

Audit Report

2013-14 Financial Audits

Report No. 07/2014

December 2014

PA 14/06

Mrs Vicki Dunne MLA
Speaker
Legislative Assembly for the ACT
Civic Square, London Circuit
CANBERRA ACT 2601

Dear Madam Speaker

I am pleased to forward to you an Audit Report titled '2013-14 Financial Audits' for tabling in the Legislative Assembly pursuant to Subsection 17(5) of the *Auditor-General Act 1996*.

Yours sincerely

Dr Maxine Cooper
Auditor-General
19 December 2014

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ACKNOWLEDGEMENTS

The assistance provided to the Audit Office by the Head of Service, Directors-General, Chief Executive Officers, Chief Finance Officers and others during the conduct of the annual financial audit program is greatly appreciated. I have also appreciated the effort and commitment of my staff in completing this year’s program.

Dr Maxine Cooper
Auditor-General
19 December 2014

SUMMARY

The Audit Office issues independent audit reports containing opinions on the financial statements and reports of factual findings prepared by the ACT Government agencies and those entities in which the ACT Government has a direct financial interest. These reports are addressed to the members of the ACT Legislative Assembly and included in the annual reports of these agencies and other entities.

This report provides a summary of the results of the audits of financial statements and reviews of statements of performance for the reporting periods ending 31 December 2013 and 30 June 2014.

It also provides the Audit Office's assessment of the overall quality and timeliness of reporting by agencies and other entities.

A summary of the major audit findings and information on progress made by agencies and other entities in resolving previously reported findings is also included. The audit findings were identified by the Audit Office during the audit process and reported to audited agencies and other entities.

Key findings

Chapter 1 Results of the financial audit program	Paragraph
Results of the audits	
The Audit Office completed audits of 69 financial statements as part of the 2013-14 financial audit program.	1.4
The Audit Office issued 64 unqualified audit reports on financial statements prepared by reporting agencies.	1.5
The Audit Office issued five qualified audit reports. These were issued on the financial statements of the ACT Public Cemeteries Authority and the related Gungahlin Cemetery Perpetual Care Trust, Hall Cemetery Perpetual Care Trust, Woden Cemetery Perpetual Care Trust and Woden Mausoleum Perpetual Care Trust.	1.6
Results of the reviews of statements of performance	
The Audit Office issued 29 reports of factual findings on statements of performance prepared by directorates and authorities in 2013-14.	1.13
Twenty-seven unqualified reports of factual findings and two qualified reports of factual findings were issued. The qualified reports related to the statement of performance of the ACT Public Cemeteries Authority and ACT Compulsory Third-Party Insurance Regulator.	1.14

Chapter 2 Audit findings	Paragraph
Status of audit findings	
The performance of reporting agencies in resolving previously reported audit findings decreased in 2013-14 as:	2.6
<ul style="list-style-type: none"> • reporting agencies resolved 76 (52 percent) of the 145 previously reported audit findings in 2013-14. In 2012-13, 211 (72 percent) of the 292 audit findings were resolved; and • the percentage of previously reported audit findings that were not resolved increased from 11 percent in 2012-13 to 17 percent in 2013-14. 	
Financial and performance reporting	
Quality of financial statements	
The overall quality of financial statements submitted by reporting agencies for audit in 2013-14 was similar to 2012-13. The:	2.13
<ul style="list-style-type: none"> • combined percentage of financial statements submitted for audit that were assessed as good or satisfactory in 2013-14 was 81 percent compared to 77 percent in 2012-13; and • quality of the financial statements submitted for audit of seven (12 percent) reporting agencies was assessed as unsatisfactory in 2013-14. Seven (11 percent) unsatisfactory financial statements were submitted in 2012-13. 	
Six of the seven unsatisfactory financial statements submitted for audit in 2012-13 were also unsatisfactory in 2013-14.	2.14
Timeliness of financial statements	
Compliance with the whole-of-government reporting timetable remained high as 93 percent of agencies complied with the reporting timetable in 2013-14 and 89 percent in 2012-13.	2.17
Quality of statements of performance	
The quality of statements of performance submitted by reporting agencies for review improved in 2013-14 as:	2.22
<ul style="list-style-type: none"> • the percentage of statements of performance assessed as good increased from 57 percent in 2012-13 to 69 percent in 2013-14; and • no statements of performance were assessed as unsatisfactory in 2013-14. Two (7 percent) unsatisfactory statements of performance were submitted in 2012-13. 	

Timeliness of statements of performance**Paragraph**

Compliance with the whole-of-government reporting timetable improved in 2013-14 with 97 percent of reporting agencies submitting their statements of performance to the Audit Office on time compared to 83 percent in 2012-13.

2.25

Annual reporting**Timeliness of annual reports**

All except one reporting agency placed its annual report on the relevant website on time. One agency placed its annual report on its website shortly after the due date.

2.28

Inclusion of audited documents in annual reports

Eight reporting agencies (18 percent) did not include all pages of their audited financial statements, reviewed statement of performance, or report of factual findings in the printed and electronic versions of their annual report.

2.30

Budget management

The Territory's operating deficit of \$26 million was less than the budgeted deficit of \$134 million. A few agencies did not achieve their budgeted results.

2.33

Chapter 3 Computer information systems**Application controls**

Ten (50 percent) of the 20 previously reported audit findings for the ten key applications reviewed by the Audit Office were resolved. Ten (50 percent) were not resolved. Nine new audit findings were identified in 2013-14.

3.6

Data processing controls**Supplier master files**

The 'one time supplier' function in ORACLE Financials was disabled. This reduces the risk of fraudulent payments because it prevents a user from processing the payment of an invoice to a supplier whose details have not been reviewed and approved by another officer before being entered into the system.

3.9

Information security management	Paragraph
Management of user access	
<p>Housing ACT reduced the risk of inappropriate and fraudulent access to information recorded in Homenet by:</p> <ul style="list-style-type: none"> • documenting and approving policies governing user access to this application; and • performing periodic reviews of user access to this application. 	3.14
<p>The Chief Minister, Treasury and Economic Development Directorate reduced the risk of inappropriate and fraudulent access to information in TM1 by documenting and approving procedures for removing and assigning roles to users in the system.</p>	3.15
<p>The Education and Training Directorate approved policies and procedures for establishing, removing and reviewing user access to Maze and performed reviews of user access at the school level. While implementation of these policies and procedures should improve the management of user access to Maze at the school level, they do not provide guidance on reviewing user access to Maze at the Directorate level, and there was no evidence of these reviews being performed. This weakness presents a risk of unauthorised access to student and financial data, including sensitive student information.</p>	3.16
<p>While reviews of user access to the Territory Revenue System are performed, the effectiveness of these reviews depends on the reviewer's ability to identify whether user access is acceptable, rather than basing this review on a defined policy and security baseline.</p>	3.17
<p>There was no monitoring of high risk transactions processed in the Territory Revenue System, particularly for user profiles that allow processing of 'ad-hoc credits'. Access to the 'ad-hoc credits' facility enables users to process adjustments and refunds to client accounts without a requirement to have them approved in the Territory Revenue System by a second operator. Ten of the 24 available user profiles could process 'ad-hoc credits'.</p>	3.18
<p>There is a risk of Cashlink receipt files being accidentally or fraudulently changed because Shared Services has not restricted the number of people who can access them.</p>	3.22
<p>A segregation of duties matrix has been developed for MyWay, however, access to MyWay has not always been granted in accordance with this matrix. This control weakness presents risks of errors and fraud occurring.</p>	3.26

Audit logs**Paragraph**

The risk of undetected erroneous, irregular or fraudulent changes to the ORACLE Financials system and data was reduced by the performance of periodic reviews of audit logs for this system.

3.30

Periodic reviews of audit logs for the Maze, Territory Revenue System, Homenet and MyWay applications and the Cashlink and Community 2011 database servers are not performed. Furthermore, there are no approved policies and procedures in place which address the performance of such reviews. This presents a risk of erroneous, irregular or fraudulent changes being made to these systems and data and not being detected.

Password complexity

The use of complex passwords is not automatically enforced by the Territory Revenue System or TM1. This presents a risk of inappropriate or fraudulent access to these systems as staff will be less likely to use complex passwords when they are not forced to do so by the system.

3.34

Continuity arrangements**Business continuity and disaster recover arrangements**

Business continuity and disaster recovery plans for the Territory Revenue System, Community 2011, rego.act, MyWay and TM1:

3.40

- do not reflect the current recovery arrangements for these systems; and
- need to be updated, approved and tested.

Backup and recovery testing was performed by Housing ACT and Shared Services for Homenet, however, the results of this testing and the actions required to resolve any problems identified during this testing were not formally documented.

3.42

Change management process**Change management policies and procedures**

Testing results for fare and schedule changes made to MyWay were not documented before being implemented. This presents a risk that:

3.47

- changes made to MyWay will not operate as intended; and
- information will be lost and services that rely on MyWay will be disrupted.

Environment controls	Paragraph
Overall, environment controls implemented by Shared Services were assessed to be satisfactory, however, areas where controls should be strengthened were identified.	3.52
Two (20 percent) of the ten previously reported audit findings were resolved, seven were partially resolved and one was not resolved. One new audit finding was identified in 2013-14.	3.53
Governance arrangements	
No significant weaknesses in governance arrangements were identified in 2013-14.	3.57
Password controls	
The level of password complexity required by the ACT Government's password standard to gain access to the ACT Government network is not automatically enforced by the computer system. While this control weakness was partially resolved by the performance of regular audits of compliance with the password standard, automatic enforcement of password complexity requirements by the computer system would provide a more effective and efficient means of ensuring compliance.	3.60
Vendor support for operating systems	
Several servers on the ACT Government network use operating systems that are no longer supported by the system vendors. Shared Services partially addressed this weakness by implementing measures to: <ul style="list-style-type: none"> • anticipate the possible loss of support for any operating systems; and • upgrade operating systems that are no longer supported. Shared Services also provided updates to ACT Government agencies on critical systems and applications they have operating on unsupported systems.	3.64
While Shared Services has agreed to work with ACT Government agencies to ensure that all server operating systems are supported, it has advised that it cannot force agencies to upgrade their systems to run on supported operating systems.	3.65
Access security at data centres	
Shared Services reduced the risk of unauthorised access to ACT Government data centres by performing weekly reviews of reports of all critical access attempts to data centre sites. Documentation supporting these reviews was kept and there was evidence that irregular access attempts were being identified and investigated.	3.67
Shared Services performed a review of access granted to data centres in August 2013 and access for those people who no longer required it was removed. Furthermore, access of staff was restricted to those areas of the data centres that staff needed access to for performing their duties.	3.69

	Paragraph
Despite these improvements, the Audit Office reviewed the access of all staff who have access to the data centres and found that:	3.70
<ul style="list-style-type: none"> • two former staff had active access out of the 77 staff with access to data centres; and • there was an excessive number of spare access passes being kept for temporary access to data centres. 	
Access to the ACT Government network	
The Audit Office did not identify any instances where former employees continued to have access to the ACT Government network in 2013-14.	3.73
In 2013-14, Shared Services strengthened controls over access to the ACT Government network.	3.74
However, Shared Services did not:	3.75
<ul style="list-style-type: none"> • perform regular reviews of users provided with the standard level of access to the ACT Government network; • eliminate or reduce the use of generic accounts on the ACT Government network; and • perform a review of generic accounts and disable access that would allow users to make changes to the security, confidentiality or integrity of critical data. 	
Security planning	
Shared Services documented and approved its information technology security plan. Implementation of the approved plan should provide more assurance that arrangements for managing security over information technology will be effective.	3.78
Externally hosted websites	
Shared Services ICT advised that it is unable to enforce the same level of security on external providers of websites as it can enforce on websites that are hosted internally.	3.81

Security of information

Paragraph

During 2013-14, Shared Services launched a trial of a document security classification system for Microsoft Office documents. However, Shared Services has advised it cannot require agencies to use the new security classification system or enforce:

3.83

- restrictions on the access, storage, transmission and disposal of security classified information; and
- regular reviews of audit logs covering the access, storage, transmission, transfer and disposal of security classified information.

Continuity arrangements

Alternative information technology infrastructure arrangements

Agency support agreements with Shared Services were updated to include details of all agency systems, their criticality and infrastructure availability arrangements.

3.87

However, there is a risk that critical systems will not be recovered in a timely manner because:

- the information technology infrastructure supporting several critical systems is not replicated at an alternative site; and
- disaster recovery plans do not identify alternative information technology infrastructure arrangements.

Change management processes

Shared Services did not regularly:

3.91

- perform reviews of audit logs for high risk or suspicious changes, including unauthorised or possibly fraudulent changes, to critical software and hardware; and
- reconcile changes recorded in the audit logs to authorised change records in the change management system.

This presents a risk of unauthorised and possibly fraudulent changes being made to critical hardware and software.

Paragraph

Contract management guidelines and procedures

Shared Services ICT improved its contract management guidelines (Shared Services Contract Management Guidelines) by including procedures for regularly monitoring suppliers' compliance with their contracts. However, further improvements should be made by updating these guidelines to include the:

- current risk management practices used by Shared Services ICT; and
- regular review of expenditure records to identify new or amended ICT contracts under the responsibility of Shared Services ICT.

These contracts should be reviewed to ensure that a supplier is providing the services at the contracted price.

Project management arrangements

No significant weaknesses in project management arrangements were identified in 2013-14. 3.96

Chapter 4 The Territory's financial statements**Audit report**

An unqualified audit report was issued on the Territory's 2013-14 Consolidated Annual Financial Statements.

Operating results – net operating balance

The Territory incurred a deficit in the net operating balance of \$309 million in 2013-14. This is less than the budgeted deficit of \$438 million and deficit of \$456 million incurred in 2012-13. 4.6

The net operating balance has declined in recent years from a surplus of \$110 million in 2009-10 to a deficit of \$309 million in 2013-14. This was mainly due to increases in employee and supplies and services expenses exceeding increases in revenue from Commonwealth Government grants and taxation. 4.7

From 2009-10 to 2013-14, with the exception of 2012-13, the Territory's financial operations have been managed within the budgeted net operating balance. This indicates that overall, the Territory and its agencies have successfully managed to their budgets. 4.9

Deficits in the net operating balance are expected for each of the forward years from 2014-15 to 2017-18. The forward estimates indicate that the deficits in the operating balance will increase from \$309 million in 2013-14 to a peak of \$537 million in 2014-15 then decrease to \$138 million in 2017-18. 4.14

Paragraph

These planned deficits in the net operating balance over the forward years from 2014-15 to 2017-18 means that the Territory is exposed to large deficits if unexpected adverse events cause large negative fluctuations in revenue and expenses. These planned deficits do not, for example, take into account major negative financial effects of the ACT Government's recently announced responses to households affected by 'Mr Fluffy' asbestos. 4.15

While there is a risk of higher than expected deficits, the Territory can meet adverse events by, for example, increasing taxes, reducing or reprioritising expenses, increasing borrowing and/or selling assets.

Operating results – operating surplus/deficit

The Territory's operating deficit of \$26 million in 2013-14 was less than the budgeted deficit of \$134 million and the deficit of \$122 million incurred in 2012-13. 4.13

The forward estimates indicate that the Territory expects to incur operating deficits of \$359 million and \$85 million, in 2014-15 and 2015-16, respectively. Then, in 2016-17 and 2017-18, it expects to generate surpluses of \$26 million and \$110 million, respectively. 4.17

These planned deficits and small surpluses over the forward years from 2014-15 to 2017-18 mean that the Territory is exposed to larger deficits if adverse events resulted in negative fluctuations to revenue and expenses and other economic flows. 4.18

While there is a risk of higher than expected deficits, the Territory can meet adverse events by, for example, increasing taxes, reducing or reprioritising expenses, increasing borrowing and/or selling assets.

Historical assets to liabilities coverage

The Territory's net assets of \$15 193 million were less than the budgeted amount of \$16 629 million by \$1 436 million (8.6 percent). This was due mainly to a higher than expected unfunded superannuation liability resulting from the use of a lower rate to estimate the present value of the superannuation liability. 4.19

The Territory's net asset position has not changed significantly over the past five financial years from 30 June 2010 to 30 June 2014. 4.20

Historical short-term assets to short-term liabilities coverage

The Territory had sufficient short-term financial assets to cover its short-term liabilities at 30 June 2014 and its short-term financial position is much stronger than was estimated in the budget. This is mainly due to significantly higher than anticipated financial assets (mainly investments) being available to cover short-term liabilities. 4.24

Paragraph

The Territory's short-term financial position, measured by using the short-term financial assets available to cover each dollar of short-term liabilities, was \$1.82 at 30 June 2014. This is slightly weaker than the position of \$1.90 which existed at 30 June 2013 and is mainly due to a decrease in financial assets.

4.25

The short-term financial position is estimated to weaken significantly from the position that existed at 30 June 2014. Based on the forward estimates included in the 2014-15 Budget Papers released in June 2014, except for the estimated short-term liability position of \$118 million at 30 June 2017, the Territory is estimated to have sufficient short-term financial assets to cover its short-term liabilities over the forward years from 30 June 2015 to 30 June 2018.

4.26

These forward estimates do not take into account the expected adverse financial impact of the ACT Government's recently announced responses to households affected by 'Mr Fluffy' asbestos.

Historical long-term financial assets to liabilities coverage

The Territory's long-term financial position at 30 June 2014 was stronger than that estimated in the budget.

4.29

The long-term financial position at 30 June 2014 is weaker than the position which existed at 30 June 2013. This is due mainly to an increase in borrowings used to fund capital activities (in particular, the Territory's Infrastructure Investment Program).

4.30

The long-term financial position over the forward years from 30 June 2015 to 30 June 2018 is expected to weaken slightly from the position which existed at 30 June 2014. This is mainly due to the combined effects of estimated future increases in borrowings and decreases in financial assets.

4.31

However, this is based on the forward estimates included in the 2014-15 Budget Papers released in June 2014 and do not take into account major unforeseen financial circumstances and events such as the expected adverse financial impact of the ACT Government's recently announced responses to households affected by 'Mr Fluffy' asbestos.

Furthermore, as disclosed in the 2014-15 Budget Papers, the unfunded superannuation liability is estimated to decrease significantly from the position that existed as at 30 June 2014. The unfunded superannuation liability as at 30 June 2014 substantially exceeds the forward estimates of this liability due mainly to the use of a lower rate to estimate the present value of the superannuation liability as at 30 June 2014 compared to that used to prepare the forward estimates.

4.33

Cash Results

The net cash surplus generated by the Territory's operations during 2013-14 of \$443 million exceeded the budgeted net cash surplus of \$189 million by \$254 million (134.4 percent). This is mainly due to higher than anticipated receipts from sales of goods and services.

4.34

	Paragraph
The net cash generated from the Territory's operations in 2013-14 of \$443 million exceeded the net cash surplus of \$182 million in 2012-13 by \$261 million (143.4 percent). This is mainly due to a significant increase in cash receipts (mainly receipts from sales of goods and services); partially offset by an increase in cash payments (mainly payments for employees and goods and services).	4.35
The net cash surplus generated by Territory's operations has decreased over the past five financial years from \$777 million in 2009-10 to \$443 million in 2013-14. This decrease of \$334 million (an average of 10.7 percent per annum) has been mainly due to payments for employees and goods and services exceeding increases in cash receipts from Commonwealth grants, taxes and receipts from sales of goods and services.	4.36
The net cash deficit from the Territory's operating and capital activities of \$177 million in 2013-14 was less than the budgeted cash deficit of \$654 million. This was mainly due to the combined effects of a higher than expected cash surplus being generated from operations and lower than expected expenditure on the capital activities (in particular, the Infrastructure Investment Program).	4.37
The net cash deficit from operating and capital activities of \$177 million in 2013-14 was a reduction of \$431 million (70.8 percent) from the prior year's deficit of \$608 million. This was mainly due to the combined effects of higher grants received from the Commonwealth Government and a reduction in spending on the capital activities (in particular, the Infrastructure Investment Program).	4.38
Net cash deficits from operating and capital activities are estimated to increase from \$178 million in 2013-14 to \$688 million in 2014-15 and then decline to \$8 million in 2017-18. This is due mainly to an initial increase then decrease in spending on capital activities (in particular, the Infrastructure Investment Program).	4.39
A large reduction in the net cash deficits from operating and capital activities is estimated over the forward years from a deficit of \$688 million 2014-15 to a deficit of \$8 million in 2017-18. This reduction depends on significantly higher net cash surpluses being generated from the Territory's operations and large reductions in spending on the capital activities (in particular, the Territory's Infrastructure Program).	4.40
As previously noted, these estimated cash deficits from operating and capital activities over the forward years from 2014-15 to 2017-18 mean that the Territory is exposed to larger deficits if adverse events resulted in negative fluctuations to receipts and payments. They do not, for example, take into account major adverse financial effects of the ACT Government's recently announced responses to households affected by 'Mr Fluffy' asbestos.	4.41
While there is a risk of higher than expected cash deficits, the Territory can meet adverse events by, for example, increasing taxes, reducing or reprioritising expenses, increasing borrowing and/or selling assets.	

Recommendations

RECOMMENDATION 1 (CHAPTER 2) STATUS OF AUDIT FINDINGS

Reporting agencies should implement effective processes for resolving audit findings in a timely manner.

RECOMMENDATION 2 (CHAPTER 2) QUALITY OF STATEMENTS OF PERFORMANCE

Reporting agencies should improve their statements of performance by providing:

- a) sufficient explanatory information on the definitions of accountability indicators, the targets set and how the results of the accountability indicators are measured; and
- b) clear and informative explanations of material variances from the planned targets.

RECOMMENDATION 3 (CHAPTER 2) INCLUSION OF AUDITED DOCUMENTS IN ANNUAL REPORTS

Reporting agencies should ensure that the printed and electronic (website) versions of annual reports include the correct version of their audited financial statements, reviewed statement of performance, audit report and report of factual findings.

RECOMMENDATION 4 (CHAPTER 3) MANAGEMENT OF ACCESS BY USERS

To reduce the risk of inappropriate or fraudulent access to critical systems, agencies should implement approved policies and procedures governing user access to critical systems, including processes for establishing, changing, reviewing and removing users' access or their assigned roles and privileges.

RECOMMENDATION 5 (CHAPTER 3) AUDIT LOGS

Policies and procedures for the regular review of audit logs to identify errors, irregularities, fraudulent changes to systems and high risk transactions should be approved and implemented. The results of these reviews should be documented and reported to management.

RECOMMENDATION 6 (CHAPTER 3) ACCESS TO KEY SYSTEMS, APPLICATIONS AND DATA - PASSWORD COMPLEXITY

The use of complex passwords should be automatically enforced by the computer system to prevent inappropriate and possibly fraudulent access to key systems applications and data.

RECOMMENDATION 7 (CHAPTER 3) BUSINESS CONTINUITY AND DISASTER RECOVERY ARRANGEMENTS

Disaster recovery arrangements, including back-up and recovery processes should be approved and then periodically tested to provide assurance that a system will be recovered and operations promptly resumed without the loss of data in the event of a disaster, disruption or other adverse event. The results of testing and the actions required to resolve any problems identified during this testing should be formally documented.

RECOMMENDATION 8 (CHAPTER 3) ACCESS TO THE ACT GOVERNMENT NETWORK - PASSWORD COMPLEXITY

The level of password complexity required by the ACT Government's password standard to gain access to the ACT Government network should be automatically enforced by the computer system.

RECOMMENDATION 9 (CHAPTER 3) ACCESS TO THE ACT GOVERNMENT NETWORK – GENERIC USER ACCOUNTS

Generic (shared) user accounts for key systems should be removed wherever possible. If the use of generic accounts is unavoidable, then the number of generic accounts should be minimised and passwords relating to these accounts frequently changed. Generic user accounts should be recorded in a register to monitor and track users who have access to these accounts, and records maintained of how often these passwords are changed.

RECOMMENDATION 10 (CHAPTER 3) CHANGE MANAGEMENT PROCESSES

Shared Services should regularly review business systems and review them against the approved original system design. Variations between the current state of the system and the approved original design should be investigated to check whether the variations are due to unauthorised changes or other reason(s).

RECOMMENDATION 11 (CHAPTER 3) VENDOR SUPPORT FOR OPERATING SYSTEMS

To provide assurance that systems are protected from known security vulnerabilities, errors and performance issues, ACT Government agencies should ensure that all operating systems and servers are supported by the system vendor.

RECOMMENDATION 12 (CHAPTER 3) EXTERNALLY HOSTED WEBSITES

The same level of security should be maintained and enforced on externally hosted websites as is currently enforced on internally hosted websites to guard against malicious attacks.

RECOMMENDATION 13 (CHAPTER 3) SECURITY OF INFORMATION

Agencies should be required to use the new security classification system including requirements relating to the restrictions on the access, storage, transmission and disposal of security classified information and performing regular reviews of audit logs covering the access, storage, transmission, transfer and disposal of security classified information.

