depends largely on a substantial reduction in the unfunded superannuation liability in 2012-13. (See paragraph 5.37)
- The unfunded superannuation liability doubled from \$2 627 million at 30 June 2011 to \$5 242 million at 30 June 2012. If this liability were to remain at similar levels over the forward years to that which existed at 30 June 2012, then the Territory's financial position would be much weaker than the position indicated by the 2012-13 Pre-Election Budget update. (See paragraph 5.38)
- The Territory's Infrastructure Investment Program funding was underspent by \$273 million (30.6 percent). (See paragraph 5.48)

#### ***Computer information systems***

The Audit Office reviewed computer information systems used for financial management, human resource management, school administration, public housing, bus and theatre ticketing and collection of taxes, fees and fines.

Control weaknesses were identified during these reviews. These weaknesses increase the risk of erroneous or fraudulent changes being made to these systems and data, and that these systems will not be promptly restored without the loss of data in the event of a disaster or other disruption. (See Chapter 4, pages 35 to 56)

#### ***Audit results and findings on ACT Government agencies and other entities***

This report also provides the audit results and findings for individual ACT Government agencies and other entities. (See Chapter 6, pages 77 to 183)

#### **The report**

Copies of the report are available from the ACT Auditor-General's Office website, [www.audit.act.gov.au](http://www.audit.act.gov.au) and the Office (please call 6207 0833 or go to 11 Moore Street, Canberra City).