RECOMMENDATION 14 (CHAPTER 3) ALTERNATIVE INFORMATION TECHNOLOGY INFRASTRUCTURE ARRANGEMENTS

The information technology infrastructure supporting critical systems of each agency should be replicated at an alternative site. Disaster recovery plans for agencies should identify their alternative information technology infrastructure arrangements.

1 RESULTS OF THE FINANCIAL AUDIT PROGRAM

- 1.1 The Audit Office completes an annual program of financial audits under various legislative and other requirements.
- 1.2 Annual financial statements of directorates and authorities are audited as required by the *Financial Management Act 1996*. Audits are also performed under other requirements such as those contained in the *Corporations Act 2001*, joint venture agreements, trust fund deeds and Commonwealth Government funding agreements.
- 1.3 Statements of performance prepared by directorates and authorities are reviewed as required by the *Financial Management Act 1996*.

Key findings

Results of the audits

Paragraph

The Audit Office completed audits of 69 financial statements as part of the 2013-14 financial audit program. 1.4

The Audit Office issued 64 unqualified audit reports on financial statements prepared by reporting agencies. 1.5

The Audit Office issued five qualified audit reports. These were issued on the financial statements of the ACT Public Cemeteries Authority and the related Gungahlin Cemetery Perpetual Care Trust, Hall Cemetery Perpetual Care Trust, Woden Cemetery Perpetual Care Trust and Woden Mausoleum Perpetual Care Trust. 1.6

Results of the reviews of statements of performance

The Audit Office issued 29 reports of factual findings on statements of performance prepared by directorates and authorities in 2013-14. 1.13

Twenty-seven unqualified reports of factual findings and two qualified reports of factual findings were issued. The qualified reports related to the statement of performance of the ACT Public Cemeteries Authority and ACT Compulsory Third-Party Insurance Regulator. 1.14

Results of the audits

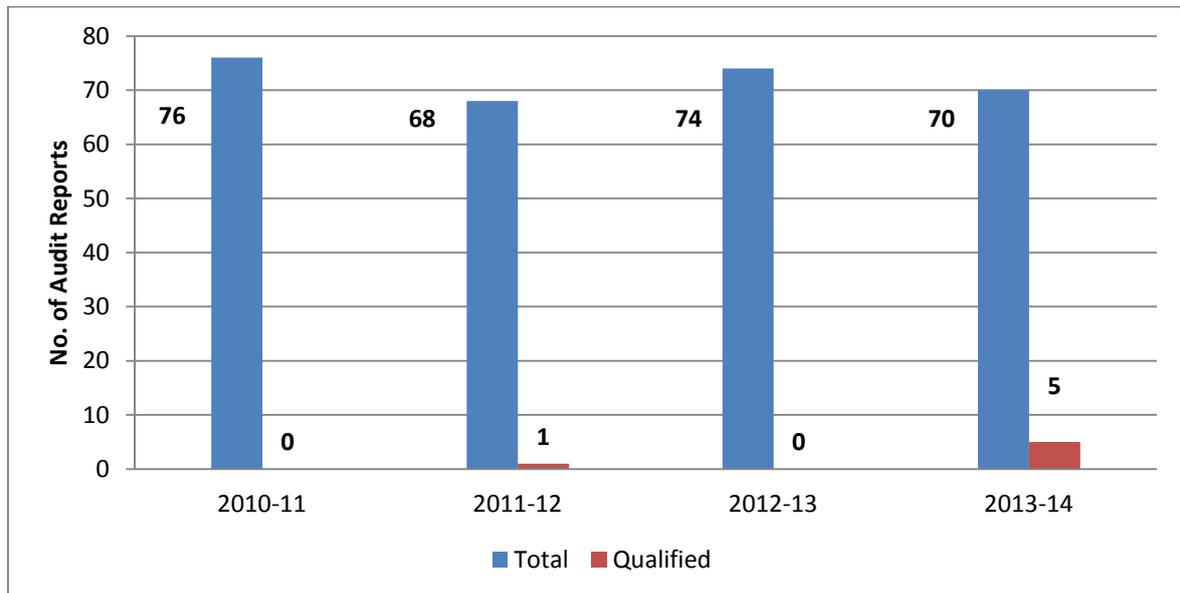
Table 1-1 Audit reports

	Unqualified	Qualified	Total
Territory	1	-	1
Directorates	18	-	18
Authorities	13	1	14
Territory-owned corporations and other companies	8	-	8
Joint ventures and partnerships	8	-	8
Other audits	16	4	20
Total audit reports on financial statements	64	5	69
Compliance audit	1	-	1
Total audit reports	65	5	70

- 1.4 The Audit Office completed audits of 69 financial statements as part of the 2013-14 financial audit program. The Office also completed one compliance audit on the Public Trustee for the ACT's compliance with the 'Public Ancillary Fund Guidelines 2011' made under the *Taxation Administration Act 1953* in relation to the Capital Region Community Foundation Gift Fund.
- 1.5 The Audit Office issued 64 unqualified audit reports on financial statements prepared by reporting agencies. These financial statements materially complied with relevant reporting and accounting requirements, and presented a true and fair view of the financial position and performance of the reporting agencies.
- 1.6 The Audit Office issued five qualified audit reports. These were issued on the financial statements of the ACT Public Cemeteries Authority and the related Gungahlin Cemetery Perpetual Care Trust, Hall Cemetery Perpetual Care Trust, Woden Cemetery Perpetual Care Trust and Woden Mausoleum Perpetual Care Trust.
- 1.7 The basis for these five qualified audit reports is explained on pages 91 to 92.
- 1.8 The audit reports issued by the Audit Office are listed on pages 22 to 24.

Audit reports

Figure 1-1 Audit reports



1.9 Fewer audit reports were issued in 2013-14 (70) than in the previous year (74). This decrease was due to:

- the abolition of the Treasury Directorate and Shared Services Centre following changes to administrative arrangements in 2012-13;
- the Crace and Forde Joint Ventures changing their reporting requirements from six-monthly to annually;
- an audit of the Crace Joint Venture's statement of financial position at 17 May 2013 not being required in 2013-14;
- the Woden East Joint Venture being wound up in 2012-13;
- an audit of UC Global Pty Limited (formerly NATSEM Pty Limited, a subsidiary of the University of Canberra) no longer being required; and
- an audit of amended financial statements for Commonwealth Funding provided and spent under the *Nation Building Program (National Land Transport) Act 2009 – Roads to Recovery Program* for 2011-12 was performed in 2012-13 and did not reoccur.

This was partially offset by the completion for the first time of the audit of:

- the financial statements of the Capital Metro Agency. The Capital Metro Agency commenced operations on 1 July 2013 and is completing the first stage of a light rail network in the Territory;
- compliance by the Public Trustee for the ACT with the 'Public Ancillary Fund Guidelines 2011' made under the *Taxation Administration Act 1953* in relation to the Capital Region Community Foundation Gift Fund; and

- Commonwealth Funding provided and spent under the *Nation Building Program (National Land Transport) Act 2009* – National Projects for the Majura Parkway for 2011-12 and 2012-13.

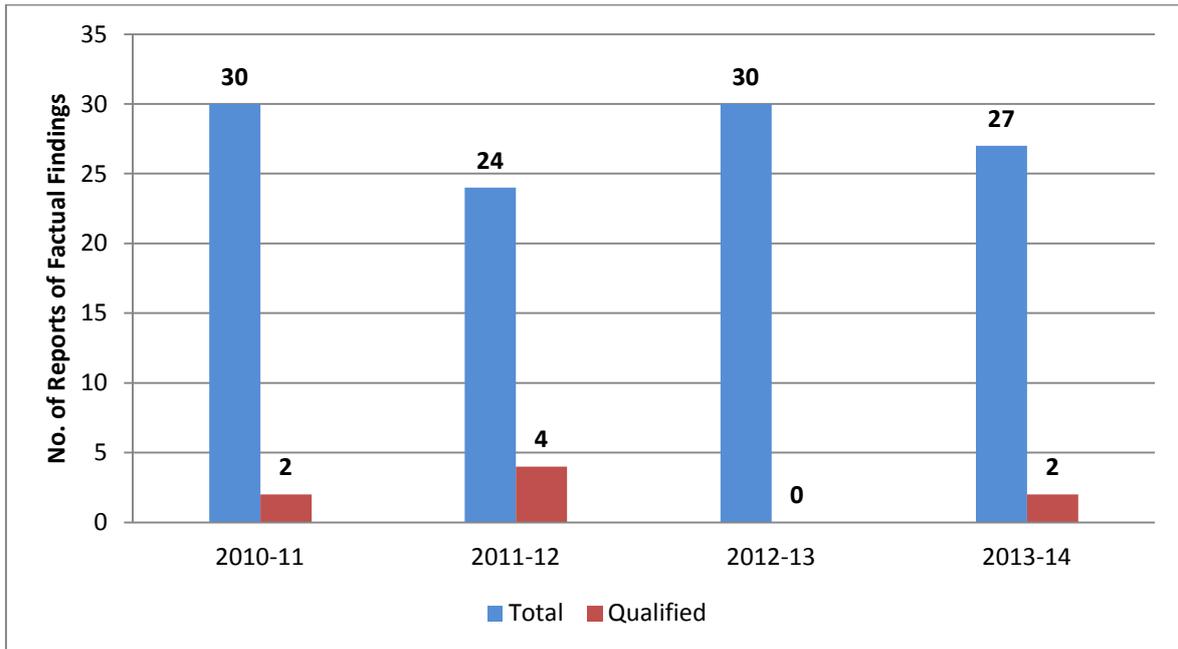
Results of the reviews of statements of performance

- 1.10 Reports of factual findings are issued based on a review of the accuracy of the reported results for accountability indicators included in statements of performance prepared by directorates and authorities.
- 1.11 Concerns about the accuracy of the results of accountability indicators are disclosed in the reports of factual findings. However, no opinion is provided on the usefulness or relevance of accountability indicators as part of these reviews because the accountability indicators included in statements of performance are settled as part of the budget process.
- 1.12 Concerns about the usefulness or relevance of the accountability indicators of agencies may be reported in audit management reports provided to heads of reporting agencies and their responsible Ministers.

Table 1-2 Reports of factual findings on statements of performance

	Unqualified	Qualified	Total
Directorates	16	-	16
Authorities	11	2	13
Total reports of factual findings	27	2	29

- 1.13 The Audit Office issued 29 reports of factual findings on statements of performance prepared by directorates and authorities in 2013-14.
- 1.14 Twenty-seven unqualified reports of factual findings and two qualified reports of factual findings were issued. The qualified reports related to the statement of performance of the ACT Public Cemeteries Authority and ACT Compulsory Third-Party Insurance Regulator.
- 1.15 The basis for the qualification of the report of factual findings on the statement of performance for the ACT Public Cemeteries Authority is explained on page 92.
- 1.16 A qualified report of factual findings was issued on the statement of performance of the ACT Compulsory Third-Party Insurance Regulator because one accountability indicator was not measured.

Figure 1-2 Reports of factual findings on statements of performance

1.17 Fewer reports of factual findings were issued in 2013-14 (29) than in 2012-13 (30). The small decrease was due to the abolition of the Treasury Directorate and Shared Services Centre in 2012-13; partially offset by the new Capital Metro Agency.

Table 1-3 Summary of audit reports and reports of factual findings

	Audit Reports	Report of Factual Findings
Territory		
Territory's Annual Financial Statements	Unqualified	Not applicable
Directorates		
ACT Executive	Unqualified	Not applicable
ACT Local Hospital Network Directorate	Unqualified	Unqualified
ACTION		
Capital Metro Agency	Unqualified	Unqualified
Chief Minister and Treasury Directorate	Unqualified	Unqualified
Commerce and Works Directorate	Unqualified	Unqualified
Community Services Directorate	Unqualified	Unqualified
Economic Development Directorate	Unqualified	Unqualified
Education and Training Directorate	Unqualified	Unqualified
Environment and Sustainable Development Directorate	Unqualified	Unqualified
Health Directorate	Unqualified	Unqualified
Home Loan Portfolio	Unqualified	Unqualified
Housing ACT	Unqualified	Unqualified
Justice and Community Safety Directorate	Unqualified	Unqualified
Office of the Legislative Assembly	Unqualified	Not applicable
Superannuation Provision Account	Unqualified	Unqualified
Territory and Municipal Services Directorate	Unqualified	Unqualified
Territory Banking Account	Unqualified	Unqualified
Authorities		
ACT Compulsory Third-Party Insurance Regulator	Unqualified	Qualified
ACT Gambling and Racing Commission	Unqualified	Unqualified
ACT Insurance Authority	Unqualified	Unqualified
ACT Public Cemeteries Authority	Qualified	Qualified
Building and Construction Industry Training Fund Authority	Unqualified	Unqualified
Canberra Institute of Technology	Unqualified	Unqualified
Cultural Facilities Corporation	Unqualified	Unqualified
Exhibition Park Corporation	Unqualified	Unqualified
Independent Competition and Regulatory Commission	Unqualified	Unqualified
Land Development Agency	Unqualified	Unqualified

	Audit Reports	Report of Factual Findings
Authorities - continued		
Legal Aid Commission (ACT)	Unqualified	Unqualified
Long Service Leave Authority	Unqualified	Unqualified
Public Trustee for the ACT	Unqualified	Unqualified
University of Canberra	Unqualified	Not applicable
Territory-owned corporations and other companies		
ACTEW Corporation Limited	Unqualified	Not applicable
ACTEW Distribution Limited	Unqualified	Not applicable
ACTEW Retail Limited	Unqualified	Not applicable
ACTTAB Limited	Unqualified	Not applicable
CIT Solutions Pty Limited	Unqualified	Not applicable
Community Housing Canberra Limited	Unqualified	Not applicable
UCU Ltd	Unqualified	Not applicable
University of Canberra College Pty Limited	Unqualified	Not applicable
Joint ventures and partnerships		
ActewAGL Distribution Partnership	Unqualified	Not applicable
ActewAGL Joint Venture Special Purpose Financial Report	Unqualified	Not applicable
ActewAGL Joint Venture Summary Financial Report	Unqualified	Not applicable
ActewAGL Retail Partnership	Unqualified	Not applicable
Crace Joint Venture	Unqualified	Not applicable
Forde Joint Venture	Unqualified	Not applicable
Lyons Joint Venture	Unqualified	Not applicable
Nicholls Primary School Joint Facilities	Unqualified	Not applicable
Other audits		
Canberra Business Development Fund	Unqualified	Not applicable
Capital Region Community Foundation Gift Fund	Unqualified	Not applicable
Capital Region Community Foundation Open Fund	Unqualified	Not applicable
Commonwealth Funding under the Digital Hubs Program	Unqualified	Not applicable
Commonwealth Funding under the <i>Interstate Road Transport Act 1985</i> – Expenditure Statement	Unqualified	Not applicable
Commonwealth Funding under the <i>Interstate Road Transport Act 1985</i> – Revenue Statement	Unqualified	Not applicable

	Audit Reports	Report of Factual Findings
Other audits - continued		
Commonwealth Funding under the <i>Nation Building Program (National Land Transport) Act 2009 – Roads to Recovery Program</i>	Unqualified	Not applicable
Commonwealth Funding under the <i>Nation Building Program (National Land Transport) Act 2009 – Black Spot Projects</i>	Unqualified	Not applicable
Commonwealth Funding under the <i>Nation Building Program (National Land Transport) Act 2009 – National Projects</i>	Unqualified	Not applicable
Commonwealth Funding under the <i>Nation Building Program (National Land Transport) Act 2009 – National Projects – Majura Parkway (30 June 2012)</i>	Unqualified	Not applicable
Commonwealth Funding under the <i>Nation Building Program (National Land Transport) Act 2009 – National Projects – Majura Parkway (30 June 2013)</i>	Unqualified	Not applicable
Default Insurance Fund	Unqualified	Not applicable
Gungahlin Cemetery Perpetual Care Trust	Qualified	Not applicable
Hall Cemetery Perpetual Care Trust	Qualified	Not applicable
National Health Funding Pool Account for the ACT	Unqualified	Not applicable
Office of the Nominal Defendant of the ACT	Unqualified	Not applicable
Public Trustee for the ACT – Trust Account	Unqualified	Not applicable
Public Trustee for the ACT's compliance with the <i>Public Ancillary Fund Guidelines 2011</i> made under the <i>Taxation Administration Act 1953</i> in relation to the Capital Region Community Foundation Gift Fund	Unqualified	Not applicable
University of Canberra Research Income Return	Unqualified	Not applicable
Woden Cemetery Perpetual Care Trust	Qualified	Not applicable
Woden Mausoleum Perpetual Care Trust	Qualified	Not applicable

2 AUDIT FINDINGS

2.1 The Audit Office:

- audits financial statements and reviews statements of performance prepared by reporting agencies; and
- provides an independent opinion on whether the information in the financial statements and statements of performance is materially correct and presents a fair view of the financial and operating performance of these agencies in accordance with applicable reporting requirements.

2.2 Australian Auditing Standards ASA 260: 'Communication with Those Charged with Governance' and ASA 265: 'Communicating Deficiencies in Internal Control to Those Charged with Governance and Management' require the Audit Office to report matters of governance interest, including deficiencies in internal control identified during an audit, to those who are responsible for the governance of an agency. Those responsible for the governance of an agency include agency heads, governing boards and relevant Ministers.

Matters of governance interest are referred to as audit findings in this report and in audit management reports provided to those who are responsible for the governance of an agency. These audit findings include weaknesses or breakdowns in internal controls and governance arrangements, reporting errors and deficiencies in financial reporting practices.

2.3 This chapter contains information on the:

- status of audit findings that have been reported to reporting agencies in audit management reports;
- quality and timeliness of financial statements and statements of performance submitted by reporting agencies to the Audit Office; and
- budget management of the Territory and its reporting agencies.

Key findings

Status of audit findings	Paragraph
<p>The performance of reporting agencies in resolving previously reported audit findings decreased in 2013-14 as:</p> <ul style="list-style-type: none"> reporting agencies resolved 76 (52 percent) of the 145 previously reported audit findings in 2013-14. In 2012-13, 211 (72 percent) of the 292 audit findings were resolved; and the percentage of previously reported audit findings that were not resolved increased from 11 percent in 2012-13 to 17 percent in 2013-14. 	2.6
<h3>Financial and performance reporting</h3>	
<h4>Quality of financial statements</h4>	
<p>The overall quality of financial statements submitted by reporting agencies for audit in 2013-14 was similar to 2012-13. The:</p> <ul style="list-style-type: none"> combined percentage of financial statements submitted for audit that were assessed as good or satisfactory in 2013-14 was 81 percent compared to 77 percent in 2012-13; and quality of the financial statements submitted for audit of seven (12 percent) reporting agencies was assessed as unsatisfactory in 2013-14. Seven (11 percent) unsatisfactory financial statements were submitted in 2012-13. 	2.13
<p>Six of the seven unsatisfactory financial statements submitted for audit in 2012-13 were also unsatisfactory in 2013-14.</p>	2.14
<h4>Timeliness of financial statements</h4>	
<p>Compliance with the whole-of-government reporting timetable remained high as 93 percent of agencies complied with the reporting timetable in 2013-14 and 89 percent in 2012-13.</p>	2.17

Quality of statements of performance	Paragraph
<p>The quality of statements of performance submitted by reporting agencies for review improved in 2013-14 as:</p> <ul style="list-style-type: none"> • the percentage of statements of performance assessed as good increased from 57 percent in 2012-13 to 69 percent in 2013-14; and • no statements of performance were assessed as unsatisfactory in 2013-14. Two (7 percent) unsatisfactory statements of performance were submitted in 2012-13. 	2.22
Timeliness of statements of performance	
<p>Compliance with the whole-of-government reporting timetable improved in 2013-14 with 97 percent of reporting agencies submitting their statements of performance to the Audit Office on time compared to 83 percent in 2012-13.</p>	2.25
Annual reporting	
Timeliness of annual reports	
<p>All except one reporting agency placed its annual report on the relevant website on time. One agency placed its annual report on its website shortly after the due date.</p>	2.28
Inclusion of audited documents in annual reports	
<p>Eight reporting agencies (18 percent) did not include all pages of their audited financial statements, reviewed statement of performance, or report of factual findings in the printed and electronic versions of their annual report.</p>	2.30
Budget management	
<p>The Territory's operating deficit of \$26 million was less than the budgeted deficit of \$134 million. A few agencies did not achieve their budgeted results.</p>	2.33

Status of audit findings

2.4 A summary of the status of audit findings for reporting agencies is shown in the following table.

Table 2-1 Status of audit findings (number of findings)

Year	Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
2012-13	292	211	50	31	69	150
2013-14	145 ¹	76	44	25	55	124

2.5 Reporting agencies should resolve most audit findings within 12 months of them being reported. However, some audit findings may take longer than 12 months to resolve. This may occur, for example, where a reporting agency:

- has agreed with the audit findings and related audit recommendations but is unable to immediately address the findings. For example, control weaknesses identified in a computer information system may need to be addressed as part of a planned future upgrade of the system;
- agrees with the audit findings and related audit recommendations, but has assessed that the cost of implementing the audit recommendations outweighs the benefits; or
- disagrees with the audit findings and related audit recommendations. This can occur, for example, where an agency believes that other mitigating factors reduce the risks posed by a control weakness.

2.6 The performance of reporting agencies in resolving previously reported audit findings decreased in 2013-14 as:

- reporting agencies resolved 76 (52 percent) of the 145 previously reported audit findings in 2013-14. In 2012-13, 211 (72 percent) of the 292 audit findings were resolved; and
- the percentage of previously reported audit findings that were not resolved increased from 11 percent in 2012-13 to 17 percent in 2013-14.

This indicates that reporting agencies need to improve their processes for resolving previously reported audit findings.

¹ The 2013-14 previously reported audit findings balance has been amended from the 2012-13 closing balance of 150 to 145. The financial statements of UC Global Pty Limited (formerly NATSEM Pty Limited) were not required to be audited in 2013-14 and the audit findings for NATSEM Pty Limited have therefore been removed.

- 2.7 A significant proportion of the unresolved audit findings relate to weaknesses in controls over computer information systems, including major revenue applications.

As discussed in Chapter 3: 'Computer information systems', agencies resolved ten (50 percent) of the 20 previously reported audit findings for the ten key applications that were reviewed by the Audit Office as part of the audits of financial statements. Furthermore, two (20 percent) of the ten previously reported audit findings in relation to environment controls were resolved, seven were partially resolved and one was not resolved.

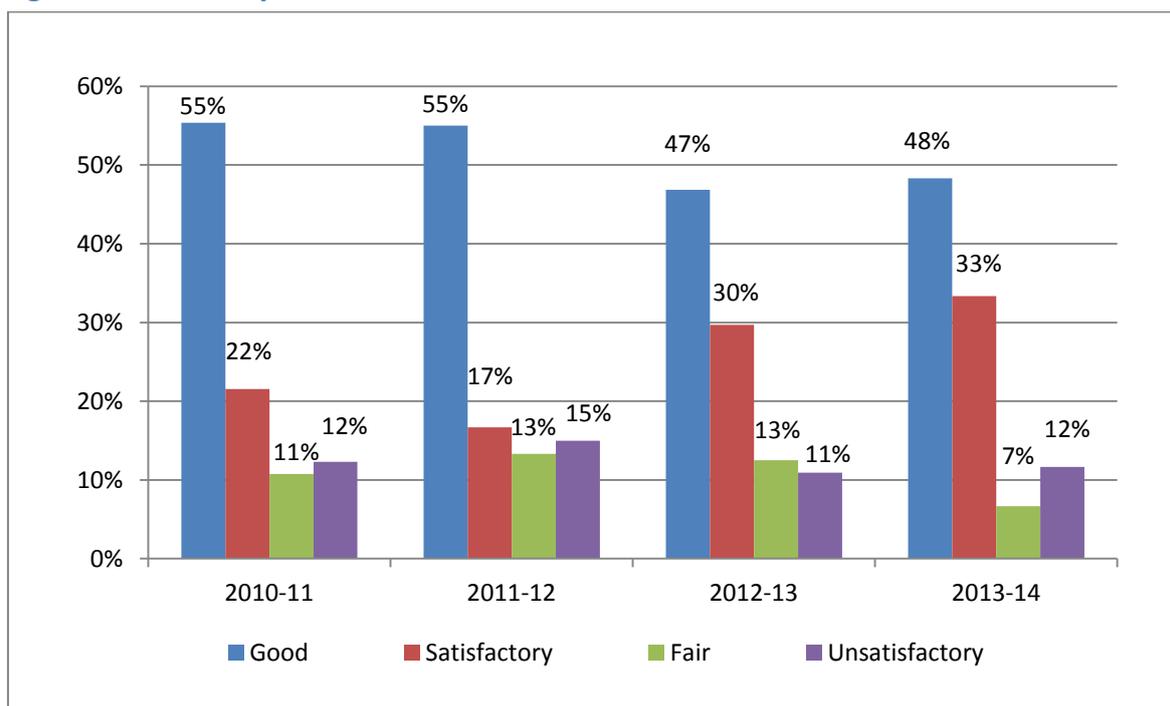
Financial and performance reporting

Quality of financial statements

- 2.8 An unqualified audit report is issued when the Audit Office is satisfied that the information in the financial statements materially complies with the relevant reporting requirements after the completion of the audit.
- 2.9 In 2013-14, five qualified audit reports were issued on the financial statements of the ACT Public Cemeteries Authority and four related Perpetual Care Trusts (no qualified audit reports were issued in 2012-13). Further information on these qualified audit reports is provided on page 18 of Chapter 1: 'Results of the financial audit program'.
- 2.10 An unqualified audit report is not always a reliable indicator of the adequacy of reporting arrangements implemented by a reporting agency because amendments and corrections are often made to the financial statements during the audit process.
- 2.11 The Audit Office has therefore assessed the quality of the financial statements submitted by reporting agencies for audit as this provides a better indication of the adequacy of reporting arrangements implemented by reporting agencies.
- 2.12 The Audit Office used the following criteria to assess the quality of financial statements submitted by reporting agencies for audit.

Table 2-2 Rating criteria

Rating	Criteria
Good	Financial statements were well prepared with few adjustments being needed to amounts or disclosures.
Satisfactory	Financial statements were well prepared with some adjustments being needed to amounts or disclosures.
Fair	Financial statements were of a borderline quality. Adjustments were needed to amounts or disclosures.
Unsatisfactory	Financial statements were not well prepared. Many adjustments were needed to amounts and disclosures.

Figure 2-1 Quality of financial statements

2.13 The overall quality of financial statements submitted by reporting agencies for audit in 2013-14 was similar to 2012-13. The:

- combined percentage of financial statements submitted for audit that were assessed as good or satisfactory in 2013-14 was 81 percent compared to 77 percent in 2012-13; and
- quality of the financial statements submitted for audit of seven (12 percent) reporting agencies was assessed as unsatisfactory in 2013-14. Seven (11 percent) unsatisfactory financial statements were submitted in 2012-13.

2.14 Six of the seven unsatisfactory financial statements submitted for audit in 2012-13 were also unsatisfactory in 2013-14.

While these unsatisfactory financial statements were improved during the audit, these agencies relied excessively on the audit process to assist them to meet their financial reporting obligations. These financial statements contained errors in reported figures and/or did not provide clear and informative information on the financial results.

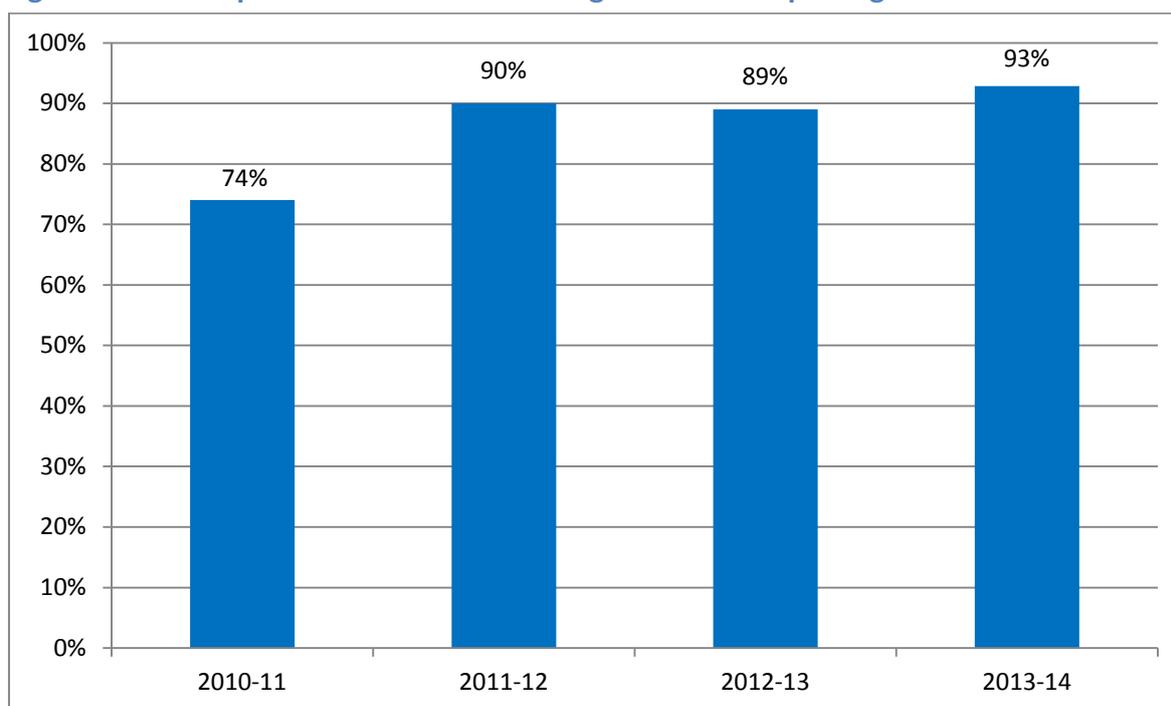
Timeliness of financial statements

2.15 The former Chief Minister and Treasury Directorate issued the 2013-14 whole-of-government reporting timetable. This timetable included the dates by which reporting agencies were required to submit their certified financial statements to the Audit Office.

2.16 Reporting agencies need to comply with this reporting timetable to ensure that:

- the financial statements of the Territory are completed and audited within the timeframe required by the *Financial Management Act 1996*; and
- they comply with annual reporting deadlines included in the Annual Report Directions issued under the *Annual Reports (Government Agencies) Act 2004*.

Figure 2-2 Compliance with the whole-of-government reporting timetable



2.17 Compliance with the whole-of-government reporting timetable remained high as 93 percent of agencies complied with the reporting timetable in 2013-14 and 89 percent in 2012-13.

The three reporting agencies that did not comply with this reporting timetable in 2013-14 provided their financial statements to the Audit Office shortly after the due date.

Quality of statements of performance

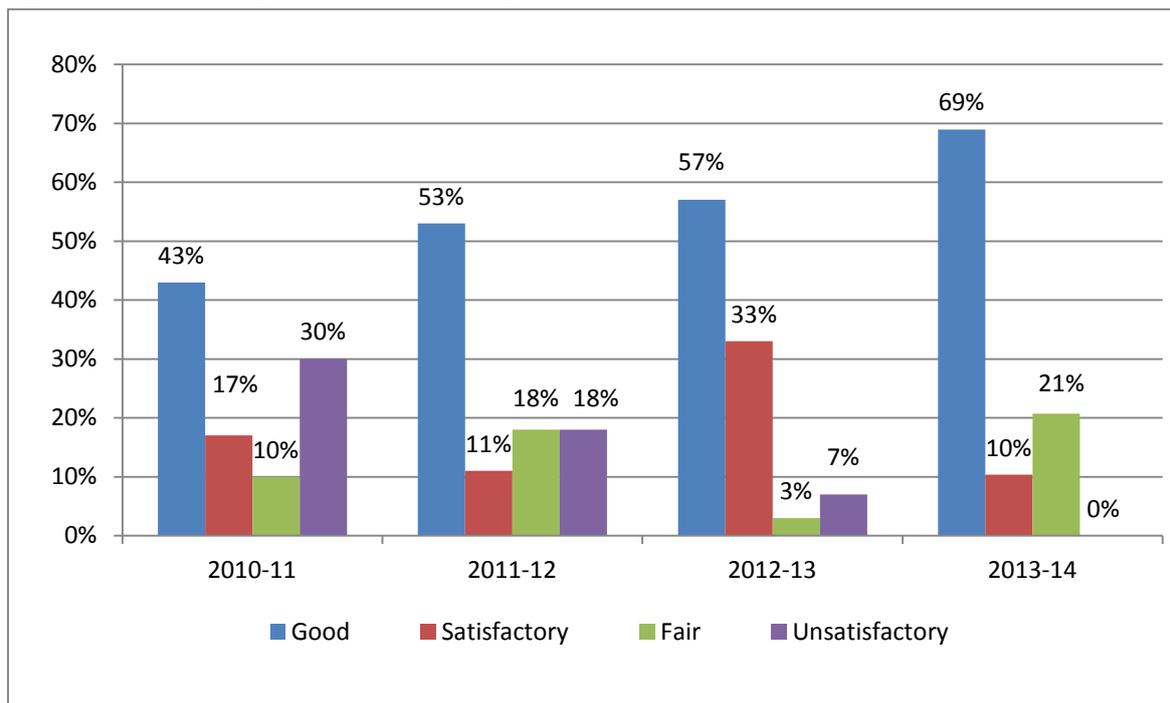
2.18 Under the *Financial Management Act 1996* directorates and authorities are required to prepare statements of performance which include accountability indicators that show their performance against their planned targets.

2.19 An unqualified report of factual findings is issued when no matters are identified during the review which indicates that the reported results of the accountability indicators are not fairly presented. The report of factual findings will be qualified if the result for an accountability indicator is materially incorrect, not measured or unable to be independently verified.

2.20 In 2013-14, two qualified reports of factual findings were issued on statements of performance. (No qualified reports were issued in 2012-13). Further information on these qualified audit reports is provided on page 20 of Chapter 1: 'Results of the financial audit program'.

2.21 The same rating criteria applied to financial statements previously provided in Table 2.2 on page 29 has been used by the Audit Office to assess the quality of statements of performance submitted to the Office.

Figure 2-3 Quality of statements of performance



2.22 The quality of statements of performance submitted by reporting agencies for review improved in 2013-14 as:

- the percentage of statements of performance assessed as good increased from 57 percent in 2012-13 to 69 percent in 2013-14; and
- no statements of performance were assessed as unsatisfactory in 2013-14. Two (7 percent) unsatisfactory statements of performance were submitted in 2012-13.

2.23 This improvement in quality was mainly as a result of reporting agencies ensuring that the reported results of accountability indicators were correctly recorded prior to submitting their statements of performance to the Audit Office for review.

- 2.24 While there has been an overall improvement in the quality of the statements of performance submitted for review, further improvements could be made. Reporting agencies should improve their statements of performance by providing:
- clear definitions for accountability indicators and the related targets;
 - more information on how reported results were measured; and
 - clear and informative explanations of material variances from the planned targets.

Timeliness of statements of performance

- 2.25 Compliance with the whole-of-government reporting timetable improved in 2013-14 with 97 percent of reporting agencies submitting their statements of performance to the Audit Office on time compared to 83 percent in 2012-13.
- 2.26 While one agency did not submit its statement of performance to the Audit Office on time, the statement of performance was provided shortly after the due date.

Annual reporting

Timeliness of annual reports

- 2.27 Reporting agencies are required by the Annual Reports Directions issued under the *Annual Reports (Government Agencies) Act 2004* to place their annual reports on the relevant website on the same day that their annual report is tabled in the ACT Legislative Assembly.
- 2.28 All except one reporting agency placed its annual report on the relevant website on time. One agency placed its annual report on its website shortly after the due date.

Inclusion of audited documents in annual reports

- 2.29 Agencies are responsible for ensuring that the printed and electronic (website) version of their audited financial statements and reviewed statement of performance included in the annual report and placed on the relevant website are consistent with those on which the audit report and report of factual findings were issued.
- 2.30 Eight reporting agencies (18 percent) did not include all pages of their audited financial statements, reviewed statement of performance, or report of factual findings in the printed and electronic versions of their annual report.
- 2.31 While these reporting agencies corrected the printed and electronic versions of their annual reports, these errors indicate that these agencies need to improve their processes for ensuring that the correct version of their audited financial statements and reviewed statement of performance are included in their annual report.

Budget management

2.32 The Territory's ability to achieve its budgeted financial results depends largely on individual agencies managing their finances within their individual budgets.

2.33 As discussed in Chapter 4: 'The Territory's financial statements', the Territory's operating deficit of \$26 million was less than the budgeted deficit of \$134 million. A few agencies did not achieve their budgeted results. For example, the:

- net cost of ACTION's services exceeded the budgeted cost by \$4.4 million (4.0 percent) mainly due to higher employee costs, workers' compensation insurance premiums and fuel costs. Further information on ACTION is provided on pages 108 to 111;
- Canberra Institute of Technology's net cost of services, excluding the cost of a planned asset transfer in the budget, exceeded the budgeted cost by \$2.2 million (2.9 percent). This was mainly as a result of lower than expected income from training courses and student fees. Further information on the Canberra Institute of Technology is provided on pages 116 to 118;
- Economic Development Directorate's net cost of services was \$11.7 million (12.5 percent) higher than the prior year cost. This was largely due to higher depreciation expenses and a payment made in 2013-14 to secure hosting rights for the Asian Cup football tournament. Further information on the Economic Development Directorate is provided on pages 131 to 135; and
- Land Development Agency's operating profit of \$66.7 million was \$12.0 million (15.2 percent) below the budgeted profit of \$78.7 million. This was mostly due to lower than expected gross profit on land sales (revenue less cost of land sold); partially offset by a higher than estimated share of operating profit from land joint ventures. Further information on the Land Development Agency is provided on pages 164 to 169.

The financial results of the Territory's major agencies are compared to their budgets in Chapter 5: 'Audit results and findings on selected ACT Government agencies and other entities'.

Recommendations

RECOMMENDATION 1 (CHAPTER 2) STATUS OF AUDIT FINDINGS

Reporting agencies should implement effective processes for resolving audit findings in a timely manner.

RECOMMENDATION 2 (CHAPTER 2) QUALITY OF STATEMENTS OF PERFORMANCE

Reporting agencies should improve their statements of performance by providing:

- a) sufficient explanatory information on the definitions of accountability indicators, the targets set and how the results of the accountability indicators are measured; and
- b) clear and informative explanations of material variances from the planned targets.

RECOMMENDATION 3 (CHAPTER 2) INCLUSION OF AUDITED DOCUMENTS IN ANNUAL REPORTS

Reporting agencies should ensure that the printed and electronic (website) versions of annual reports include the correct version of their audited financial statements, reviewed statement of performance, audit report and report of factual findings.

3 COMPUTER INFORMATION SYSTEMS

- 3.1 Controls over computer information systems are implemented to provide reporting agencies with assurance that their:
- financial statements and statements of performance are prepared using information that is authentic, accurate and reliable;
 - applications consistently operate as intended; and
 - information is kept secure.
- 3.2 Computer information system controls are classified as:
- Application controls. These controls are included within an application. They address user access, change management and accuracy of data entered into and processed by an application; and
 - Environment controls. These include controls over the computer network, equipment, servers, databases and buildings containing the equipment (e.g. data centres). For most reporting agencies, these controls are managed by Shared Services.

Key findings

Application controls

Paragraph

Ten (50 percent) of the 20 previously reported audit findings for the ten key applications reviewed by the Audit Office were resolved. Ten (50 percent) were not resolved. Nine new audit findings were identified in 2013-14.

3.6

Data processing controls

Supplier master files

The 'one time supplier' function in ORACLE Financials was disabled. This reduces the risk of fraudulent payments because it prevents a user from processing the payment of an invoice to a supplier whose details have not been reviewed and approved by another officer before being entered into the system.

3.9

Information security management	Paragraph
Management of user access	
<p>Housing ACT reduced the risk of inappropriate and fraudulent access to information recorded in Homenet by:</p> <ul style="list-style-type: none"> • documenting and approving policies governing user access to this application; and • performing periodic reviews of user access to this application. 	3.14
<p>The Chief Minister, Treasury and Economic Development Directorate reduced the risk of inappropriate and fraudulent access to information in TM1 by documenting and approving procedures for removing and assigning roles to users in the system.</p>	3.15
<p>The Education and Training Directorate approved policies and procedures for establishing, removing and reviewing user access to Maze and performed reviews of user access at the school level. While implementation of these policies and procedures should improve the management of user access to Maze at the school level, they do not provide guidance on reviewing user access to Maze at the Directorate level, and there was no evidence of these reviews being performed. This weakness presents a risk of unauthorised access to student and financial data, including sensitive student information.</p>	3.16
<p>While reviews of user access to the Territory Revenue System are performed, the effectiveness of these reviews depends on the reviewer's ability to identify whether user access is acceptable, rather than basing this review on a defined policy and security baseline.</p>	3.17
<p>There was no monitoring of high risk transactions processed in the Territory Revenue System, particularly for user profiles that allow processing of 'ad-hoc credits'. Access to the 'ad-hoc credits' facility enables users to process adjustments and refunds to client accounts without a requirement to have them approved in the Territory Revenue System by a second operator. Ten of the 24 available user profiles could process 'ad-hoc credits'.</p>	3.18
<p>There is a risk of Cashlink receipt files being accidentally or fraudulently changed because Shared Services has not restricted the number of people who can access them.</p>	3.22
<p>A segregation of duties matrix has been developed for MyWay, however, access to MyWay has not always been granted in accordance with this matrix. This control weakness presents risks of errors and fraud occurring.</p>	3.26

Audit logs	Paragraph
<p>The risk of undetected erroneous, irregular or fraudulent changes to the ORACLE Financials system and data was reduced by the performance of periodic reviews of audit logs for this system.</p>	3.30
<p>Periodic reviews of audit logs for the Maze, Territory Revenue System, Homenet and MyWay applications and the Cashlink and Community 2011 database servers are not performed. Furthermore, there are no approved policies and procedures in place which address the performance of such reviews. This presents a risk of erroneous, irregular or fraudulent changes being made to these systems and data and not being detected.</p>	
Password complexity	
<p>The use of complex passwords is not automatically enforced by the Territory Revenue System or TM1. This presents a risk of inappropriate or fraudulent access to these systems as staff will be less likely to use complex passwords when they are not forced to do so by the system.</p>	3.34
Continuity arrangements	
Business continuity and disaster recover arrangements	
<p>Business continuity and disaster recovery plans for the Territory Revenue System, Community 2011, rego.act, MyWay and TM1:</p>	3.40
<ul style="list-style-type: none"> • do not reflect the current recovery arrangements for these systems; and • need to be updated, approved and tested. 	
<p>Backup and recovery testing was performed by Housing ACT and Shared Services for Homenet, however, the results of this testing and the actions required to resolve any problems identified during this testing were not formally documented.</p>	3.42
Change management processes	
Change management policies and procedures	
<p>Testing results for fare and schedule changes made to MyWay were not documented before being implemented. This presents a risk that:</p>	3.47
<ul style="list-style-type: none"> • changes made to MyWay will not operate as intended; and • information will be lost and services that rely on MyWay will be disrupted. 	

Environment controls	Paragraph
Overall, environment controls implemented by Shared Services were assessed to be satisfactory, however, areas where controls should be strengthened were identified.	3.52
Two (20 percent) of the ten previously reported audit findings were resolved, seven were partially resolved and one was not resolved. One new audit finding was identified in 2013-14.	3.53
Governance arrangements	
No significant weaknesses in governance arrangements were identified in 2013-14.	3.57
Password controls	
The level of password complexity required by the ACT Government's password standard to gain access to the ACT Government network is not automatically enforced by the computer system. While this control weakness was partially resolved by the performance of regular audits of compliance with the password standard, automatic enforcement of password complexity requirements by the computer system would provide a more effective and efficient means of ensuring compliance.	3.60
Vendor support for operating systems	
Several servers on the ACT Government network use operating systems that are no longer supported by the system vendors. Shared Services partially addressed this weakness by implementing measures to:	3.64
<ul style="list-style-type: none"> • anticipate the possible loss of support for any operating systems; and • upgrade operating systems that are no longer supported. 	
Shared Services also provided updates to ACT Government agencies on critical systems and applications they have operating on unsupported systems.	
While Shared Services has agreed to work with ACT Government agencies to ensure that all server operating systems are supported, it has advised that it cannot force agencies to upgrade their systems to run on supported operating systems.	3.65
Access security at data centres	
Shared Services reduced the risk of unauthorised access to ACT Government data centres by performing weekly reviews of reports of all critical access attempts to data centre sites. Documentation supporting these reviews was kept and there was evidence that irregular access attempts were being identified and investigated.	3.67
Shared Services performed a review of access granted to data centres in August 2013 and access for those people who no longer required it was removed. Furthermore, access of staff was restricted to those areas of the data centres that staff needed access to for performing their duties.	3.69

	Paragraph
Despite these improvements, the Audit Office reviewed the access of all staff who have access to the data centres and found that:	3.70
<ul style="list-style-type: none"> • two former staff had active access out of the 77 staff with access to data centres; and • there was an excessive number of spare access passes being kept for temporary access to data centres. 	
Access to the ACT Government network	
The Audit Office did not identify any instances where former employees continued to have access to the ACT Government network in 2013-14.	3.73
In 2013-14, Shared Services strengthened controls over access to the ACT Government network.	3.74
However, Shared Services did not:	3.75
<ul style="list-style-type: none"> • perform regular reviews of users provided with the standard level of access to the ACT Government network; • eliminate or reduce the use of generic accounts on the ACT Government network; and • perform a review of generic accounts and disable access that would allow users to make changes to the security, confidentiality or integrity of critical data. 	
Security planning	
Shared Services documented and approved its information technology security plan. Implementation of the approved plan should provide more assurance that arrangements for managing security over information technology will be effective.	3.78
Externally hosted websites	
Shared Services ICT advised that it is unable to enforce the same level of security on external providers of websites as it can enforce on websites that are hosted internally.	3.81

Security of information

Paragraph

During 2013-14, Shared Services launched a trial of a document security classification system for Microsoft Office documents. However, Shared Services has advised it cannot require agencies to use the new security classification system or enforce:

3.83

- restrictions on the access, storage, transmission and disposal of security classified information; and
- regular reviews of audit logs covering the access, storage, transmission, transfer and disposal of security classified information.

Continuity arrangements

Alternative information technology infrastructure arrangements

Agency support agreements with Shared Services were updated to include details of all agency systems, their criticality and infrastructure availability arrangements.

3.87

However, there is a risk that critical systems will not be recovered in a timely manner because:

- the information technology infrastructure supporting several critical systems is not replicated at an alternative site; and
- disaster recovery plans do not identify alternative information technology infrastructure arrangements.

Change management processes

Shared Services did not regularly:

3.91

- perform reviews of audit logs for high risk or suspicious changes, including unauthorised or possibly fraudulent changes, to critical software and hardware; and
- reconcile changes recorded in the audit logs to authorised change records in the change management system.

This presents a risk of unauthorised and possibly fraudulent changes being made to critical hardware and software.

Contract management guidelines and procedures**Paragraph**

Shared Services ICT improved its contract management guidelines (Shared Services Contract Management Guidelines) by including procedures for regularly monitoring suppliers' compliance with their contracts. However, further improvements should be made by updating these guidelines to include the:

3.94

- current risk management practices used by Shared Services ICT; and
- regular review of expenditure records to identify new or amended ICT contracts under the responsibility of Shared Services ICT.

These contracts should be reviewed to ensure that a supplier is providing the services at the contracted price.

Project management arrangements

No significant weaknesses in project management arrangements were identified in 2013-14.

3.96

Application controls

3.3 This section provides an overview of the results of the Audit Office's reviews of application controls relating to ten major applications used by reporting agencies. These applications are:

- ORACLE Financials is the financial management information system used by most ACT Government agencies. It is managed by Shared Services which became part of the Chief Minister, Treasury and Economic Development Directorate following changes to administrative arrangements in July 2014;
- CHRIS21 is the human resources information management system used by most ACT Government agencies. It is managed by Shared Services;
- Maze is a school administration system used by ACT public schools to process school receipts and expenditure. It is managed by the Education and Training Directorate;
- Community 2011 is used by the ACT Revenue Office to process rates, taxes and levies. The ACT Revenue Office became part of the Chief Minister, Treasury and Economic Development Directorate following changes to administrative arrangements in July 2014;
- Territory Revenue System is used by the ACT Revenue Office to record and manage taxes and fees revenue;
- Homenet is used to manage information on social and public housing services. Homenet is managed by Housing ACT;
- rego.act is used to record motor vehicle registrations, drivers' licences and vehicle infringement revenue. It is managed by the Justice and Community Safety Directorate;
- MyWay is the bus ticketing system used by ACTION. It is managed by the Territory and Municipal Services Directorate;
- Cashlink is an application used by several agencies to process cash received from members of the public. It is managed by the Territory and Municipal Services Directorate; and
- TM1 is used to prepare the Territory's financial statements. It is managed by the Chief Minister, Treasury and Economic Development Directorate.

3.4 The review of the controls relating to these applications included the consideration of:

- data processing controls;
- information security management;
- continuity arrangements; and
- change management processes.

3.5 Further information on each of these controls is provided on pages 45 to 51.

Table 3-1 Status of audit findings (number of findings)

Application	Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
ORACLE Financials and CHRIS21	3	3	-	-	-	-
Maze	4	2	-	2	-	2
Community 2011 and Territory Revenue System	3	1	-	2	4	6
Homenet	5	3	-	2	-	2
rego.act	-	-	-	-	2	2
MyWay	2	-	-	2	2	4
Cashlink	-	-	-	-	1	1
TM1	3	1	-	2	-	2
Total	20	10	-	10	9	19

3.6 Ten (50 percent) of the 20 previously reported audit findings for the ten key applications reviewed by the Audit Office were resolved. Ten (50 percent) were not resolved. Nine new audit findings were identified in 2013-14.

Data processing controls

3.7 Data processing controls are automated and provide assurance over the integrity of data processed by an application. These control how and what data can be entered into an application. Examples of these controls include:

- users being provided 'read only' access;
- user access being restricted to certain areas; or
- preventing alphabetic characters from being entered into numeric fields (for example, fields that must contain a dollar amount).

Supplier master files

3.8 To minimise the risk of fraudulent payments, the ability to create and/or change details in the supplier master file of a financial management information system should be tightly restricted. In particular, users who have been granted access that enables them to enter and process an invoice for payment should not be able to change the supplier master file to, for example, create a supplier.

- 3.9 The 'one time supplier' function in ORACLE Financials was disabled. This reduces the risk of fraudulent payments because it prevents a user from processing the payment of an invoice to a supplier whose details have not been reviewed and approved by another officer before being entered into the system.

Information security management

- 3.10 Threats to confidentiality, authenticity and availability of information can arise from electronic transactions (e-commerce) and security exposures such as viruses, intrusions and unauthorised releases of confidential information.
- 3.11 Information security management processes provide assurance that:
- confidentiality and privacy of information is maintained; and
 - information recorded on a computer system is authentic, reliable and available when required.
- 3.12 Effective information security management involves maintaining:
- the availability of computer information systems and applications;
 - the authenticity and reliability of information stored on these systems;
 - the confidentiality and privacy of information; and
 - compliance with legislative and regulatory standards and requirements.

Management of user access

- 3.13 Policies and procedures for controlling user access include procedures for reviewing, establishing, modifying and removing user access. Implementation of these procedures reduces the risk of inappropriate or fraudulent access by providing assurance that:
- user access is consistent with the roles and responsibilities of users; and
 - access of former employees is removed in a timely manner.
- 3.14 Housing ACT reduced the risk of inappropriate and fraudulent access to information recorded in Homenet by:
- documenting and approving policies governing user access to this application; and
 - performing periodic reviews of user access to this application.
- 3.15 The Chief Minister, Treasury and Economic Development Directorate reduced the risk of inappropriate and fraudulent access to information in TM1 by documenting and approving procedures for removing and assigning roles to users in the system.

- 3.16 The Education and Training Directorate approved policies and procedures for establishing, removing and reviewing user access to Maze and performed reviews of user access at the school level. While implementation of these policies and procedures should improve the management of user access to Maze at the school level, they do not provide guidance on reviewing user access to Maze at the Directorate level, and there was no evidence of these reviews being performed. This weakness presents a risk of unauthorised access to student and financial data, including sensitive student information.

The Education and Training Directorate has advised that it:

... The Directorate will include in its procedures guidance on review of user access at the Directorate level, and ensure that these reviews are performed on a regular basis.

- 3.17 User access to the Territory Revenue System is granted by a user's manager who decides what access will be provided by completing an access request form and emailing it to the Shared Services ICT Helpdesk.

While reviews of user access to the Territory Revenue System are performed, the effectiveness of these reviews depends on the reviewer's ability to identify whether user access is acceptable, rather than basing this review on a defined policy and security baseline.

- 3.18 There was no monitoring of high risk transactions processed in the Territory Revenue System, particularly for user profiles that allow processing of 'ad-hoc credits'. Access to the 'ad-hoc credits' facility enables users to process adjustments and refunds to client accounts without a requirement to have them approved in the Territory Revenue System by a second operator. Ten of the 24 available user profiles could process 'ad-hoc credits'.

- 3.19 The Chief Minister, Treasury and Economic Development Directorate has advised that:

.... user profiles in the Territory Revenue System will be reviewed, and updated if necessary. Ad-hoc credit functionality is necessary due to system limitations. A manual audit log will target high risk transactions, such as ad-hoc credits, to minimise error/fraud risk. Review of the manual audit log will be documented.

- 3.20 Cashlink is used to record customer payments at Canberra Connect Shopfronts and customer service centres, including online receipts through the Canberra Connect website and receipts from third parties, such as BPAY. Shared Services ICT processes a Cashlink electronic receipt file which is transferred to a network directory before being manually uploaded into Community 2011 and the Territory Revenue System.

- 3.21 Users should not be given access that enables them to change the receipt files held in this directory because this may provide users with an opportunity to process erroneous or fraudulent receipt allocations.

- 3.22 There is a risk of Cashlink receipt files being accidentally or fraudulently changed because Shared Services has not restricted the number of people who can access them.

- 3.23 Representatives from Shared Services explained that this level of access is required to manually upload receipt files into Community 2011 and the Territory Revenue System. Given this, the lack of independent monitoring of audit logs of user activities within this directory is important. However, this monitoring does not occur and this presents a risk of receipting errors and fraud not being detected.
- 3.24 The Chief Minister, Treasury and Economic Development Directorate advised that the:
- ... Revenue Management Division, in conjunction with Shared Services ICT, will seek to improve Community and Territory Revenue System software to facilitate Cashlink payment file processing from a locked down payment file folder with 'read-only' user access permissions.
- 3.25 A segregation of duties matrix defines system roles and functionality assigned to users and groups. For higher risk transactions, this matrix should address the risk of incompatible duties (for example, duties which would enable a user to perpetrate fraud). Segregation of incompatible duties can be automatically enforced by a computer system. For example, a computer system can be used to:
- restrict access to the system; and/or
 - limit functions that can be performed by users.
- 3.26 A segregation of duties matrix has been developed for MyWay, however, access to MyWay has not always been granted in accordance with this matrix. This control weakness presents risks of errors and fraud occurring.
- 3.27 The Territory and Municipal Services Directorate has agreed to address this control weakness.

Audit logs

- 3.28 Audit logs are a system-generated record of exceptions and other security events. They include, for example, details of the identities of users, dates, times and locations of access and unsuccessful attempts at making changes to applications and key data in databases.
- 3.29 Monitoring of audit logs assists in identifying:
- erroneous, irregular or fraudulent changes to systems and data; and
 - system performance deficiencies by reporting errors and highlighting areas where processes regularly require an excessive amount of time to complete.
- 3.30 The risk of undetected erroneous, irregular or fraudulent changes to the ORACLE Financials system and data was reduced by the performance of periodic reviews of audit logs for this system.

Periodic reviews of audit logs for the Maze, Territory Revenue System, Homenet and MyWay applications and the Cashlink and Community 2011 database servers are not performed. Furthermore, there are no approved policies and procedures in place which address the performance of such reviews. This presents a risk of erroneous, irregular or fraudulent changes being made to these systems and data and not being detected.

3.31 The Chief Minister, Treasury and Economic Development Directorate (Territory Revenue System and Community 2011), Community Services Directorate (Homenet) and Territory and Municipal Services Directorate (MyWay and Cashlink) have advised that these control weaknesses will be addressed.

3.32 The Education and Training Directorate has advised that:

... The Directorate has investigated options for audit logs and determined that Maze does not have the capability to produce system or data audit logs. The specifications for an upgrade to the Maze school administration system (the project is currently in a discovery phase) will include a requirement for audit trails and transactional log capability, it is not anticipated that this recommendation can be activated until full implementation of a new system in 2016.

In addition, to minimise potential risks identified by the audit it should be noted that all financial transactions in Maze are locked and cannot be edited or deleted by the user. Each financial record is tagged with the Maze user account and the date and time the transaction occurred.

Access to key systems, applications and data - password complexity

3.33 Complex passwords provide a stronger control over access to systems, applications and data compared to simple passwords because they are more difficult to guess or 'crack'.

3.34 The use of complex passwords is not automatically enforced by the Territory Revenue System or TM1. This presents a risk of inappropriate or fraudulent access to these systems as staff will be less likely to use complex passwords when they are not forced to do so by the system.

3.35 The Chief Minister, Treasury and Economic Development Directorate has agreed to address the finding relating to the Territory Revenue System in a future upgrade of this system. However, the Directorate has not agreed with the audit finding relating to TM1 as the current version of the system does not support effective password management and the additional administrative effort required to address the audit finding would not be cost effective.

Continuity arrangements

- 3.36 Continuity arrangements provide assurance that systems and applications will be:
- available when required; and
 - restored in a controlled and timely manner in the event of a disaster, disruption or other adverse event.

Business continuity and disaster recovery arrangements

- 3.37 A business continuity plan provides a structured and planned process for continuing operations in the event of unplanned incidents which adversely affect information technology infrastructure, including an inability to use hardware or software. Implementation of this plan provides assurance that the operations of an entity will continue if a system fails.
- 3.38 Disaster recovery arrangements, including back-up and recovery processes, are planned procedures for restoring a system. The effectiveness of these procedures should be periodically tested to provide assurance that a system will be recovered and operations promptly resumed without the loss of data in the event of a disaster, disruption or other adverse event.
- 3.39 Disaster recovery plans and backup and restoration processes have been developed and approved for ORACLE Financials and Maze. Implementation and testing of these processes should reduce the risk of critical data and systems not being available or recoverable following a significant disaster or disruption.
- 3.40 Business continuity and disaster recovery plans for the Territory Revenue System, Community 2011, rego.act, MyWay and TM1:
- do not reflect the current recovery arrangements for these systems; and
 - need to be updated, approved and tested.
- 3.41 The Chief Minister, Treasury and Economic Development Directorate (Territory Revenue System, Community 2011 and TM1), Territory and Municipal Services Directorate (MyWay) and Justice and Community Safety Directorate (rego.act) have advised that these control weaknesses will be addressed.
- 3.42 Backup and recovery testing was performed by Housing ACT and Shared Services for Homenet, however, the results of this testing and the actions required to resolve any problems identified during this testing were not formally documented. There is a higher risk of the Homenet application and data not being promptly restored following a disaster or adverse event when testing results and the resolution of problems identified from testing are not documented.

3.43 Housing ACT has agreed in principle with this audit finding and advised that:

... Housing ACT has agreed with audit that more formal documentation and explanatory notes will be prepared to evidence the back-up and restoration process. This documentation was provided to the Audit Office during the audit of the 2013-14 financial statements and will be provided in respect of future back-ups and restorations.

Change management processes

3.44 Defined and controlled processes for making changes to computer applications and hardware are needed to:

- provide assurance that systems and applications operate as intended; and
- minimise the risk of untested, erroneous and fraudulent changes which may have major adverse effects on the performance of systems and applications and create security vulnerabilities. This may occur, for example, where the impact of the change on other processes, changes and controls implemented in the system or application or broader information technology environment has not been identified and addressed.

3.45 An unauthorised change to an information technology environment is any change that has not been subject to an approved change management process.

Change management policies and procedures

3.46 The 'ACT Government ICT Change Management Policy' requires changes to systems to be documented in a test plan before being implemented. Documentation should include the results of these tests and resolution of problems identified in the testing.

3.47 Testing results for fare and schedule changes made to MyWay were not documented before being implemented. This presents a risk that:

- changes made to MyWay will not operate as intended; and
- information will be lost and services that rely on MyWay will be disrupted.

3.48 The Territory and Municipal Services Directorate has agreed to address this control weakness by improving its change management processes.

Environment controls

3.49 Reporting agencies rely on environment controls implemented by Shared Services to provide assurance that:

- information sourced from critical applications is authentic, complete and accurate; and
- applications operate as intended and are reliable.

3.50 Areas that were reviewed as part of the audit of the financial statements of agencies included:

- governance arrangements;
- information security management;
- continuity arrangements;
- change management processes;
- contract management arrangements; and
- project management arrangements.

3.51 Further information on each of these areas is provided on pages 53 to 59.

Table 3-2 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
10	2	7	1	1	9

3.52 Overall, environment controls implemented by Shared Services were assessed to be satisfactory, however, areas where controls should be strengthened were identified.

3.53 Two (20 percent) of the ten previously reported audit findings were resolved, seven were partially resolved and one not resolved. One new audit finding was identified in 2013-14.

3.54 Shared Services has advised that it cannot resolve three of the ten previously reported audit findings as a whole of government approach is needed. These audit findings related to:

- vendor support for operating systems (pages 53 to 54);
- security of information (pages 56 to 57); and
- alternative information technology infrastructure arrangements (pages 57 to 58).

3.55 Furthermore, Shared Services also advised that it could not resolve one new audit finding relating to the security of externally hosted websites by ACT Government agencies. Again, a whole of government approach is needed. More information about this audit finding is provided on page 56.

Governance arrangements

- 3.56 Important components of governance arrangements considered during an audit include:
- strategic and resource planning;
 - governance committees established to plan, identify, prioritise and monitor the use of information technology; and
 - arrangements for the management of risks associated with the use of technology.
- 3.57 No significant weaknesses in governance arrangements were identified in 2013-14.

Information security management

- 3.58 Information security management processes are those that protect information from threats to confidentiality, integrity and availability. These threats can arise from:
- electronic transactions, such as e-commerce; and
 - security exposures, such as viruses, external attacks and unauthorised releases of confidential information.

Access to the ACT Government network - password complexity

- 3.59 Passwords provide a safeguard against the risks of unauthorised (inappropriate and possibly fraudulent) access to the ACT Government network, applications and data.
- 3.60 The level of password complexity required by the ACT Government's password standard to gain access to the ACT Government network is not automatically enforced by the computer system. While this control weakness was partially resolved by the performance of regular audits of compliance with the password standard, automatic enforcement of password complexity requirements by the computer system would provide a more effective and efficient means of ensuring compliance.
- 3.61 Shared Services has 'agreed in principle' with this audit finding and advised that:
- ... The technical control of password complexity required is not currently possible with the tools available in the Microsoft operating environment.
- The ACT Government's security standards are aligned with the Commonwealth Information Security Manual (ISM), and, consistent with this, will be amending the password standard ... in line with the ISM. This new standard will be fully technologically enforceable.

Vendor support for operating systems

- 3.62 System vendors usually provide support for major operating systems. This support may include the release of 'patches' which protect systems from known security vulnerabilities, or fix errors and address system performance issues. This support is usually provided for a limited time as newer versions of operating systems are developed by the vendor.

- 3.63 To provide assurance that servers, applications and data on a network are protected from security or performance weaknesses, operating systems should be upgraded when support is no longer provided by the system vendor.

Plans and strategies for upgrades to applications and operating systems should also be implemented to address any future loss of support.

- 3.64 Several servers on the ACT Government network use operating systems that are no longer supported by the system vendors. Shared Services partially addressed this weakness by implementing measures to:

- anticipate the possible loss of support for any operating systems; and
- upgrade operating systems that are no longer supported.

Shared Services also provided updates to ACT Government agencies on critical systems and applications they have operating on unsupported systems.

- 3.65 While Shared Services has agreed to work with ACT Government agencies to ensure that all server operating systems are supported, it has advised that it cannot force agencies to upgrade their systems to run on supported operating systems. As a result, a whole of government approach is needed to address this control weakness.

Access security at data centres

- 3.66 Unauthorised and potentially fraudulent access attempts to data centres can be identified through the review of alarm reports which provide a record of irregular or unusual access attempts (critical access attempts).

Critical access attempts include, for example, attempts to access data centres outside normal business hours, unusually frequent access attempts and/or access attempts by contractors and consultants.

- 3.67 Shared Services reduced the risk of unauthorised access to ACT Government data centres by performing weekly reviews of reports of all critical access attempts to the data centre sites. Documentation supporting these reviews was kept and there was evidence that irregular access attempts were being identified and investigated.

- 3.68 People granted permanent access to data centres are recorded on permanent access lists. The regular review of these lists provides assurance that access of these people remains commensurate with their roles and responsibilities.

- 3.69 Shared Services performed a review of access granted to data centres in August 2013 and access for those people who no longer required it was removed. Furthermore, access of staff was restricted to those areas of the data centres that staff needed access to for performing their duties.

3.70 Despite these improvements, the Audit Office reviewed the access of all staff who have access to the data centres and found that:

- two former staff had active access out of the 77 staff with access to data centres; and
- there was an excessive number of spare access passes being kept for temporary access to data centres.

3.71 Shared Services has agreed to:

- improve the effectiveness of reviews of users' access; and
- undertake a risk assessment to determine the appropriate number of spare access passes required for the data centres.

Access to the ACT Government network

3.72 Controls over user access to the ACT Government network are needed to provide an adequate safeguard against unauthorised, inappropriate or potentially fraudulent access to data and applications on the network.

3.73 The Audit Office did not identify any instances where former employees continued to have access to the ACT Government network in 2013-14.

3.74 In 2013-14, Shared Services strengthened controls over access to the ACT Government network. This included:

- performing reviews of access granted to all privileged user accounts on the ACT Government network. Access to privileged user accounts needs to be tightly controlled as these accounts provide users with the ability to make changes to the ACT Government network, systems and applications on the network; and
- restricting the use of generic (shared) accounts. Generic accounts pose a threat to security because the sharing of the use of user accounts prevents the subsequent tracing of activities on the system using these accounts to an individual.

3.75 However, Shared Services did not:

- perform regular reviews of users provided with the standard level of access to the ACT Government network. A standard level of access provides users with access to the ACT Government network but, unlike privileged user accounts, does not enable the user to make changes to the network, systems and applications;
- eliminate or reduce the use of generic accounts on the ACT Government network; and
- perform a review of generic accounts and disable access that would allow users to make changes to the security, confidentiality or integrity of critical data.

3.76 Shared Services has agreed to:

- provide agencies with details of user access to the ACT Government network so that agencies can review user access; and

- undertake a review of generic accounts and reduce or remove the access these accounts have that enable users to compromise the security, confidentiality or integrity of critical data, except where the agency has a clear business need for such accounts and has accepted the identified risks.

Security planning

3.77 Information technology security plans set out an entity's arrangements for managing security over information technology. These plans address how:

- an entity identifies, analyses and prioritises information technology security threats (for example, unauthorised access to information); and
- resources will be allocated to reduce the risks of these threats.

3.78 Shared Services documented and approved its information technology security plan. Implementation of the approved plan should provide more assurance that arrangements for managing security over information technology will be effective.

Externally hosted websites

3.79 ACT Government websites can be hosted either internally or externally. Externally hosted websites are maintained on infrastructure that is not owned and operated by the ACT Government.

Shared Services performs quarterly tests on internally hosted websites to assess their strength against a malicious attack and reports its findings to the Shared Services ICT Security and Risk Committee and relevant agencies. The Committee oversees the identification, management and control of information and communication technology risks, business continuity and fraud and corruption prevention.

3.80 Websites hosted by an external provider can create security vulnerabilities because the external provider may not be held to the same standard of security as the ACT Government, increasing the risk of malicious attacks and unauthorised access or changes to externally hosted websites.

3.81 Shared Services ICT advised that it is unable to enforce the same level of security on external providers of websites as it can enforce on websites that are hosted internally.

A whole of government approach is needed to ensure the same level of security is maintained on externally hosted websites as on internally hosted websites.

Security of information

3.82 The Shared Services ICT Security Policy and ACT Protective Security Policy and Guidelines require ACT Government entities to provide protective markings (security classifications) on information that has been identified as requiring protection. This includes information stored in computer information systems.

3.83 During 2013-14, Shared Services launched a trial of a document security classification system for Microsoft Office documents. However, Shared Services has advised it cannot require agencies to use the new security classification system or enforce:

- restrictions on the access, storage, transmission and disposal of security classified information; and
- regular reviews of audit logs covering the access, storage, transmission, transfer and disposal of security classified information.

A whole of government approach is needed to ensure that the new security classification system is effectively implemented by all agencies.

Continuity arrangements

3.84 Continuity arrangements provide assurance that systems are:

- available when required; and
- restored in a timely and controlled way in the event of a disaster, disruption or other adverse event.

Alternative information technology infrastructure arrangements

3.85 Information technology infrastructure includes data centres (storage area networks, back-up media libraries and servers) and communication networks used by an entity to support most information technology systems.

Shared Services manages the information technology infrastructure for the ACT Government.

3.86 Alternative information technology infrastructure arrangements provide assurance that, in the case of an incident that destroys or renders the information technology infrastructure unavailable for an extended period of time, an entity will recover the systems supported by the infrastructure in a timely manner.

3.87 Agency support agreements with Shared Services were updated to include details of all agency systems, their criticality and infrastructure availability arrangements.

However, there is a risk that critical systems will not be recovered in a timely manner because:

- the information technology infrastructure supporting several critical systems is not replicated at an alternative site; and
- disaster recovery plans do not identify alternative information technology infrastructure arrangements.

Shared Services has advised that it cannot force ACT Government agencies to implement alternative infrastructure arrangements for their critical systems. A whole of government approach is needed to ensure that agencies have such arrangements in place for their critical systems.

Change management processes

3.88 Change management processes are defined and controlled processes for making changes to computer systems and infrastructure. Control over the management of such changes:

- provides assurance that computer systems and infrastructure operate as intended; and
- minimises the risk of untested, erroneous and fraudulent changes which may have major adverse effects on system or infrastructure performance and create security vulnerabilities.

3.89 An unauthorised change to an information technology environment is any change that has not been subject to an approved change management process. Unauthorised changes may have major adverse effects on system performance and create security vulnerabilities. This may occur, for example, where the impact of the change on other processes, changes and controls implemented in the system or broader information technology environment has not been identified and addressed.

3.90 Monitoring audit logs for high risk or suspicious changes to critical hardware and software provides assurance that any system performance issues or security vulnerabilities caused by unauthorised changes will be rectified in a timely manner.

Compliance with an entity's approved change management system can be checked by reconciling changes recorded in audit logs to authorised change records in the change management system.

3.91 Shared Services did not regularly:

- perform reviews of audit logs for high risk or suspicious changes, including unauthorised or possibly fraudulent changes, to critical software and hardware; and
- reconcile changes recorded in the audit logs to authorised change records in the change management system.

This presents a risk of unauthorised and possibly fraudulent changes being made to critical hardware and software.

3.92 Shared Services agreed to address this audit finding and advised that:

...Shared Services ICT will undertake a rolling review process of selected business systems with a new review commencing at the completion of the previously reviewed business system.

Contract management arrangements

3.93 Suppliers of information technology services are managed using an approved contract management process. These include the policies and procedures implemented by an entity to initiate, procure, monitor and report on the goods and services provided by contracted external suppliers.

Effective contract management provides greater assurance that external suppliers are providing goods and services that are value for money and meet the requirements of the entity.

Contract management guidelines and procedures

3.94 Shared Services ICT improved its contract management guidelines (Shared Services Contract Management Guidelines) by including procedures for regularly monitoring suppliers' compliance with their contracts. However, further improvements should be made by updating these guidelines to include the:

- current risk management practices used by Shared Services ICT; and
- regular review of expenditure records to identify new or amended ICT contracts under the responsibility of Shared Services ICT.

These contracts should be reviewed to ensure that a supplier is providing the services at the contracted price.

Shared Services has advised that it is addressing these recommendations.

Project management arrangements

3.95 Project management arrangements are used by an entity to initiate, plan, complete, control and close an information technology project. They include the process by which an organisation evaluates and implements information technology solutions to business problems. Effective entity-wide project management should incorporate:

- feasibility studies (where a business problem is scoped, possible information technology solutions outlined and recommendations and business cases are developed);
- management of the project portfolio which is usually performed by a central project management office. This encompasses tracking and reporting on all projects currently underway within an organisation and can provide efficiencies by linking projects with common objectives, strategies, budgets and schedules; and
- project management practices, policies and procedures that govern the planning, implementation and delivery of information technology projects.

3.96 No significant weaknesses in project management arrangements were identified in 2013-14.

Recommendations

3.97 Many recommendations were made to agencies as part of the review of the computer information systems controls. The key recommendations are listed below.

Application controls

3.98 The following recommendations should be implemented by agencies.

Information security management

RECOMMENDATION 4 (CHAPTER 3) MANAGEMENT OF ACCESS BY USERS

To reduce the risk of inappropriate or fraudulent access to critical systems, agencies should implement approved policies and procedures governing user access to critical systems, including processes for establishing, changing, reviewing and removing users' access or their assigned roles and privileges.

RECOMMENDATION 5 (CHAPTER 3) AUDIT LOGS

Policies and procedures for the regular review of audit logs to identify errors, irregularities, fraudulent changes to systems and high risk transactions should be approved and implemented. The results of these reviews should be documented and reported to management.

RECOMMENDATION 6 (CHAPTER 3) ACCESS TO KEY SYSTEMS, APPLICATIONS AND DATA - PASSWORD COMPLEXITY

The use of complex passwords should be automatically enforced by the computer system to prevent inappropriate and possibly fraudulent access to key systems applications and data.

Continuity arrangements

RECOMMENDATION 7 (CHAPTER 3) BUSINESS CONTINUITY AND DISASTER RECOVERY ARRANGEMENTS

Disaster recovery arrangements, including back-up and recovery processes should be approved and then periodically tested to provide assurance that a system will be recovered and operations promptly resumed without the loss of data in the event of a disaster, disruption or other adverse event. The results of testing and the actions required to resolve any problems identified during this testing should be formally documented.

Environment controls

3.99 The following recommendations should be implemented by Shared Services.

RECOMMENDATION 8 (CHAPTER 3) ACCESS TO THE ACT GOVERNMENT NETWORK - PASSWORD COMPLEXITY

The level of password complexity required by the ACT Government's password standard to gain access to the ACT Government network should be automatically enforced by the computer system.

RECOMMENDATION 9 (CHAPTER 3) ACCESS TO THE ACT GOVERNMENT NETWORK – GENERIC USER ACCOUNTS

Generic (shared) user accounts for key systems should be removed wherever possible. If the use of generic accounts is unavoidable, then the number of generic accounts should be minimised and passwords relating to these accounts frequently changed. Generic user accounts should be recorded in a register to monitor and track users who have access to these accounts, and records maintained of how often these passwords are changed.

RECOMMENDATION 10 (CHAPTER 3) CHANGE MANAGEMENT PROCESSES

Shared Services should regularly review business systems and review them against the approved original system design. Variations between the current state of the system and the approved original design should be investigated to check whether the variations are due to unauthorised changes or other reason(s).

3.100 Shared Services has advised that it cannot implement the following recommendations and that a whole of government approach is needed.

3.101 The following recommendations should be progressed under the leadership of the Chief Minister, Treasury and Economic Development Directorate.

RECOMMENDATION 11 (CHAPTER 3) VENDOR SUPPORT FOR OPERATING SYSTEMS

To provide assurance that systems are protected from known security vulnerabilities, errors and performance issues, ACT Government agencies should ensure that all operating systems and servers are supported by the system vendor.

RECOMMENDATION 12 (CHAPTER 3) EXTERNALLY HOSTED WEBSITES

The same level of security should be maintained and enforced on externally hosted websites as is currently enforced on internally hosted websites to guard against malicious attacks.

RECOMMENDATION 13 (CHAPTER 3) SECURITY OF INFORMATION

Agencies should be required to use the new security classification system including requirements relating to the restrictions on the access, storage, transmission and disposal of security classified information and performing regular reviews of audit logs covering the access, storage, transmission, transfer and disposal of security classified information.

RECOMMENDATION 14 (CHAPTER 3) ALTERNATIVE INFORMATION TECHNOLOGY INFRASTRUCTURE ARRANGEMENTS

The information technology infrastructure supporting critical systems of each agency should be replicated at an alternative site. Disaster recovery plans for agencies should identify their alternative information technology infrastructure arrangements.

3.102 Chief Minister, Treasury and Economic Development Directorate has noted these audit recommendations and advised that:

All findings and recommendations are noted, considered and carefully monitored by management and internal audit committees. However, where there are material financial implications associated with recommendations, decisions on implementation are subject to the normal Government budget expenditure prioritisation processes.

4 THE TERRITORY'S FINANCIAL STATEMENTS

- 4.1 The financial statements of the Australian Capital Territory Government (the Territory) consist of the consolidated results of ACT Government agencies and other entities that are controlled by the Territory. These financial statements also include the Territory's share of the financial results of joint ventures, such as the ActewAGL Joint Venture and land joint ventures.
- 4.2 This chapter contains a discussion and analysis of the Territory's financial results and estimated future financial results over the period from 2014-15 to 2017-18 (the forward years).
- 4.3 The forward estimates included in this chapter were obtained from the 2014-15 Budget Papers released in June 2014. These forward estimates do not take into account the financial effects of unforeseen major developments that have occurred since their preparation and publication. The forward estimates presented in this chapter do not, for example, take into account the financial effects of the ACT Government's recently announced response to households affected by 'Mr Fluffy' asbestos.

Key findings

Audit report

Paragraph

An unqualified audit report was issued on the Territory's 2013-14 Consolidated Annual Financial Statements.

Operating results – net operating balance

The Territory incurred a deficit in the net operating balance of \$309 million in 2013-14. This is less than the budgeted deficit of \$438 million and deficit of \$456 million incurred in 2012-13. 4.6

The net operating balance has declined in recent years from a surplus of \$110 million in 2009-10 to a deficit of \$309 million in 2013-14. This was mainly due to increases in employee and supplies and services expenses exceeding increases in revenue from Commonwealth Government grants and taxation. 4.7

From 2009-10 to 2013-14, with the exception of 2012-13, the Territory's financial operations have been managed within the budgeted net operating balance. This indicates that overall, the Territory and its agencies have successfully managed to their budgets. 4.9

Deficits in the net operating balance are expected for each of the forward years from 2014-15 to 2017-18. The forward estimates indicate that the deficits in the operating balance will increase from \$309 million in 2013-14 to a peak of \$537 million in 2014-15 then decrease to \$138 million in 2017-18. 4.14

	Paragraph
<p>These planned deficits in the net operating balance over the forward years from 2014-15 to 2017-18 means that the Territory is exposed to large deficits if unexpected adverse events cause large negative fluctuations in revenue and expenses. These planned deficits do not, for example, take into account major negative financial effects of the ACT Government's recently announced responses to households affected by 'Mr Fluffy' asbestos.</p> <p>While there is a risk of higher than expected deficits, the Territory can meet adverse events by, for example, increasing taxes, reducing or reprioritising expenses, increasing borrowing and/or selling assets.</p>	4.15
<p>Operating results – operating surplus/deficit</p>	
<p>The Territory's operating deficit of \$26 million in 2013-14 was less than the budgeted deficit of \$134 million and the deficit of \$122 million incurred in 2012-13.</p>	4.13
<p>The forward estimates indicate that the Territory expects to incur operating deficits of \$359 million and \$85 million, in 2014-15 and 2015-16, respectively. Then, in 2016-17 and 2017-18, it expects to generate surpluses of \$26 million and \$110 million, respectively.</p>	4.17
<p>These planned deficits and small surpluses over the forward years from 2014-15 to 2017-18 mean that the Territory is exposed to larger deficits if adverse events resulted in negative fluctuations to revenue and expenses and other economic flows.</p> <p>While there is a risk of higher than expected deficits, the Territory can meet adverse events by, for example, increasing taxes, reducing or reprioritising expenses, increasing borrowing and/or selling assets.</p>	4.18
<p>Historical assets to liabilities coverage</p>	
<p>The Territory's net assets of \$15 193 million were less than the budgeted amount of \$16 629 million by \$1 436 million (8.6 percent). This was due mainly to a higher than expected unfunded superannuation liability resulting from the use of a lower rate to estimate the present value of the superannuation liability.</p>	4.19
<p>The Territory's net asset position has not changed significantly over the past five financial years from 30 June 2010 to 30 June 2014.</p>	4.20
<p>Historical short-term assets to short-term liabilities coverage</p>	
<p>The Territory had sufficient short-term financial assets to cover its short-term liabilities at 30 June 2014 and its short-term financial position is much stronger than was estimated in the budget. This is mainly due to significantly higher than anticipated financial assets (mainly investments) being available to cover short-term liabilities.</p>	4.24

	Paragraph
The Territory's short-term financial position, measured by using the short-term financial assets available to cover each dollar of short-term liabilities, was \$1.82 at 30 June 2014. This is slightly weaker than the position of \$1.90 which existed at 30 June 2013 and is mainly due to a decrease in financial assets.	4.25
The short-term financial position is estimated to weaken significantly from the position that existed at 30 June 2014. Based on the forward estimates included in the 2014-15 Budget Papers released in June 2014, except for the estimated short-term liability position of \$118 million at 30 June 2017, the Territory is estimated to have sufficient short-term financial assets to cover its short-term liabilities over the forward years from 30 June 2015 to 30 June 2018.	4.26
These forward estimates do not take into account the expected adverse financial impact of the ACT Government's recently announced responses to households affected by 'Mr Fluffy' asbestos.	
Historical long-term financial assets to liabilities coverage	
The Territory's long-term financial position at 30 June 2014 was stronger than that estimated in the budget.	4.29
The long-term financial position at 30 June 2014 is weaker than the position which existed at 30 June 2013. This is due mainly to an increase in borrowings used to fund capital activities (in particular, the Territory's Infrastructure Investment Program).	4.30
The long-term financial position over the forward years from 30 June 2015 to 30 June 2018 is expected to weaken slightly from the position which existed at 30 June 2014. This is mainly due to the combined effects of estimated future increases in borrowings and decreases in financial assets.	4.31
However, this is based on the forward estimates included in the 2014-15 Budget Papers released in June 2014 and do not take into account major unforeseen financial circumstances and events such as the expected adverse financial impact of the ACT Government's recently announced responses to households affected by 'Mr Fluffy' asbestos.	
Furthermore, as disclosed in the 2014-15 Budget Papers, the unfunded superannuation liability is estimated to decrease significantly from the position that existed at 30 June 2014. The unfunded superannuation liability at 30 June 2014 substantially exceeds the forward estimates of this liability due mainly to the use of a lower rate to estimate the present value of the superannuation liability at 30 June 2014 compared to that used to prepare the forward estimates.	4.33

Cash Results	Paragraph
The net cash surplus generated by the Territory's operations during 2013-14 of \$443 million exceeded the budgeted net cash surplus of \$189 million by \$254 million (134.4 percent). This is mainly due to higher than anticipated receipts from sales of goods and services.	4.34
The net cash generated from the Territory's operations in 2013-14 of \$443 million exceeded the net cash surplus of \$182 million in 2012-13 by \$261 million (143.4 percent). This is mainly due to a significant increase in cash receipts (mainly receipts from sales of goods and services); partially offset by an increase in cash payments (mainly payments for employees and goods and services).	4.35
The net cash surplus generated by Territory's operations has decreased over the past five financial years from \$777 million in 2009-10 to \$443 million in 2013-14. This decrease of \$334 million (an average of 10.7 percent per annum) has been mainly due to payments for employees and goods and services exceeding increases in cash receipts from Commonwealth grants, taxes and receipts from sales of goods and services.	4.36
The net cash deficit from the Territory's operating and capital activities of \$177 million in 2013-14 was less than the budgeted cash deficit of \$654 million. This was due mainly to the combined effects of a higher than expected cash surplus being generated from operations and lower than expected expenditure on the capital activities (in particular, the Infrastructure Investment Program).	4.37
The net cash deficit from operating and capital activities of \$177 million in 2013-14 was a reduction of \$431 million (70.8 percent) from the prior year's deficit of \$608 million. This was mainly due to the combined effects of higher grants received from the Commonwealth Government and a reduction in spending on the capital activities (in particular, the Infrastructure Investment Program).	4.38
Net cash deficits from operating and capital activities are estimated to increase from \$178 million in 2013-14 to \$688 million in 2014-15 and then decline to \$8 million in 2017-18. This is due mainly to an initial increase then decrease in spending on capital activities (in particular, the Infrastructure Investment Program).	4.39
A large reduction in the net cash deficits from operating and capital activities is estimated over the forward years from a deficit of \$688 million 2014-15 to a deficit of \$8 million in 2017-18. This reduction depends on significantly higher net cash surpluses being generated from the Territory's operations and large reductions in spending on the capital activities (in particular, the Territory's Infrastructure Program).	4.40

Paragraph

As previously noted, these estimated cash deficits from operating and capital activities over the forward years from 2014-15 to 2017-18 mean that the Territory is exposed to larger deficits if adverse events resulted in negative fluctuations to receipts and payments. They do not, for example, take into account major adverse financial effects of the ACT Government's recently announced responses to households affected by 'Mr Fluffy' asbestos.

4.41

While there is a risk of higher than expected cash deficits, the Territory can meet adverse events by, for example, increasing taxes, reducing or reprioritising expenses, increasing borrowing and/or selling assets.

Operating results

Table 4-1 Operating results

	Actual 2009-10 \$m	Actual 2010-11 \$m	Actual 2011-12 \$m	Actual 2012-13 \$m	Actual 2013-14 \$m
Revenue	3 984	4 118	4 261	4 321	4 537
Expenses	(3 869)	(4 117)	(4 358)	(4 777)	(4 846)
Net operating balance – surplus/(deficit)	115	1	(97)	(456)	(309)
Other economic inflows/(outflows)	275	122	(58)	334	283
Operating surplus/(deficit)	390	123	(155)	(122)	(26)

Table 4-2 Budgeted operating results

	Budget 2009-10 \$m	Budget 2010-11 \$m	Budget 2011-12 \$m	Budget 2012-13 \$m	Budget 2013-14 \$m
Revenue	3 752	3 890	4 297	4 255	4 432
Expenses	(3 944)	(4 137)	(4 508)	(4 698)	(4 870)
Net operating balance – (deficit)	(192)	(247)	(211)	(443)	(438)
Other economic inflows	270	272	386	186	304
Operating surplus/(deficit)	78	25	175	(257)	(134)

- 4.4 The 'net operating balance' and 'operating surplus/deficit' are key measures of the Territory's financial performance. They provide an indication of the overall financial sustainability of the ACT Government's strategies and policies, particularly when assessed over time.
- 4.5 The net operating balance mainly consists of revenue and expenses that arise from 'mutually agreed transactions' such as:
- revenue from Commonwealth Government grants, taxation, interest, sales of goods and services, dividends and land sales (value-added component²); and
 - employee, supplies and services expenses, grants and depreciation expenses.
- 4.6 The Territory incurred a deficit in the net operating balance of \$309 million in 2013-14. This is less than the budgeted deficit of \$438 million and deficit of \$456 million incurred in 2012-13.
- 4.7 The net operating balance has declined in recent years from a surplus of \$110 million in 2009-10 to a deficit of \$309 million in 2013-14. This was mainly due to increases in employee and supplies and services expenses exceeding increases in revenue from Commonwealth Government grants and taxation.
- 4.8 The Territory has incurred deficits in its net operating balance in each of the three past three years. The deficits were \$97 million in 2011-12, \$456 million in 2012-13 and \$309 million in 2013-14.
- 4.9 From 2009-10 to 2013-14, with the exception of 2012-13, the Territory's financial operations have been managed within the budgeted net operating balance. This indicates that overall, the Territory and its agencies have successfully managed to their budgets.
- 4.10 Other economic flows consist mainly of land revenue³ and gains and losses in the value of investments. These gains and losses are mainly due to changing market conditions.
- 4.11 The Territory generated other economic inflows of \$283 million in 2013-14 compared to the budgeted inflows of \$304 million. This was due to land revenue being less than that estimated in the budget.
- 4.12 Other economic inflows in 2013-14 (\$283 million) were less than in 2012-13 (\$334 million) by \$51 million (15.3 percent) due mainly to a reduction in other gains from the increase in the rate used to estimate the present value of insurance claims and long service leave in 2013-14.

² The value-added component of land sales is that part of land revenue attributed to development activity undertaken on the land that has contributed to an increase in the value of the land. In the Territory's financial statements, the value-added component is recorded in revenue.

³ Land revenue included in other economic flows is the combination of market gains on land sales and the undeveloped land value.

4.13 The Territory's operating deficit of \$26 million in 2013-14 was less than the budgeted deficit of \$134 million and the deficit of \$122 million incurred in 2012-13.

Table 4-3 Projected operating results – Note 1

	Actual 2013-14 \$m	Budget 2014-15 \$m	Estimate 2015-16 \$m	Estimate 2016-17 \$m	Estimate 2017-18 \$m
Revenue	4 537	4 661	4 980	5 191	5 490
Expenses	(4 846)	(5 198)	(5 268)	(5 432)	(5 628)
Net operating balance - (deficit)	(309)	(537)	(287)	(241)	(138)
Other economic inflows	283	178	202	267	248
Operating (deficit)/surplus	(26)	(359)	(85)	26	110

Note 1: Budget and forward estimates were obtained from the 2014-15 Budget Papers.

4.14 Deficits in the net operating balance are expected for each of the forward years from 2014-15 to 2017-18. The forward estimates indicate that the deficits in the operating balance will increase from \$309 million in 2013-14 to a peak of \$537 million in 2014-15 then decrease to \$138 million in 2017-18.

4.15 These planned deficits in the net operating balance over the forward years from 2014-15 to 2017-18 means that the Territory is exposed to large deficits if unexpected adverse events cause large negative fluctuations in revenue and expenses. These planned deficits do not, for example, take into account major negative financial effects of the ACT Government's recently announced responses to households affected by 'Mr Fluffy' asbestos.

While there is a risk of higher than expected deficits, the Territory can meet adverse events by, for example, increasing taxes, reducing or reprioritising expenses, increasing borrowing and/or selling assets.

4.16 The decreases in the estimated deficits in the net operating balance over the forward years from 2013-14 to 2017-18 depend on revenue exceeding the expected increase in expenses, in particular, employee and supplies and services expenses. Achieving these estimated decreases will require a reversal of the trend experienced in recent financial years from 2009-10 to 2013-14, where increases in employee and supplies and services expenses have exceeded increases in revenue.

4.17 The forward estimates indicate that the Territory expects to incur operating deficits of \$359 million and \$85 million, in 2014-15 and 2015-16, respectively. Then, in 2016-17 and 2017-18, it expects to generate surpluses of \$26 million and \$110 million, respectively.

4.18 These planned deficits and small surpluses over the forward years from 2014-15 to 2017-18 mean that the Territory is exposed to larger deficits if adverse events resulted in negative fluctuations to revenue and expenses and other economic flows.

While there is a risk of higher than expected deficits, the Territory can meet adverse events by, for example, increasing taxes, reducing or reprioritising expenses, increasing borrowing and/or selling assets.

Historical assets to liabilities coverage

Table 4-4 Historical assets to liabilities coverage

At 30 June	Actual 2010 \$m	Actual 2011 \$m	Actual 2012 \$m	Actual 2013 \$m	Actual 2014 \$m	Budget 2014 \$m
Assets						
Financial assets - Note 1	2 249	2 020	2 008	2 256	2 055	1 521
Property, plant and equipment	17 165	18 040	18 808	20 085	20 381	20 685
Other non-financial assets - Note 2	1 546	1 675	2 036	1 715	1 872	1 795
	20 960	21 735	22 852	24 056	24 308	24 001
Liabilities						
Borrowings, payables and finance leases	2 032	2 303	2 843	3 517	3 850	4 006
Unfunded superannuation - Note 3	2 587	2 627	5 242	4 276	4 471	2 606
Employee benefits and other provisions	556	567	655	702	784	715
Other	29	28	20	10	10	45
	5 204	5 525	8 760	8 505	9 115	7 372
Net assets	15 756	16 209	14 092	15 550	15 193	16 629
Ratio of assets to liabilities	4.0:1	3.9:1	2.6:1	2.8:1	2.7:1	3.3:1

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

Note 2: Other non-financial assets include the Territory's investments in joint ventures which are classified as financial assets in the Territory's financial statements.

Note 3: Unfunded superannuation is the amount by which the estimated superannuation liability exceeds superannuation investments.

- 4.19 The Territory's net assets of \$15 193 million were less than the budgeted amount of \$16 629 million by \$1 436 million (8.6 percent). This was due mainly to a higher than expected unfunded superannuation liability resulting from the use of a lower rate to estimate the present value of the superannuation liability.
- 4.20 The Territory's net asset position has not changed significantly over the past five financial years from 30 June 2010 to 30 June 2014. Net assets declined by \$563 million (3.6 percent) from \$15 756 million at 30 June 2010 to \$15 193 million at 30 June 2014.
- 4.21 Assets increased from \$20 960 million at 30 June 2010 to \$24 308 million at 30 June 2014. This increase of \$3 347 million (an average of 4.0 percent per annum) was mainly due to capital expenditure on property, plant and equipment, in particular land, buildings, plant and equipment and infrastructure assets.
- 4.22 Liabilities increased from \$5 204 million at 30 June 2010 to \$9 115 million at 30 June 2014. This increase of \$3 909 million (an average of 18.8 percent per annum) was mainly due to an increase in borrowings used to fund capital works projects and the unfunded superannuation liability.

Historical short-term assets to short-term liabilities coverage

Table 4-5 Historical short-term assets to short-term liabilities coverage

At 30 June	Actual 2010 \$m	Actual 2011 \$m	Actual 2012 \$m	Actual 2013 \$m	Actual 2014 \$m	Budget 2014 \$m
Short-term financial assets - Note 1	2 249	2 020	2 009	2 256	2 055	1 521
Short-term liabilities - Note 2	1 183	1 152	1 164	1 189	1 128	1 285
Net short-term assets	1 066	868	845	1 067	927	236
Ratio of short-term financial assets to short-term liabilities	1.90:1	1.75:1	1.73:1	1.90:1	1.82:1	1.18:1

Note 1: Financial assets exclude investments in joint ventures and superannuation investments because these assets are not generally available to meet the Territory's short-term liabilities.

Under the *Territory Superannuation Provision Protection Act 2000*, superannuation investments can only be used to make payments related to employee superannuation. For the purpose of this analysis, these investments have been excluded from financial assets because these investments are not available to meet short-term liabilities.

Note 2: Short-term liabilities are calculated by subtracting current employee superannuation benefit liabilities from the current liabilities reported in the Territory's financial statements.

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

4.24 The Territory had sufficient short-term financial assets to cover its short-term liabilities at 30 June 2014 and its short-term financial position is much stronger than was estimated in the budget. This is mainly due to significantly higher than anticipated financial assets (mainly investments) being available to cover short-term liabilities.

4.25 The Territory's short-term financial position, measured by using the short-term financial assets available to cover each dollar of short-term liabilities, was \$1.82 at 30 June 2014. This is slightly weaker than the position of \$1.90 which existed at 30 June 2013 and is mainly due to a decrease in financial assets.

Table 4-6 Projected short-term assets to short-term liabilities coverage – Note 1

At 30 June	Actual 2014 \$m	Budget 2015 \$m	Estimate 2016 \$m	Estimate 2017 \$m	Estimate 2018 \$m
Short-term financial assets – Note 2	2 055	1 630	1 644	1 646	1 659
Short-term liabilities - Note 3	1 128	1 207	1 087	1 764	1 285
Net short-term assets/(liabilities)	927	423	557	(118)	374
Ratio of short-term assets to short-term liabilities	1.82:1	1.35:1	1.51:1	0.93:1	1.29:1

Note 1: Budget and forward estimates were obtained from the 2014-15 Budget Papers.

Note 2: Financial assets exclude investments in joint ventures because these assets are not generally available to meet the Territory's immediate debts. Superannuation investments have also been excluded from financial assets because, under the *Territory Superannuation Provision Protection Act 2000*, the Territory can only use these assets to make payments related to employee superannuation and therefore the assets are also not available to cover short term liabilities.

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

4.26 The short-term financial position is estimated to weaken significantly from the position that existed at 30 June 2014. Based on the forward estimates included in the 2014-15 Budget Papers released in June 2014, except for the estimated short-term liability position of \$118 million at 30 June 2017, the Territory is estimated to have sufficient short-term financial assets to cover its short-term liabilities over the forward years from 30 June 2015 to 30 June 2018.

These forward estimates do not take into account the expected adverse financial impact of the ACT Government's recently announced responses to households affected by 'Mr Fluffy' asbestos.

Historical financial assets to liabilities coverage

Table 4-7 Financial assets to liabilities coverage

At 30 June	Actual 2010 \$m	Actual 2011 \$m	Actual 2012 \$m	Actual 2013 \$m	Actual 2014 \$m	Budget 2014 \$m
Financial assets	2 249	2 020	2 008	2 256	2 055	1 521
Liabilities						
Unfunded superannuation – Note 1	2 587	2 627	5 242	4 276	4 471	4 732
Borrowings, payables and finance leases	2 033	2 303	2 843	3 517	3 850	4 006
Other (including other employee benefits)	586	595	675	715	794	760
	5 206	5 525	8 760	8 508	9 115	9 498
Unfunded liabilities	2 957	3 505	6 752	6 252	7 060	7 977
Ratio of financial assets to liabilities	0.43:1	0.37:1	0.23:1	0.27:1	0.23:1	0.16:1

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

- 4.27 The Territory's short-term and long-term liabilities are mainly met from financial assets rather than non-financial assets. While some non-financial assets could be sold to meet these liabilities, most assets such as infrastructure, schools and hospitals are committed to providing services, and are therefore not generally available for this purpose.
- 4.28 The Territory's long-term financial position can therefore be evaluated by comparing financial assets to liabilities.
- 4.29 The Territory's long-term financial position at 30 June 2014 was stronger than that estimated in the budget. This is largely due to the combined effects of financial assets (investments) exceeding budget estimates and liabilities being less than was anticipated in the budget.
- 4.30 The long-term financial position at 30 June 2014 is weaker than the position which existed at 30 June 2013. This is due mainly to an increase in borrowings used to fund capital activities (in particular, the Territory's Infrastructure Investment Program).

Table 4-8 Projected financial assets available to meet liabilities – Note 1

At 30 June	Actual 2014 \$m	Budget 2015 \$m	Estimate 2016 \$m	Estimate 2017 \$m	Estimate 2018 \$m
Financial assets	2 055	1 630	1 644	1 646	1 659
Liabilities					
Unfunded superannuation – Note 2	4 471	2 485	2 516	2 522	2 501
Borrowings, payables and finance leases	3 850	4 421	4 935	5 181	5 368
Other liabilities (including other employee benefits)	794	751	747	781	813
	9 115	7 657	8 198	8 484	8 682
Unfunded liabilities	7 060	6 027	6 554	6 838	7 023
Ratio of financial assets to liabilities	0.23 to 1	0.21 to 1	0.20 to 1	0.19 to 1	0.19 to 1

Note 1: Budget and forward estimates were obtained from the 2014-15 Budget Papers.

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

4.31 The long-term financial position over the forward years from 30 June 2015 to 30 June 2018 is expected to weaken slightly from the position which existed at 30 June 2014. This is mainly due to the combined effects of estimated future increases in borrowings and decreases in financial assets.

However, this is based on the forward estimates included in the 2014-15 Budget Papers released in June 2014 and do not take into account major unforeseen financial circumstances and events such as the expected adverse financial impact of the ACT Government's recently announced responses to households affected by 'Mr Fluffy' asbestos.

4.32 Borrowings are expected to increase significantly over the forward years from 30 June 2015 to 30 June 2018 to fund capital activities (in particular, the Territory's Infrastructure Investment Program).

4.33 Furthermore, as disclosed in the 2014-15 Budget Papers, the unfunded superannuation liability is estimated to decrease significantly from the position that existed at 30 June 2014. The unfunded superannuation liability at 30 June 2014 substantially exceeds the forward estimates of this liability due mainly to the use of a lower rate to estimate the present value of the superannuation liability at 30 June 2014 compared to that used to prepare the forward estimates.

Cash results

Table 4-9 Cash flows

	Actual 2009-10 \$m	Actual 2010-11 \$m	Actual 2011-12 \$m	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Cash flows from operations						
Receipts	4 451	4 542	4 477	4 440	4 943	4 744
Payments	(3 674)	(3 890)	(3 992)	(4 258)	(4 500)	(4 555)
Net cash surplus from operations	777	652	485	182	443	189
Cash flows from capital activities						
Payments for property, plant, equipment and capital works	(894)	(1 040)	(967)	(828)	(693)	(890)
Sale of property, plant and equipment	35	51	34	38	73	47
Net cash (deficit) from capital activities	(859)	(989)	(933)	(790)	(620)	(843)
Net cash (deficit) from operating and capital activities	(82)	(337)	(448)	(608)	(177)	(654)

4.34 The net cash surplus generated by the Territory's operations during 2013-14 of \$443 million exceeded the budgeted net cash surplus of \$189 million by \$254 million (134.4 percent). This is mainly due to higher than anticipated receipts from sales of goods and services.

4.35 The net cash generated from the Territory's operations in 2013-14 of \$443 million exceeded the net cash surplus of \$182 million in 2012-13 by \$261 million (143.4 percent). This is mainly due to a significant increase in cash receipts (mainly receipts from sales of goods and services); partially offset by an increase in cash payments (mainly payments for employees and goods and services).

- 4.36 The net cash surplus generated by Territory's operations has decreased over the past five financial years from \$777 million in 2009-10 to \$443 million in 2013-14. This decrease of \$334 million (an average of 10.7 percent per annum) has been mainly due to payments for employees and goods and services exceeding increases in cash receipts from Commonwealth grants, taxes and receipts from sales of goods and services.
- 4.37 The net cash deficit from the Territory's operating and capital activities of \$177 million in 2013-14 was less than the budgeted cash deficit of \$654 million. This was mainly due to the combined effects of a higher than expected cash surplus being generated from operations and lower than expected expenditure on the capital activities (in particular, the Infrastructure Investment Program).
- 4.38 The net cash deficit from operating and capital activities of \$177 million in 2013-14 was a reduction of \$431 million (70.8 percent) from the prior year's deficit of \$608 million. This was mainly due to the combined effects of higher grants received from the Commonwealth Government and a reduction in spending on the capital activities (in particular, the Infrastructure Investment Program).

Table 4-10 Projected cash flows – Note 1

	Actual 2013-14 \$m	Budget 2014-15 \$m	Estimate 2015-16 \$m	Estimate 2016-17 \$m	Estimate 2017-18 \$m
Cash flows from operations					
Receipts	4 943	4 901	5 248	5 523	5 797
Payments	(4 500)	(4 817)	(4 868)	(5 008)	(5 203)
Net cash surplus from operations	443	84	381	516	594
Net cash deficit from capital activities	(621)	(772)	(741)	(600)	(602)
Net cash deficit after operating and capital activities	(178)	(688)	(361)	(84)	(8)

Note 1: Budget and forward estimates were obtained from the 2014-15 Budget Papers.

- 4.39 Net cash deficits from operating and capital activities are estimated to increase from \$178 million in 2013-14 to \$688 million in 2014-15 and then decline to \$8.0 million in 2017-18. This is due mainly to an initial increase then decrease in spending on capital activities (in particular, the Infrastructure Investment Program).

- 4.40 A large reduction in the net cash deficits from operating and capital activities is estimated over the forward years from a deficit of \$688 million 2014-15 to a deficit of \$8.0 million in 2017-18. This reduction depends on significantly higher net cash surpluses being generated from the Territory's operations and large reductions in spending on the capital activities (in particular, the Territory's Infrastructure Program).
- 4.41 As previously noted, these estimated cash deficits from operating and capital activities over the forward years from 2014-15 to 2017-18 mean that the Territory is exposed to larger deficits if adverse events resulted in negative fluctuations to receipts and payments. They do not, for example, take into account major adverse financial effects of the ACT Government's recently announced responses to households affected by 'Mr Fluffy' asbestos.

While there is a risk of higher than expected cash deficits, the Territory can meet adverse events by, for example, increasing taxes, reducing or reprioritising expenses, increasing borrowing and/or selling assets.

5 AUDIT RESULTS AND FINDINGS ON SELECTED ACT GOVERNMENT AGENCIES AND OTHER ENTITIES

ACT Insurance Authority

5.1 The ACT Insurance Authority (the Authority) operates under the *Insurance Authority Act 2005* and is the insurer of major risks faced by the Territory and its ACT Government agencies.

It settles insurance claims on behalf of the Territory and ACT Government agencies and buys insurance from insurance providers to cover catastrophic risks such as natural disasters and medical malpractice. The Authority promotes good risk management practices and provides advice to the Treasurer about the insurance and management of the Territory's risks.

Key Issues

- The Audit Office issued an unqualified audit report on the Authority's 2013-14 financial statements and an unqualified report of factual findings on the 2013-14 statement of performance.
- The Authority made an operating surplus of \$47.1 million compared to a budgeted operating deficit of \$3.2 million due largely to the lower than expected net insurance claims expenses.
- An unbudgeted cash distribution of \$50.0 million was paid to the Territory Banking Account in 2013-14. No cash distribution was paid in 2012-13.
- The Authority had sufficient short-term assets to cover its short-term liabilities at 30 June 2014 and its short-term asset coverage was stronger than was anticipated in the budget.
- The Authority had sufficient total assets to cover its total liabilities at 30 June 2014 and its total asset coverage was stronger than was anticipated in the budget. (Total assets consist of short and long-term assets. Total liabilities consist of short and long-term liabilities.)
- The Authority resolved the one previously reported audit finding by improving the explanatory information included in its financial statements and management discussion and analysis.
- No new audit findings were identified in 2013-14.

Financial results

Table 5-1 Key Results

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Gross premiums	55.5	58.7	58.9
Net returns from investments	19.5	15.3	11.8
Income	75.0	74.0	70.7
Reinsurance expenses	(12.4)	(12.3)	(13.0)
Net insurance claims expenses	(6.9)	(11.7)	(57.9)
Other	(2.6)	(2.9)	(3.0)
Expenses	(21.9)	(26.9)	(73.9)
Operating surplus/(deficit)	53.1	47.1	(3.2)
Capital distribution paid to the Territory Banking Account	-	50.0	-

- 5.2 Income consists mainly of insurance premiums collected from ACT Government agencies and net returns from investments.
- 5.3 Income exceeded the budgeted amount by \$3.2 million (4.5 percent) due mainly to higher than estimated returns from the Authority's investments. The Authority held more investments than expected and received higher than expected returns from these investments due to improved market conditions.
- 5.4 Expenses largely consist of reinsurance premiums paid to external insurance providers and net insurance claims expenses.
- 5.5 Net insurance claims expenses include payments of insurance claims to ACT Government agencies and external parties, amounts received from external reinsurance providers under reinsurance arrangements, and the increase or decrease in the actuarially assessed estimate of insurance claims liabilities.

The actuarially assessed estimate of insurance claims liabilities is significantly affected by the number of insurance claims received, the amount of claim payments and discount and inflation rates used to estimate the present value of future insurance claims payments.

5.6 Net insurance claims expenses were \$46.2 million (79.8 percent) lower than the budgeted amount. This was mainly due to:

- lower than anticipated payments of insurance claims; and
- changes to actuarial assumptions used to estimate insurance claims liabilities.

The actuarial estimate of claims expense was lower than estimated in the budget because:

- there were fewer than expected medical malpractice, public liability and professional indemnity claims;
- the rate used to estimate the present value of the claims liabilities was higher than the rate used in the budget estimate of claims expenses. (A higher rate leads to a lower claims expense.); and
- the inflation rate used to estimate the value of future claim liabilities was lower than expected. (A lower inflation rate leads to a lower claims expense.)

5.7 The Authority made an operating surplus of \$47.1 million compared to a budgeted operating deficit of \$3.2 million due largely to the lower than expected net insurance claims expenses referred to above.

5.8 An unbudgeted cash distribution of \$50.0 million was paid to the Territory Banking Account in 2013-14. No cash distribution was paid in 2012-13.

Short-term asset coverage

Table 5-2 Short-term asset coverage

At 30 June	Actual 2013 \$m	Actual 2014 \$m	Budget 2013 \$m
Short-term assets	316.6	350.1	329.9
Short-term liabilities	(39.5)	(31.2)	(49.2)
Net short-term assets	277.1	318.9	280.7
Ratio of short-term assets to short-term liabilities	8.0 to 1	11.2 to 1	6.7 to 1

5.9 Table 5-2 shows that the Authority had sufficient short-term assets to cover its short-term liabilities at 30 June 2014 and its short-term asset coverage was stronger than was anticipated in the budget.

Total assets to total liabilities coverage

Table 5-3 Total assets to total liabilities coverage

At 30 June	Actual 2013 \$m	Actual 2014 \$m	Budget 2014 \$m
Total assets	386.2	367.3	396.8
Total liabilities	(316.8)	(300.8)	(376.1)
Net assets	69.4	66.5	20.7
Ratio of total assets to total liabilities	1.2 to 1	1.2 to 1	1.0 to 1

5.10 Table 5-3 shows that the Authority had sufficient total assets to cover its total liabilities at 30 June 2014 and its total asset coverage was stronger than was anticipated in the budget. (Total assets consist of short and long-term assets. Total liabilities consist of short and long-term liabilities.)

Audit findings

Table 5-4 Status of audit findings (number of findings)

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

5.11 In 2013-14, the Authority resolved the one previously reported audit finding by improving the explanatory information included in its financial statements and management discussion and analysis. In particular, the Authority improved the:

- clarity of explanations of material variances between the current and previous year results in its financial statements and management discussion and analysis; and
- explanations of the financial information presented in the notes to the financial statements.

5.12 No new audit findings were identified in 2013-14.

ACT Local Hospital Network Directorate

5.13 The ACT Local Hospital Network Directorate is administered by the Director-General of the Health Directorate and supported by the Health Directorate's staff.

5.14 The Australian states and territories and Commonwealth entered into the National Health Reform Agreement (the Agreement) in August 2011. Under the Agreement, the Australian states and territories and Commonwealth are jointly responsible for funding public hospital services through the National Health Funding Pool.

Under these arrangements, Australian states and territories and the Commonwealth deposit funding in State Pool Accounts. This funding is subsequently paid to local hospital networks in accordance with directions from the responsible Minister. In the ACT, this funding is paid to the ACT Local Hospital Network Directorate.

5.15 Under the Agreement, the Directorate receives activity-based and block funding which includes funding for training and research from the Commonwealth Government and ACT Government.

5.16 The Directorate purchases public hospital services from four ACT public hospital providers (Canberra Hospital and Health Services, Calvary Public Hospital, Clare Holland House and Queen Elizabeth II Family Centre).

In 2013-14, the Directorate paid \$712.0 million to the Health Directorate for public hospital services provided by Canberra Hospital and Health Services.

5.17 The Directorate also settles cross-border (interstate) health revenue and expenses with other jurisdictions.

The Directorate earns revenue from providing health services to residents of other jurisdictions, and incurs expenses for health services provided by other jurisdictions to ACT residents.

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2013-14 financial statements and an unqualified report of factual findings on its 2013-14 statement of performance.
- Income (cross-border health revenue) of \$102.0 million exceeded the budget estimate of \$76.8 million by \$25.2 million (32.8 percent) due mainly to more patients from other jurisdictions being treated in ACT public hospitals than was anticipated in the preparation of the budget estimate.

- The net cost of the Directorate's services (\$813.4 million) was below the budgeted cost (\$829.5 million) by \$16.1 million (1.9 percent) due mainly to higher than expected income (cross-border health revenue).
- The net cost of the Directorate's services increased by \$182.9 million (29.0 percent) from the previous year's cost due mainly to the addition of two service categories (mental health services and sub-acute services) to the range of services included under national health funding arrangements.

Financial results

Table 5-5 Key results

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Expenses	(713.8)	(915.4)	(906.3)
Income (cross-border health revenue)	83.3	102.0	76.8
Net cost of services	(630.5)	(813.4)	(829.5)
Government contributions from the Commonwealth Government and ACT Government	642.0	825.2	829.5
Operating surplus	11.5	11.8	-

5.18 Expenses largely consist of:

- public hospital services purchased from four ACT public hospital providers (Canberra Hospital and Health Services, Calvary Public Hospital, Clare Holland House, and Queen Elizabeth II Family Centre); and
- payments for hospital services provided to ACT residents by other jurisdictions under cross-border arrangements.

5.19 Income (cross-border health revenue) consists of revenue for treating residents from other jurisdictions in ACT public hospitals under cross-border arrangements.

5.20 Income (cross-border health revenue) of \$102.0 million exceeded the budget estimate of \$76.8 million by \$25.2 million (32.8 percent) due mainly to more patients from other jurisdictions being treated in ACT public hospitals than was anticipated in the preparation of the budget estimate.

- 5.21 The net cost of the Directorate's services (\$813.4 million) was below the budgeted cost (\$829.5 million) by \$16.1 million (1.9 percent) due mainly to higher than expected income (cross-border health revenue).
- 5.22 Expenses exceeded the previous year's cost by \$201.6 million (28.2 percent). This was largely due to the addition of two service categories (mental health services and sub-acute services) to the range of services included under national health funding arrangements following a review of these arrangements.
- 5.23 Income increased by \$18.7 million (22.4 percent) from the prior year's amount due mainly to:
- a higher number of New South Wales residents being treated in ACT public hospitals; and
 - cross-border revenue of \$7.6 million from residents of jurisdictions other than New South Wales being recognised in 2013-14. In previous years, this was recognised in the financial statements of the Health Directorate.
- 5.24 The net cost of the Directorate's services increased by \$182.9 million (29.0 percent) from the previous year's cost due mainly to the addition of two service categories (mental health services and sub-acute services) to the range of services included under national health funding arrangements.
- 5.25 Contributions received by the Directorate from the Commonwealth Government and ACT Government increased by \$183.2 million (28.5 percent) from the previous year's amount to fund the two additional service categories (mental health services and sub-acute services). In 2012-13, this activity was recognised in the financial statements of the Health Directorate.

ACT Public Cemeteries Authority

5.26 The ACT Public Cemeteries Authority (the Authority) was established under the *Cemeteries and Crematoria Act 2003*. It manages the cemeteries at Gungahlin, Woden and Hall and the mausoleum at Woden.

Perpetual Care Trusts relating to the cemeteries located in Gungahlin, Woden and Hall Cemeteries and the Woden Mausoleum (the Perpetual Care Trusts) were established to fund the maintenance of each cemetery and the mausoleum. Under arrangements with the Perpetual Care Trusts, the Authority transfers Ministerially determined percentages of revenue earned from burials, interments of ashes or memorialisation at each cemetery and mausoleum to each of the four Perpetual Care Trusts.

The Perpetual Care Trusts reimburse the Authority for maintenance related expenditure incurred by the Authority and charged by the Authority to the Perpetual Care Trusts.

Key Issues

- The Governing Board of the Authority was unable to determine whether indirect maintenance costs charged to the Perpetual Care Trusts were valid. The Audit Office was therefore also unable to verify whether these charges were valid and issued qualified audit reports on the 2013-14 financial statements of the Authority and Perpetual Care Trusts.
- The Audit Office issued a qualified report of factual findings on the Authority's 2013-14 statement of performance in respect of the accountability indicators that were calculated using balances in the financial statements which included indirect maintenance costs which may not be valid.
- The Authority generated a breakeven operating result compared to the budgeted operating surplus of \$0.5 million.
- The Gungahlin Cemetery Perpetual Care Trust continues to have insufficient assets to meet its liabilities.
- The Woden Cemetery Perpetual Care Trust continues to have sufficient assets to meet its liabilities. However, it does not have sufficient assets to meet its short-term maintenance costs because these costs exceed the revenue transferred from the Authority for short-term maintenance.
- Two of the six previously reported audit findings were resolved. This indicates that the Authority needs to improve its processes for addressing audit findings.

- The Authority resolved two of the six previously reported audit findings by:
 - ensuring that payments to suppliers, including payments by electronic funds transfer, were approved by officers acting within their financial delegation. This reduces the risk of payment errors and fraud; and
 - improving the quality of the accounting workpapers that support the financial statements.
- The Authority partially resolved one audit finding by ensuring that the correct Ministerially determined percentages were used in the calculation of revenue to be transferred to each of the four Perpetual Care Trusts. However, the Authority did not transfer the correct amount of revenue to the Perpetual Care Trusts due to errors in the calculations.
- Three audit findings relating to the quality of the financial statements were not resolved by the Authority. The Authority needs to:
 - request the regulator of the *Cemeteries and Crematoria Act 2003* (the Territory and Municipal Services Directorate) to comprehensively review the ‘perpetual care trust model’ to ensure that it provides the Authority with a sound basis for the valid, consistent and transparent charging of indirect maintenance costs to the Perpetual Care Trusts;
 - improve the procedures for preparing the financial statements of the Authority and Perpetual Care Trusts as the financial statements submitted for audit were poor and had many errors and omissions; and
 - improve the clarity of explanations of major variances between current and prior year results provided in the financial statements.

Financial results

Table 5-6 Key results

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Income	5.5	5.6	5.7
Expenses	(5.4)	(5.6)	(5.2)
Operating surplus	0.1	0.0	0.5

5.27 Income mostly consists of:

- fees charged for grave allotments and reservations, burials, grave maintenance and memorial permits;
- revenue from the sale of plaques, monuments and mausoleum vaults; and
- reimbursements from Perpetual Care Trusts for maintenance costs incurred by the Authority in relation to the cemeteries located in Gungahlin, Woden and Hall and the Woden Mausoleum.

5.28 Expenses mostly comprise:

- transfers of Ministerially determined percentages of revenue to the Perpetual Care Trusts to fund the maintenance of the cemeteries and mausoleum;
- operating expenses, including the costs of maintaining the cemeteries and mausoleum; and employee and superannuation costs.

5.29 The Authority generated a breakeven operating result compared to the budgeted operating surplus of \$0.5 million.

Table 5-7 Net asset/(liability) positions of the Perpetual Care Trusts

At 30 June	Actual 2012 \$m	Actual 2013 \$m	Actual 2014 \$m
Gungahlin Cemetery Perpetual Care Trust			
Short-term maintenance reserve	(0.6)	(0.9)	(1.2)
Long-term maintenance reserve	0.3	0.5	0.7
Net (liabilities)	(0.3)	(0.4)	(0.5)
Woden Cemetery Perpetual Care Trust			
Short-term maintenance reserve	(0.3)	(0.4)	(0.6)
Long-term maintenance reserve	1.8	2.3	2.7
Net assets	1.5	1.9	2.1
Woden Mausoleum Perpetual Care Trust			
Short-term maintenance reserve	0.1	0.1	0.2
Long-term maintenance reserve	0.2	0.5	0.5
Net assets	0.3	0.6	0.7
Hall Cemetery Perpetual Care Trust			
Short-term maintenance reserve	0.0	0.0	0.0
Long-term maintenance reserve	0.1	0.1	0.1
Net assets	0.1	0.1	0.1

5.30 The net asset/(liability) positions of the Perpetual Care Trusts are the funds each Perpetual Care Trust has to meet the short-term and long-term maintenance costs of the cemeteries and mausoleum.

5.31 The percentages of revenue that are required to be transferred by the Authority to each of the Perpetual Care Trusts are provided in the Ministerial determination issued in August 2011. These percentages are required to be reviewed every five years.

Under the Ministerial determination, the Authority must transfer two percentages of revenue to each Perpetual Care Trust. One percentage is transferred to the short-term maintenance reserve and the other is transferred to a long-term maintenance reserve.

Short-term maintenance reserves are used to reimburse the Authority for the maintenance costs of the cemeteries and mausoleum.

Long-term maintenance reserves are for meeting maintenance costs after the cemetery or mausoleum is closed. The funds in this reserve can only be accessed with the approval of the Minister.

- 5.32 The Gungahlin Cemetery Perpetual Care Trust had insufficient assets to meet its liabilities at 30 June 2014. This shortfall in assets to meet liabilities has increased from \$0.3 million at 30 June 2012 to \$0.5 million at 30 June 2014. The shortfall arises because the short-term maintenance costs of the Gungahlin cemetery have exceeded the revenue transferred to the Trust under the Ministerially determined percentages.
- 5.33 The Woden Cemetery Perpetual Care Trust has sufficient assets to meet its liabilities. However, it did not have sufficient assets to meet the short-term maintenance costs at 30 June 2014. This shortfall in assets to meet short-term liabilities has increased from \$0.3 million at 30 June 2012 to \$0.6 million at 30 June 2014. The shortfall results from the short-term maintenance costs exceeding the revenue transferred for short-term maintenance.

Audit findings

Table 5-8 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially resolved	Not Resolved	New	Balance
6	2	1	3	1	5

- 5.34 Two of the six previously reported audit findings were resolved. This indicates that the Authority needs to improve its processes for addressing audit findings.
- 5.35 The Authority resolved two of the six previously reported audit findings by:
- ensuring that payments to suppliers, including payments made by electronic funds transfer, were approved by officers acting within their financial delegation. This reduces the risk of payment errors and fraud; and
 - improving the quality of the accounting workpapers that support the financial statements. Additional information was included in the workpapers so that these workpapers could be understood by someone other than the preparer. The workpapers also showed how reported balances had been compiled from the accounting records.
- 5.36 The Authority partially resolved one audit finding by ensuring that the correct Ministerially determined percentages were used in the calculation of revenue to be transferred to each of the four Perpetual Care Trusts. However, the Authority did not transfer the correct amount of revenue to the Perpetual Care Trusts due to errors in these calculations.

- 5.37 The three previously reported auditing findings that were not resolved are discussed below.

Basis for the qualification of the audit reports

- 5.38 The Authority charges maintenance costs to the Perpetual Care Trusts and is reimbursed by the Perpetual Care Trusts for these costs. The costs charged include a share of other indirect costs (i.e. indirect maintenance costs) incurred by the Authority such as electricity, telephone, accounting, audit, rates and general office expenses.

The financial statements of the Authority and Perpetual Care Trusts disclose that the proportion of indirect costs allocated to maintenance is calculated using the 'perpetual care trust model'. These indirect costs are charged to each Perpetual Care Trust, except for the Woden Mausoleum Perpetual Care Trust, based on the revenue generated for each cemetery.

- 5.39 The Authority's method of allocating indirect costs will not provide a reasonable basis for charging of indirect costs where indirect costs are not related to the revenue being generated by each cemetery. Therefore, in 2012-13, the Audit Office recommended that:

... The Authority should give a high priority to performing a comprehensive review of the basis and method of allocating indirect costs to the Trusts to ensure that the costs recovered from the Trusts are:

- transparent and independently verifiable;
- can be consistently applied to all Trusts; and
- provide a reasonable basis for allocating indirect costs to the Trusts.

- 5.40 The Authority reviewed the basis and method of charging indirect costs to the Perpetual Care Trusts and updated its policy ('Policy for Allocation of Costs for PCT Drawdown') to change the basis of charging indirect costs from the revenue generated at each cemetery to the number of burials at each cemetery.

However, the updated policy was not implemented and indirect costs continued to be charged to each Perpetual Care Trust on the basis of the revenue generated by each cemetery.

- 5.41 Representatives of the Authority advised the Audit Office that the updated policy was consistent with the 'perpetual care trust model'. The Audit Office compared the costs charged to the Perpetual Care Trusts to the 'perpetual care trust model' to verify whether the indirect costs being charged were consistent with the 'perpetual care trust model'.

- 5.42 Some costs, including depreciation and some administrative employee costs, were found to have been charged to the Perpetual Care Trusts as indirect maintenance costs, when the 'perpetual care trust model' indicated these costs would not be charged.

The Audit Office sought further information from the Authority as to why these costs were being charged to the Perpetual Care Trusts when the 'perpetual care trust model' indicated these costs would not be charged.

5.43 The Authority was unable to explain the basis for these charges and amended its financial statements to disclose, amongst other things, that:

... the Board has formed the view that there is uncertainty around the use and application of the perpetual care trust model in relation to the validity of charges for indirect costs as maintenance costs from the Perpetual Care Trusts...

... On this basis, the Board has decided to qualify the financial statements in respect of the uncertainty of the balances listed to the extent these balances include amounts relating to the recovery of indirect maintenance costs from the Perpetual Care Trusts...

5.44 The Governing Board of the Authority was unable to determine whether indirect maintenance costs were validly charged to the Perpetual Care Trusts. The Audit Office was therefore also unable to verify whether these charges were valid and issued qualified audit reports on the 2013-14 financial statements of the Authority and Perpetual Care Trusts.

The Audit Office also qualified the report of factual findings in relation to the accountability indicators reported in the Authority's 2013-14 statement of performance that were calculated using balances in the financial statements which included indirect maintenance costs which may not be valid.

5.45 To address these matters, the Audit Office recommended that the Authority:

- request the regulator of the *Cemeteries and Crematoria Act 2003* (the Territory and Municipal Services Directorate) to comprehensively review the 'perpetual care trust model' to ensure that it provides the Authority with a sound basis for the valid, consistent and transparent charging of indirect maintenance costs to the Perpetual Care Trusts; and
- comprehensively review the amounts charged to and recovered from the Trusts in prior years and correct affected balances accordingly.

The Authority has agreed to address this audit finding.

Quality of the financial statements

5.46 The quality of the 2013-14 financial statements for the Authority and Perpetual Care Trusts submitted for audit on 15 July 2014 was assessed to be poor. Furthermore, updated financial statements subsequently provided to the Audit Office on 1 August 2014, 11 August 2014 and 23 August 2014 were also assessed to be poor because these financial statements contained many errors and omissions.

While these errors and omissions were corrected by the Authority, the financial statement preparation procedures implemented by the Authority are poor and do not provide any assurance that the financial statements will be well prepared or free of errors.

- 5.47 Explanations for major variances between current and prior year results included in the financial statements of the Authority provided for audit were not always clear and sufficient to assist readers to understand the information being presented.
- 5.48 The Authority has agreed to address these audit findings.

ACTEW Corporation Limited

- 5.49 ACTEW Corporation Limited (ACTEW) undertakes two primary activities: provision of water, sewerage and associated services; and managing its investment in the energy business, ActewAGL. ActewAGL is discussed on pages 102 to 107.
- 5.50 ACTEW's two subsidiaries, ACTEW Distribution Limited and ACTEW Retail Limited, hold ACTEW's interests in the ActewAGL Distribution Partnership and ActewAGL Retail Partnership (ActewAGL) respectively.

Key Issues

- The Audit Office issued unqualified audit reports on the financial statements of ACTEW Corporation Limited, ACTEW Distribution Limited and ACTEW Retail Limited.
- ACTEW's operating profit increased slightly (by \$1.2 million or 1.5 percent) from \$79.6 million in 2012-13 to \$80.8 million in 2013-14.
- Dividends paid/payable to the ACT Government decreased by \$2.9 million (3.6 percent) from \$79.6 million in 2012-13 to \$76.7 million in 2013-14.
- ACTEW's share of profit from ActewAGL decreased by \$14.2 million (14.5 percent) from \$97.8 million in 2012-13 to \$83.6 million in 2013-14. Further information on ActewAGL's financial results is provided on pages 102 to 107.
- ACTEW had sufficient assets to cover its liabilities in the short and long-term at 30 June 2014.
- Three of the five previously reported audit findings were resolved and two were partially resolved.
- ACTEW resolved previously reported audit findings and reduced the risk of errors in its financial statements by:
 - developing an accounting policy for its investments in ActewAGL;
 - reducing the amount of reconciling items between cash receipts recorded in the general ledger and cash receipts recorded in bank records that were identified in the bank reconciliation process; and
 - engaging an actuary to review and improve the estimate of the liability resulting from the withdrawal by ACTEW from the workers' compensation scheme provided by Comcare.

- ACTEW partially resolved two previously reported audit findings by:
 - reviewing the inputs and assumptions used in determining the discount rate used to estimate the present value of cash flows generated by water and sewerage assets when estimating the fair value of these assets, and developing a policy for recording movements in the valuation of these assets. However, this policy did not include sufficient guidance on qualitative factors to be considered when evaluating whether movements in the value of the assets will be recorded; and
 - improving its compliance with the reporting timetable issued by the former Chief Minister and Treasury Directorate. While compliance with this timetable improved, accounting workpapers supporting the information disclosed in the note to the financial statements on key management personnel was not provided on time.
- Three new audit findings were identified during the 2013-14 audit:
 - ACTEW performed a quantitative assessment of whether there was any indication that the value of its investments in ActewAGL was impaired. However, this assessment relied on information prepared by ActewAGL, and did not include a qualitative assessment of whether the value of these investments were impaired;
 - ACTEW should determine the fair value of property, plant and equipment of ActewAGL at the beginning of the next regulatory period. If the fair value of ActewAGL's property, plant and equipment is different to the cost value used by ActewAGL, then ACTEW should adjust the financial results of ActewAGL to align ActewAGL's accounting policies with those used by ACTEW when accounting for its share of the financial results of ActewAGL in its financial statements; and
 - As there are no loan documents which set out the repayment terms of loans between ACTEW Corporation Limited and its subsidiaries, there is insufficient evidence to support the classifying of these loans as non-current in the financial statements of the subsidiaries.

Financial results

Table 5-9 Key results

	Actual 2012-13 \$m	Actual 2013-14 \$m
Revenue excluding share of profit from the ActewAGL Joint Venture	332.9	325.9
Share of profit from the ActewAGL Joint Venture	97.8	83.6
Revenue	430.7	409.5
Expenses	(309.6)	(293.2)
Operating profit before income tax	121.1	116.3
Income tax	41.5	35.5
Operating profit	79.6	80.8
Dividends paid/payable to the ACT Government	79.6	76.7

5.52 ACTEW's consolidated results include the financial results of ACTEW and its two subsidiaries (ACTEW Distribution Limited and ACTEW Retail Limited) and its share of the financial results of ActewAGL.

5.53 Revenue mostly consists of charges for water supply, sewerage services, and ACTEW's 50 percent share of profits from ActewAGL.

5.54 Revenue decreased from the previous year's amount by \$21.2 million (4.9 percent). This was largely due to:

- a decrease in ACTEW's share of profit from ActewAGL of \$14.2 million (14.5 percent) from \$97.8 million in 2012-13 to \$83.6 million in 2013-14. This was largely due to a gain on the sale of the Water Division to ACTEW in 2012-13. Further information on ActewAGL's financial results is provided on pages 102 to 107; and
- reduced sewerage revenue as a result of lower sewerage prices as determined by the Independent Competition and Regulatory Commission (ICRC). This was partially offset by an increase in water revenue due to higher water consumption and water prices.

5.55 Expenses largely consist of business operating costs, interest on borrowings, depreciation and employee-related expenses.

5.56 Expenses decreased from the previous year's amount by \$16.4 million (5.3 percent). This was due mainly to costs incurred in 2012-13 relating to the purchase of the water and sewerage business from the ActewAGL Distribution Partnership. This was partially offset by higher:

- borrowing costs as additional borrowings with the ACT Government were taken out to fund capital expenditure programs and payments of dividends; and
- depreciation costs as a result of a full year's depreciation on the enlarged Cotter Dam which was capitalised late in 2012-13 and an upwards revaluation of the sewerage network on 30 June 2013.

5.57 ACTEW's operating profit increased slightly (by \$1.2 million or 1.5 percent) from \$79.6 million in 2012-13 to \$80.8 million in 2013-14.

5.58 Dividends paid/payable to the ACT Government decreased by \$2.9 million (3.6 percent) from \$79.6 million in 2012-13 to \$76.7 million in 2013-14. This small decrease is due to Googong assets, gifted in 2013-14 by the ACT Government to ACTEW, not being included as income for the purposes of calculating the dividend for 2013-14.

Historical short-term asset to short-term liabilities coverage

Table 5-10 Historical short-term asset to short-term liabilities coverage

At 30 June	Actual 2013 \$m	Actual 2014 \$m
Short-term assets	153.3	134.3
Short-term liabilities including dividend payable to the ACT Government	182.2	111.4
Net short-term (liabilities)/assets	(28.9)	22.9
Ratio of short-term assets to short term liabilities <u>including dividend payable to the ACT Government</u>	0.8 to 1	1.2 to 1

5.59 Table 5-10 shows that ACTEW had net short-term assets of \$22.9 million at 30 June 2014 compared to net short-term liabilities of \$28.9 million at 30 June 2013.

This stronger short-term net asset financial position was mainly due to a large decrease in the final dividend payable to the ACT Government at 30 June 2014 of \$18.1 million compared to the dividend payable of \$79.6 million at 30 June 2013.

The higher dividend payable to the ACT Government of \$79.6 million at 30 June 2013 was due to an interim dividend not being paid during 2012-13 due to the uncertainty about the financial impact of the Independent Competition and Regulatory Commission (ICRC) pricing determination on ACTEW's profits. As a result, the final dividend payable at 30 June 2013 effectively represented the dividend on the full year's profit for 2012-13.

5.60 ACTEW had sufficient short-term assets to cover its short-term liabilities at 30 June 2014.

Historical assets to liabilities coverage

Table 5-11 Historical assets to liabilities coverage

At 30 June	Actual 2013 \$m	Actual 2014 \$m
Assets	2 809.8	2 847.0
Liabilities	1 815.0	1 847.2
Net assets	994.8	999.8
Ratio of assets to liabilities	1.5 to 1	1.5 to 1

5.61 As shown in Table 5-11, ACTEW had sufficient assets to cover its liabilities at 30 June 2014.

Audit findings

Table 5-12 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
5	3	2	-	3	5

5.62 Three of the five previously reported findings were resolved and two were partially resolved.

5.63 ACTEW resolved three previously reported audit findings and reduced the risk of errors in its financial statements by:

- developing an accounting policy for its investments in ActewAGL. This policy was assessed to comply with the new Australian Accounting Standard AASB 11: 'Joint Arrangements';
- reducing the amount of reconciling items between cash receipts recorded in the general ledger and cash receipts recorded in bank records that were identified in the bank reconciliation process; and

- engaging an actuary to review and improve the estimate of the liability resulting from the withdrawal by ACTEW from the workers' compensation scheme provided by Comcare. (ACTEW recorded a provision for the remaining estimated amount of claims to be settled under the previous arrangements with Comcare.)

5.64 The two partially resolved findings are discussed below.

5.65 In 2012-13, ACTEW performed a valuation of its water and sewerage assets. The fair value of these assets was based on the present value of future estimated cash flows expected from these assets. This valuation is highly sensitive to movements in the rate used to estimate the present value of estimated future cash flows generated by these assets. In 2013-14, ACTEW reduced the risk of valuation errors by:

- reviewing the inputs and assumptions used in determining the discount rate used to estimate the present value of cash flows generated by water and sewerage assets when estimating the fair value of these assets; and
- documenting and approving its policy for recording movements in the valuation of these assets.

However, this policy did not include sufficient guidance on qualitative factors to be considered when evaluating whether movements in the fair value of the assets will be recorded. Qualitative factors to be considered could include:

- the cause of the movement; and
- whether the movement in the estimated fair value is likely to be sustainable in the long term.

ACTEW has advised that it:

... has some guidance on qualitative factors in its policy in assessing whether movements in the value of the assets will be recorded. ACTEW will look to further strengthen its policy to extend the scope of qualitative aspects.

5.66 In 2012-13, ACTEW's financial statements were not provided to the Audit Office in accordance with the reporting timetable issued by the former Chief Minister and Treasury Directorate and not all supporting documentation was available and ready for audit.

In 2013-14, while compliance with the timetable improved, accounting workpapers supporting the information disclosed in the note to the financial statements on key management personnel was not provided on time.

5.67 The three new audit findings identified are discussed below.

5.68 ACTEW performed a quantitative assessment as to whether there was any indication that the value of its investments in ActewAGL was impaired. However, in performing this assessment, ACTEW:

- relied on discounted cash flow models prepared by ActewAGL without performing an independent assessment of these models; and
- did not perform a qualitative assessment of whether the value of these investments was impaired as required by Australian Accounting Standard AASB 136: 'Impairment of Assets'.

5.69 While audit work performed on the quantitative and qualitative factors affecting the value of these investments indicated that there was no indication that the value of these investments was impaired, there is a higher risk of the value of these investments being overstated in the financial statements when ACTEW does not perform these assessments.

ACTEW has advised that:

... An independent assessment of the investments in the ActewAGL Partnerships will be performed annually at balance date and include both quantitative and qualitative assessments.

5.70 ACTEW measures property, plant and equipment at fair value. ActewAGL records property, plant and equipment at cost. The fair value of property, plant and equipment in ActewAGL was last measured by ACTEW in 2007, at the beginning of the regulatory period which covers the period from 1 July 2006 to 30 June 2014. The regulatory period is the period set by the ICRC over which pricing for services provided by regulated assets (such as gas and electricity networks) has been determined.

In 2013-14, ACTEW performed an assessment of the fair value of property, plant and equipment in ActewAGL and assessed that the fair value of property, plant and equipment has not changed materially in the regulatory period. This accounting treatment was assessed as reasonable.

ACTEW should determine the fair value of property, plant and equipment of ActewAGL at the beginning of the next regulatory period. If the fair value of ActewAGL's property, plant and equipment is different to the cost value used by ActewAGL, then ACTEW should adjust the financial results of ActewAGL to align ActewAGL's accounting policies with those used by ACTEW when accounting for its share of the financial results of ActewAGL in its financial statements.

ACTEW has advised that it:

... plans to perform an evaluation of the fair value of property, plant and equipment of the ActewAGL Distribution Partnership at the beginning of each major electricity and gas network regulatory period and will adjust the financial results if necessary, to align accounting policies. ActewAGL Retail Partnership's property, plant and equipment consist of non-regulated assets and are insignificant compared to the ActewAGL Distribution Partnership. An evaluation will only be performed where there are significant qualitative factors that suggest an adjustment to the financial results is necessary.

- 5.71 ACTEW Corporation Limited and its subsidiaries have loans. As there are no loan documents which set out the repayment terms for these intercompany loans, there is insufficient evidence to support the classifying of these loans as non-current in the financial statements of the subsidiaries.
- 5.72 ACTEW has agreed to address all audit findings.

ACTEWAGL Joint Venture

- 5.73 The ActewAGL Joint Venture (ActewAGL) operates energy networks and supplies energy to customers in the ACT region.
- 5.74 ACTEW Corporation Limited (ACTEW) has a 50 percent interest in the ActewAGL Retail Partnership and ActewAGL Distribution Partnership through its subsidiaries (ACTEW Retail Limited and ACTEW Distribution Limited.)
- 5.75 ActewAGL's financial statements represent the combined results of the ActewAGL Retail Partnership and ActewAGL Distribution Partnership.

Key Issues

- The Audit Office issued unqualified audit reports on the financial statements of the ActewAGL Joint Venture, ActewAGL Retail Partnership and ActewAGL Distribution Partnership.
- ActewAGL's operating profit decreased by \$29.0 million (14.9 percent) from \$195.0 million in 2012-13 to \$166 million in 2013-14. This was largely due to a gain of \$26.7 million from the sale of the Water Division to ACTEW in 2012-13.
- Distributions paid by ActewAGL to ACTEW increased from \$48.9 million in 2012-13 to \$52.0 million in 2013-14.
- ActewAGL had sufficient assets to cover its liabilities in the short and long-term at 30 June 2014.
- Four of the seven previously reported audit findings were resolved and three were partially resolved.
- ActewAGL resolved previously reported audit findings by:
 - updating its policy for the management of access by users to key financial systems. Implementation of this policy should reduce risk of unauthorised or fraudulent access to these systems;
 - improving service desk procedures to reduce the risk of unauthorised access to key financial systems and data;
 - improving physical security of data centre facilities and performing regular reviews of security; and
 - tightening security over critical data files used to upload financial information from the billing system (Gentrack) to the accounting system (Oracle) by preventing modifications from being made to these files and encrypting them.

- ActewAGL partially resolved previously reported audit findings by:
 - implementing a system to monitor audit logs. However, this system was not implemented across all financial system applications and databases;
 - restricting information technology developers from migrating changes to the payroll system (Aurion) but not to the accounting system (Oracle). Changes made by developers to the payroll and accounting systems were being independently reviewed to provide assurance that they were appropriate; and
 - automatically enforcing minimum password lengths for all critical applications except the accounting system.
- Three new audit findings were identified during the 2013-14 audit. In particular:
 - a regular review of the access privileges given to contractors is not performed. This control weakness increases the risk of unauthorised or fraudulent access to information technology systems and data; and
 - ActewAGL incorrectly classified some items that meet the definition of property, plant and equipment under Australian Accounting Standard AASB 116: ‘Property, Plant and Equipment’ as inventory in the financial statements.

Financial results

Table 5-13 Key results

	Actual 2012-13 \$m	Actual 2013-14 \$m
Income	829.4	837.0
Expenses	(661.1)	(671.1)
Operating profit from continuing operations	168.3	165.9
Operating profit from discontinued operations (Water Division)	26.7	0.1
Operating profit	195.0	166.0
Distributions paid to partners	97.9	104.0
Distributions paid to ACTEW (50 percent)	48.9	52.0

- 5.76 ActewAGL's income is largely derived from the sale and distribution of energy (electricity and gas).
- 5.77 ActewAGL's expenses largely consist of energy purchases, employment costs, payments to subcontractors, leasing expenses and depreciation.
- 5.78 ActewAGL's operating profit decreased by \$29.0 million (14.9 percent) from \$195.0 million in 2012-13 to \$166 million in 2013-14. This was largely due to a gain of \$26.7 million from the sale of the Water Division to ACTEW in 2012-13.
- 5.79 Distributions paid by ActewAGL to ACTEW increased from \$48.9 million in 2012-13 to \$52.0 million in 2013-14.

Historical short-term asset to short-term liabilities coverage

Table 5-14 Historical short-term asset to short-term liabilities coverage

At 30 June	Actual 2013 \$m	Actual 2014 \$m
Short-term assets	253.7	234.8
Short-term liabilities	174.5	184.3
Net short-term assets	79.2	50.5
Ratio of short-term assets to short-term liabilities	1.5 to 1	1.3 to 1

- 5.80 The historical short-term asset to short-term liabilities coverage of ActewAGL can be assessed by comparing the amount of short-term assets available to cover short-term liabilities.
- 5.81 The historical short-term asset coverage shown in Table 5-14 is the position after the payment of cash distributions to the partners of ActewAGL.
- 5.82 ActewAGL had sufficient short-term assets to cover its short-term liabilities at 30 June 2014.

Historical assets to liabilities coverage

Table 5-15 Historical assets to liabilities coverage

At 30 June	Actual 2013 \$m	Actual 2014 \$m
Assets	1 315.6	1 391.0
Liabilities	189.7	203.0
Net assets	1 125.9	1 188.0
Ratio of assets to liabilities	6.9 to 1	6.9 to 1

5.83 Major assets are represented by property, plant and equipment (mainly electricity and gas system assets).

5.84 As shown in Table 5-15, ActewAGL had sufficient assets to cover its liabilities at 30 June 2014.

Audit findings

Table 5-16 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
7	4	3	-	3	6

5.85 Four of the seven previously reported audit findings were resolved and three were partially resolved.

5.86 ActewAGL resolved previously reported audit findings by:

- updating its policy for the management of access by users to key financial systems ('Identity and Access Management' policy). Implementation of this policy should reduce risk of unauthorised or fraudulent access to these systems;
- improving service desk procedures to reduce the risk of unauthorised access to key financial systems and data;
- improving physical security of data centre facilities and performing regular reviews of physical and access security; and
- tightening security over critical data files used to upload financial information from the billing system (Gentrack) to the accounting system (Oracle) by preventing modifications from being made to these files and encrypting them.

5.87 The three partially resolved findings are discussed below.

5.88 Audit logs are a system-generated record of exceptions and other security events. They include, for example, details of the identities of users, dates, times and locations of access and unsuccessful attempts at making changes to applications and key data in databases.

Monitoring of audit logs assists in identifying:

- erroneous, irregular or fraudulent changes to systems and data; and
- system performance issues and flaws by reporting errors and highlighting areas where processes regularly require a significant amount of time to complete.

In 2012-13, audit logs had not been enabled for the accounting system (Oracle). Furthermore, where audit logging was enabled, periodic reviews of these audit logs were not performed.

In 2013-14, ActewAGL implemented a system which records and aggregates all log data ('Security Information and Event Management' system). These logs were monitored and reviewed. However, this system was not implemented across all financial system applications and databases.

5.89 Access by information technology developers to information systems poses a risk as developers with such access can make erroneous, unauthorised and possibly fraudulent changes to these systems. To minimise this risk, the ability to migrate changes to information systems should be tightly restricted.

Ideally, developers should not be granted access to 'live' information systems. Where this is impracticable, audit logs of changes made using developer access should be monitored to provide assurance that developers have not made erroneous, unauthorised and possibly fraudulent changes to these systems.

In 2012-13, developers were able to directly migrate software changes to the accounting and payroll systems. Furthermore, independent reviews of changes made by developers were not being performed.

In 2013-14, developers were restricted from migrating changes to the payroll system (Aurion) but not to the accounting system (Oracle). Restrictions placed on developer access to the accounting system were planned to be implemented as part of an upgrade of the accounting system.

Changes made by developers to the payroll and accounting systems were being independently reviewed to provide assurance that they were appropriate.

To further reduce the risk of erroneous, irregular or fraudulent changes being made to the accounting system, those who develop and test changes to the accounting system should not be able to migrate these changes to the accounting system.

ActewAGL has advised that:

ActewAGL would implement planned restrictions on developer access to the new accounting system after July 2014 as part of an upgrade of the accounting system.

- 5.90 Complex passwords provide a stronger control over access to systems, applications and data compared to simple passwords because complex passwords are more difficult to guess or 'crack' than simple passwords.

In 2012-13, minimum password lengths were not being automatically enforced for critical applications. This increases the risk of inappropriate or fraudulent access to these applications.

In 2013-14, minimum password lengths were automatically enforced for all critical applications except the accounting system (Oracle). Minimum password lengths were to be implemented as part of an upgrade of the accounting system.

ActewAGL has advised that:

ActewAGL would include minimum password lengths for the new accounting system post July 2014 as part of the planned upgrade of the accounting system.

- 5.91 New audit findings are discussed below.

- 5.92 ActewAGL uses a contractor systems access form to record an end-date, which prompts the removal of access privileges granted to the contractor. However, a regular review of the access privileges given to contractors is not performed.

Therefore, if a contractor departs in advance of their scheduled end-date their access privileges may not be promptly removed.

This control weakness presents a risk of unauthorised or fraudulent access to systems and data. ActewAGL has advised that regular reviews will be undertaken.

- 5.93 ActewAGL incorrectly classified some items that meet the definition of property, plant and equipment under Australian Accounting Standard AASB 116: 'Property, Plant and Equipment' as inventory in the financial statements. However, these amounts were not material to the 2013-14 financial statements. ActewAGL has advised that they will undertake a review of these items before any reclassification.

- 5.94 ActewAGL has agreed to address these audit findings.

ACTION

5.95 ACTION provides public school, special needs and charter bus services to the ACT community and manages a contract for the provision of a rural school bus service.

5.96 ACTION operates within the Roads and Public Transport Division of the Territory and Municipal Services Directorate but is a separate entity for financial reporting purposes.

Key Issues

- The Audit Office issued an unqualified audit report on ACTION's 2013-14 financial statements and an unqualified report of factual findings on ACTION's statement of performance.
- ACTION's net cost of services exceeded the budgeted and prior year costs by \$4.4 million (4.0 percent) and \$9.1 million (8.6 percent) respectively due to higher employee costs, workers' compensation insurance premiums and fuel costs.
- ACTION did not draw down \$1.7 million (10.1 percent) of the budgeted capital injections due mainly to delays in acquiring new buses.
- ACTION resolved three of the four previously reported audit findings. In particular, ACTION:
 - reduced the risk of errors and fraud in relation to cash bus fares collected by identifying and investigating variances between cash collected according to the cash counting machines installed at bus depots and ticketing system (MyWay);
 - appointed authorised officers to conduct ticket and compliance inspections. This reduces the risk of the inappropriate or fraudulent use of MyWay concession cards by ensuring that they are only being used by eligible concession card holders;
 - reduced the risk of errors in the financial statements by improving stock-take procedures and processes for counting and recording inventory at the year-end stock-take.
- ACTION did not resolve one audit finding in 2013-14. ACTION planned to use CHRIS21 rather than Aurion to record staff members' personal details and manage leave. Unlike CHRIS21, Aurion does not have automated controls which reduce the risk of errors and fraud. The migration of staff members' information did not occur in 2013-14 due to technical issues regarding the integration of ACTION's rostering system with CHRIS21.

- In 2013-14 there were a few instances where the payment of an invoice was authorised by an officer who exceeded the limit of their financial delegation. While these invoices were assessed to be properly related to ACTION's operations, there is a higher risk of payment errors, irregularities and fraud when officers authorise payments which exceed the limit of their delegation.

Financial results

Table 5-17 Key results

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Expenses	(129.7)	(139.8)	(133.7)
Income	23.4	24.4	22.7
Net cost of services	(106.3)	(115.4)	(111.0)
Government contributions excluding Treasurer's Advance	90.9	102.7	100.5
Government contributions - Treasurer's Advance	7.5	-	-
Loss on the revaluation of buses	-	(4.8)	-
Operating deficit	(7.9)	(17.5)	(10.5)
Capital injections	17.1	15.1	16.8

5.97 ACTION's expenses mainly consist of employee costs and costs associated with the running of buses such as insurance, maintenance and fuel costs. Income largely consists of bus fares charged to customers.

5.98 Expenses exceeded the budgeted and prior year amounts by \$6.1 million (4.6 percent) and \$10.1 million (7.8 percent) respectively. This was mainly due an increase in:

- employee expenses resulting from pay rises;
- workers' compensation insurance premiums due to an increase in salaries and a higher insurance contribution rate; and
- fuel costs resulting from higher fuel prices and fuel usage following changes to the bus network which increased the frequency of services on several bus routes and introduced services to new suburbs.

- 5.99 Income exceeded the budget estimate by \$1.7 million (7.5 percent) and prior year's amount by \$1.0 million (4.3 percent) due mainly to increases in bus fares.
- 5.100 ACTION's net cost of services exceeded the budgeted and prior year costs by \$4.4 million (4.0 percent) and \$9.1 million (8.6 percent) respectively due to higher employee costs, workers' compensation insurance premiums and fuel costs.
- 5.101 ACTION's operating deficit exceeded the budgeted amount by \$7.0 million (66.7 percent) due mainly to a loss on the revaluation of buses in 2013-14 and higher than expected net cost of services.
- 5.102 ACTION did not draw down \$1.7 million (10.1 percent) of the budgeted capital injections due mainly to delays in acquiring new buses.

Audit findings

Table 5-18 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
4	3	-	1	1	2

- 5.103 ACTION resolved three of the four previously reported audit findings.
- 5.104 Cash counting machines were installed at bus depots to promptly record cash bus fares collected by bus drivers at the end of each shift. A daily reconciliation of cash collected according to the cash counting machines and bus ticketing (MyWay) was performed and variances identified from the reconciliation were investigated.
- The risk of errors and fraud in relation to cash bus fares collected was reduced by the identifying and investigating variances between cash collected according to the cash counting machines and bus ticketing system (MyWay).
- 5.105 Authorised officers were appointed to conduct ticket and compliance inspections. This reduces the risk of the inappropriate or fraudulent use of MyWay concession cards by ensuring that they are only being used by eligible concession card holders.
- 5.106 The risk of errors in the financial statements was reduced by improving stock-take procedures and processes for counting and recording inventory at the year-end stock-take.
- 5.107 ACTION's human resource management information system (Aurion) contains records of pay and personnel details of bus drivers and transport officers. This system does not have automated controls in place to prevent errors and fraud. For example, there is no:
- 'forced' validation by a second officer of a new employee record, or changes to an employee record; and

- restrictions over the rates of pay allocated to position numbers to ensure that the rate of pay that can be allocated to a position is consistent with the enterprise agreement.

5.108 While compensating manual controls have been implemented, automated controls are more effective than manual controls because they are consistently applied and can prevent errors, irregularities and fraud instead of identifying them after they occur.

5.109 ACTION planned to use CHRIS21 rather than Aurion to record staff members' personal details and manage leave. Unlike CHRIS21, Aurion does not have automated controls which reduce the risk of errors and fraud. The migration of staff members' information did not occur in 2013-14 due to technical issues regarding the integration of ACTION's rostering system with CHRIS21.

ACTION has advised that:

Work is still progressing to move the entire ACTION payroll process to CHRIS21. Technical issues are still delaying the process which is currently under review by Shared Services ICT and Territory and Municipal Services Public Transport. The timeframe for implementation is still uncertain.

5.110 There were a few instances where the payment of an invoice was authorised by an officer who exceeded the limit of their financial delegation. While these invoices were assessed to be properly related to ACTION's operations, there is a higher risk of payment errors, irregularities and fraud when officers authorise payments which exceed the limit of their delegation.

5.111 ACTION has agreed to address all audit findings and related recommendations.

ACTTAB Limited

5.112 The main activities of ACTTAB Limited (ACTTAB) are the provision of totalisator betting, Sportsbet, Keno and Trackside services in the ACT.

5.113 In 2013-14 the ACT Government commenced a sale process to dispose of the assets of ACTTAB. On 30 July 2014 Tabcorp was announced as the successful purchaser for the assets of ACTTAB. Completion of the sale was finalised on 14 October 2014.

Key Issues

- The Audit Office issued an unqualified audit report on ACTTAB's 2013-14 financial statements.
- ACTTAB's operating profit of \$0.7 million decreased from the prior year profit of \$1.1 million due mainly to a reduction in interest income and commissions earned on wagering services.
- Three of the four previously reported audit findings were resolved. ACTTAB:
 - ensured that the one administrator account was only used by one person. This reduces the risk of unauthorised, inappropriate or fraudulent access to the financial application and data;
 - consolidated the processes for managing changes to its systems into one overarching change management policy. Implementation of this policy should provide more assurance that changes made to systems will be effectively implemented and systems will operate as intended; and
 - implemented the review and follow up of a daily log of failed attempts to log on to systems. This reduces the risk of unauthorised or inappropriate access to systems.
- ACTTAB did not resolve one audit finding. It did not implement a formal helpdesk management system for any systems and networks other than the betting system. This increases the risk that user requests/problems will not be handled in a timely, consistent and structured manner. ACTTAB has advised that this system will not be implemented due to the decision to sell ACTTAB.
- Three new audit findings relating to weaknesses in controls over information technology were identified in 2013-14. In particular:
 - a monthly review of user access to individual drives and folders conducted in May 2014 did not identify a terminated employee and flag their access for removal. ACTTAB should develop a more robust review of user access to identify former employees and ensure that their user access is promptly removed;

- there are no computer controls which ensure that changes to management information systems made by developers in the test environment cannot be migrated to the production (i.e. 'live') environment without these changes having been properly reviewed and tested; and
- there was no regular monitoring of the production and disaster recovery environments to ensure that these environments contain the same data. This increases the risk of the disaster recovery environment not containing up to date data and that information will not be effectively recovered in the event of a disaster or other adverse event.

Financial results

Table 5-19 Key results

	Actual 2012-13 \$m	Actual 2013-14 \$m
Revenue	29.4	29.1
Expenses	(27.9)	(28.0)
Profit before income tax	1.5	1.1
Income tax expense	(0.5)	(0.4)
Profit after income tax	1.0	0.7

5.114 Revenue decreased by \$0.3 million (1.2 percent) from the prior year's amount due mainly to a reduction in:

- interest income due to a lower balance of cash on deposit; and
- commissions earned on wagering services due to increased competition in online wagering services and a loss of customers.

5.115 Expenses mostly consist of employee costs, licence fees, agent and processing fees, leasing expenses, marketing and depreciation. Expenses were consistent with the prior year's cost.

5.116 ACTTAB's operating profit of \$0.7 million decreased from the prior year profit of \$1.1 million due mainly to a reduction in interest income and commissions earned on wagering services.

Audit findings

Table 5-20 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
4	3	-	1	3	4

- 5.117 ACTTAB resolved three of the four previously reported audit findings.
- 5.118 ACTTAB reduced the risk of unauthorised, inappropriate or fraudulent access to its financial application and data by ensuring that the one administrator account was only used by one person.
- 5.119 The processes for managing changes to ACTTAB's systems were consolidated into one overarching change management policy. Implementation of this policy should provide more assurance that changes made to systems will be effectively implemented and systems will operate as intended.
- 5.120 ACTTAB reduced the risk of unauthorised or inappropriate access to its systems by implementing the review and follow up of a daily log of failed attempts to log on to systems.
- 5.121 In 2012-13 it was reported that there was no formal help desk management system for any systems and networks other than the betting system. This increases the risk that user requests/problems will not be handled in a timely, consistent and structured manner. ACTTAB has advised that this system will not be implemented due to the decision to sell ACTTAB.
- 5.122 The three new audit findings relate to weaknesses in controls over information technology. Each of these is discussed below.
- 5.123 A monthly review of user access to individual drives and folders conducted in May 2014 did not identify a terminated employee and flag their access for removal. ACTTAB should develop a more robust review of user access to identify former employees and ensure that their user access is promptly removed.
- 5.124 There are no computer controls which ensure that changes to management information systems made by developers in the test environment cannot be migrated to the production (i.e. 'live') environment without these changes having been properly reviewed and tested.

ACTTAB should ensure that access by developers to the production environment is limited to ensure that changes cannot be made and migrated into production inappropriately. ACTTAB should also investigate the feasibility of having a person other than the developer, for example, the Executive Manager Information and Communication Technology, migrate changes into the production environment.

- 5.125 There was no regular monitoring of the production and disaster recovery environments to ensure that these environments contain the same data. This increases the risk of the disaster recovery environment not containing up to date data and that information will not be effectively recovered in the event of a disaster or other adverse event.

ACTTAB should change the position of computer screens so that the production and disaster recovery environments can be monitored by operators at the race centre.

- 5.126 ACTTAB agreed to address all new audit findings prior to the completion of the sale on 14 October 2014.

Canberra Institute of Technology

5.127 The Canberra Institute of Technology (the Institute) provides vocational education and training services to students, government and organisations in the public and private sectors.

Key Issues

- The Audit Office issued an unqualified audit report on the Institute's 2013 financial statements and an unqualified report of factual findings on its 2013 statement of performance.
- The net cost of the Institute's services, excluding the cost of a planned asset transfer of the Watson campus to the ACT Property Group, was \$2.2 million (2.9 percent) higher than the budgeted cost due mainly to lower than expected income from training courses and student fees.
- Two of the four previously reported audit findings were resolved and two were not resolved.
- The Institute resolved two findings by:
 - ensuring that reconciliations of revenue records to amounts recorded in the financial statements were prepared and reviewed in a timely manner. This reduces the risk of errors or irregularities in revenue records and revenue amounts reported in the financial statements not being promptly identified and corrected; and
 - finalising an agreement with Shared Services for the provision of human resource and finance support services. This provides more certainty that services will be received at the required quality, quantity and price, and any disputes between the parties will be effectively resolved in a timely manner.
- The Institute did not resolve two audit findings as:
 - policies and procedures for administering user access to the student information system have not been finalised and approved. This increases the risk of inappropriate or unauthorised access to this system; and
 - salary reports were not being consistently reviewed in a timely manner. This increases the risk that incorrect or fraudulent employee payments will not be promptly detected and addressed.
- One new finding was identified in 2013. The Institute does not have approved documented backup policies and procedures for the student information system and its data. This presents a risk that the student information system and its data may not be effectively recovered following a disaster, disruption or other adverse event.

Financial Results

Table 5-21 Key results (calendar years)

	Actual 2012 \$m	Actual 2013 \$m	Budget 2013 \$m
Expenses	(115.4)	(113.6)	(114.6)
Income	35.9	35.3	38.5
Net cost of services	(79.5)	(78.3)	(76.1)
Government contributions	70.7	67.1	65.9
Contribution from CIT Solutions Pty Limited	0.5	0.3	0.3
Asset transfer to the ACT Property Group	(6.0)	-	(8.0)
Operating deficit	(14.3)	(10.9)	(17.9)

- 5.128 Expenses mainly consist of employee and operating costs, such as consultants, contractors and repairs and maintenance costs.
- 5.129 Income is mainly derived from the provision of vocational education and training services to students, government and organisations in the public and private sectors.
- 5.130 The net cost of the Institute's services, excluding the cost of a planned asset transfer of the Watson campus to the ACT Property Group, was \$2.2 million (2.9 percent) higher than the budgeted cost due mainly to lower than expected income from training courses and student fees.
- 5.131 The Institute's operating deficit of \$10.9 million was \$7.0 million (39.1 percent) below the budgeted deficit due mainly to a transfer of the Watson campus to the ACT Property Group (\$8.0 million) not taking place as anticipated in the budget.

Audit Findings

Table 5-22 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
4	2	-	2	1	3

- 5.132 The Institute resolved the following two audit findings.
- 5.133 The risk of errors or irregularities in revenue records and revenue amounts recorded in the financial statements not being promptly identified and corrected was reduced by ensuring that reconciliations of revenue records and revenue amounts recorded in the financial statements were prepared and reviewed in a timely manner.
- 5.134 An agreement with Shared Services for the provision of human resource and finance support services to the Institute was finalised. This provides more certainty that services will be received at the required quality, quantity and price, and any disputes between the parties will be effectively resolved in a timely manner.
- 5.135 The following two audit findings were not resolved.
- 5.136 Policies and procedures for administering user access to the student information system have not been finalised and approved. This increases the risk of inappropriate or unauthorised access to this system.
- 5.137 Salary reports were not being consistently reviewed in a timely manner. This increases the risk that incorrect or fraudulent employee payments will not be promptly detected and addressed.
- 5.138 One new audit finding was identified in 2013. The Institute does not have approved documented backup policies and procedures for the student information system and its data. This presents a risk that the student information system and its data may not be effectively recovered following a disaster, disruption or other adverse event.
- 5.139 The Institute has agreed to address all audit findings.

Chief Minister and Treasury Directorate

- 5.140 The former Chief Minister and Treasury Directorate (the Directorate) was responsible for providing leadership, strategic advice and support on policy development to the ACT Public Service. The Directorate was also responsible for coordinating the ACT Government's budget process and reporting on financial results, the Territory's financial management framework and leading initiatives to improve public sector capability and integrity.
- 5.141 Under changes to administrative arrangements effective from 7 July 2014, the Chief Minister and Treasury Directorate received functions from the former Economic Development Directorate and Commerce and Works Directorate; and changed its name to the Chief Minister, Treasury and Economic Development Directorate.

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2013-14 financial statements and an unqualified report of factual findings on its 2013-14 statement of performance.
- The net cost of the Directorate's services (\$50.5 million) was \$10.8 million (17.6 percent) below the budgeted cost (\$61.3 million). This was mainly due to fewer than anticipated requests from agencies for grants from the Restructure Fund and Strategic Asset Management Program.
- One of the four previously reported audit findings was resolved and three were partially resolved.
- The Directorate resolved one previously reported audit finding by performing an external review of its internal audit function. This should provide additional assurance that this function operates effectively.
- Three audit findings were partially resolved. The Directorate did not:
 - always provide clear and informative explanations for significant variances between current and prior year results included in the financial statements submitted for audit;
 - further improve the independence of its internal audit function; and
 - always retain evidence of the approval of meeting minutes of its Executive Management Group as an accurate record of meetings.
- Four new audit findings were identified in 2013-14:
 - The Directorate does not have an approved up-to-date strategic plan for its information and communication technology. Its Information Management and Information Communications Technology Strategic Plan was in draft form.

- There was no evidence that the terms of reference for the Information Management and Information Communications Technology Committee, which develops and monitors implementation of the strategic direction for information and communication technology systems, were approved.
- There was not always evidence that reviews of salary reports were being performed or performed in a timely manner. This increases the risk that incorrect or fraudulent employee payments will not be promptly detected and addressed.
- Some of the Directorate’s explanations in its statement of performance were inadequate due to accountability indicators and related targets not being clearly explained in the Directorate’s budget papers. This increases the risk of erroneous or fraudulent reporting and makes it less likely that the Directorate can be readily held to account for its performance.

Financial results

Table 5-23 Key results

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Expenses	(59.2)	(59.6)	(70.2)
Income	7.7	9.1	8.9
Net cost of services	(51.5)	(50.5)	(61.3)
Government contributions	52.5	47.9	59.8
Net gains from asset transfers	0.9	5.5	5.3
Operating surplus	1.9	2.9	3.8

5.142 Expenses mainly consist of employee, consulting, accommodation and contractor costs associated with the Centenary of Canberra celebrations and grant payments. Grant payments mainly related to the:

- Restructure Fund. Grants are paid to ACT Government agencies to meet the costs of restructuring which are expected to provide cost savings or longer-term budgetary or economic benefits;

- partnership with the Australian National University to meet the cost of establishing a Centenary Chair in Cancer Research at the John Curtin School of Medical Research to facilitate collaboration between cancer researchers and clinicians at the Canberra Region Cancer Centre at Canberra Hospital and Health Services; and
- Strategic Asset Management Program. Grants are paid to ACT Government agencies to develop strategic asset management plans for the future use, maintenance, upgrade or redevelopment of their assets.

5.143 The net cost of the Directorate's services (\$50.5 million) was \$10.8 million (17.6 percent) below the budgeted cost (\$61.3 million). This was mainly due to fewer than anticipated requests from agencies for grants from the Restructure Fund and Strategic Asset Management Program.

5.144 The Directorate's territorial operations mainly consist of revenue from Commonwealth grants and dividends. These sources of revenue are recorded in the financial statements of the Territory. The Territory's financial statements are discussed in Chapter 4: 'The Territory's financial statements'.

Audit findings

Table 5-24 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
4	1	3	-	4	7

5.145 One of the four previously reported audit findings was resolved and three were partially resolved.

5.146 The Directorate resolved one previously reported audit finding by performing an external review of its internal audit function. This should provide additional assurance that this function operates effectively.

5.147 Three audit findings were partially resolved. These are discussed below.

5.148 Some of the Directorate's explanations for significant variances between current and prior year results included in the financial statements submitted for audit were inadequate. Some explanations did not:

- have sufficient information to enable external users of the financial statements to understand the reasons for the variances; and
- disclose the major underlying reasons for variances between the actual and prior year results.

When explanations of material variances between current and prior year financial results included in the Directorate's financial statements are inadequate, there is a risk that readers will not be adequately informed about the financial results of the Directorate.

- 5.149 The capacity of an internal audit function to be independent and report impartially depends, in part, on the extent to which this function is free from the influences of operational management and operating responsibility.

There are aspects of the Directorate's internal audit arrangements that support the independence of the internal audit function. These include the Audit Committee having an independent chair. However, the Directorate's Internal Audit Manager continued to perform the role of Financial Controller and report to the Directorate's Chief Finance Officer in that capacity. Therefore, the Internal Audit Manager is not free of the influences of operational responsibility.

To provide assurance that the internal audit function is free from the influences of operational management and responsibility, the Audit Office recommended that:

- the Directorate ensure that the officer responsible for the internal audit function is free from the influences of operational responsibility (preferred option), or
- if the officer responsible for the internal audit function is to retain areas of operational responsibility, then the Directorate should implement safeguards to ensure that this area is reviewed objectively.

- 5.150 To provide assurance that such reviews are objective, they should not be performed or reviewed by officers in the internal audit function, or in areas of operational responsibility that have been allocated to this officer. These arrangements should be documented in the internal audit charter.

The Directorate's Executive Management Group is a key decision-making committee that meets on a monthly basis.

In 2012-13, the Directorate did not document and approve the decisions reached in its Executive Management Group meetings and other key discussions in formal meeting minutes.

In 2013-14, the Directorate documented meetings of its Executive Management Group. However, it did not always retain evidence of the approval of these meeting minutes as an accurate record of meetings.

- 5.151 Four new audit findings were identified in 2013-14. These are explained below.

- 5.152 The Directorate does not have an approved up-to-date strategic plan for its information and communication technology. Its Information Management and Information Communications Technology Strategic Plan was in draft form.

Planning and implementation of new information technology systems is less likely to be effective, and information technology systems may not meet emerging priorities and needs of the Directorate, when the acquisition, development and maintenance of information technology systems is not occurring within an approved and up-to-date strategic plan.

5.153 The main role of the Directorate's Information Management and Information Communications Technology Committee is to develop and monitor implementation of the strategic direction for information and communication technology systems. The Committee's responsibilities also include the:

- monitoring of spending on information communication technology projects; and
- review of proposed projects and system developments.

There was no evidence that the terms of reference for the Committee were approved. The Committee met twice during the year when the draft terms of reference indicates at least four meetings are to be held.

To provide assurance that the Committee operates effectively, the terms of reference for the Committee should be approved and the frequency of Committee meetings should occur in accordance with the approved terms of reference.

5.154 Salary reports should be reviewed in a timely manner to provide assurance that employees are valid and have been paid the correct amount. Any errors or irregularities should be promptly investigated.

There was not always evidence that reviews of salary reports were being performed or performed in a timely manner. This increases the risk that incorrect or fraudulent employee payments will not be promptly detected and addressed.

5.155 Some of the Directorate's explanations in its statement of performance were inadequate due to some accountability indicators and related targets not being clearly explained in the Directorate's budget papers.

When accountability indicators and the related performance targets are not clearly defined and explained in the budget papers, there is a risk of incorrect or fraudulent reporting. As it may also be difficult to subsequently verify whether the actual results are consistent with planned performance targets disclosed in the budget papers, it is less likely that the Directorate can be readily held to account for its performance.

The Directorate has agreed or partially agreed with all audit findings.

Commerce and Works Directorate

- 5.156 The Commerce and Works Directorate (the Directorate) was established on 10 November 2012 as a result of changed administrative arrangements. It was abolished and its functions transferred to the new Chief Minister, Treasury and Economic Development Directorate effective 7 July 2014.
- 5.157 The Directorate's main services were provided by the ACT Revenue Office, the ACT Insurance Authority and Shared Services Centre.
- 5.158 The ACT Revenue Office is responsible for the administration and regulation of the Territory's taxation system in accordance with the relevant taxation legislation. It provides advice to taxpayers to assist them in understanding and meeting their tax obligations.
- 5.159 The ACT Insurance Authority continues to report separately and was not consolidated into the 2013-14 financial statements of the Directorate. The ACT Insurance Authority is discussed on pages 79 to 82.
- 5.160 The Shared Services Centre became part of the Directorate from 1 July 2013. It provides information and communication technology, procurement, publishing and recordkeeping, human resources and finance services. It aims to reduce costs across the ACT Government by achieving economies of scale and standardising and streamlining processes.
- 5.161 The Directorate also provides policy advice in relation to government business enterprises.

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2013-14 financial statements and an unqualified report of factual findings on its 2013-14 statement of performance.
- The net cost of the Directorate's services was \$6.6 million (15.6 percent) below the budgeted cost. This was due mainly to higher than expected net income from providing information and communication technology services to ACT Government agencies.
- The Directorate had no new findings in 2013-14. The Directorate resolved the two previous audit findings by:
 - reducing the risk of errors in its financial statements by reviewing the accounting policies used to account for various services provided by the Shared Services Centre to ACT Government agencies; and
 - improving ageing reports from revenue management systems (Territory Revenue System and Community 2011) to provide a breakdown of the receivables balance by individual debtor.

Financial results

Table 5-25 Key results – Note 1

	Actual 2013-14 \$m	Budget 2013-14 \$m
Expenses	(234.6)	(227.4)
Income	198.9	185.1
Net cost of services	(35.7)	(42.3)
Government contributions	29.5	31.9
Operating deficit	(6.2)	(10.5)

Note 1: Key results for 2012-13 have not been included in the above table. Variances from the 2012-13 financial results are mainly due to the inclusion of the financial results of the Shared Service Centre in the 2013-14 financial results of the Directorate for the first time in 2013-14.

- 5.162 Expenses mainly consist of employee costs, depreciation and amortisation, contractors and consultants, accommodation, voice and data line charges, software licences and maintenance, business systems services and information and communication technology project expenses.
- 5.163 The net cost of the Directorate's services was \$6.6 million (15.6 percent) below the budgeted cost. This was due mainly to higher than expected net income from providing information and communication technology services to ACT Government agencies. (The higher than expected net income from providing these services means that the higher than expected income exceeded the additional costs of providing these services.)
- 5.164 Government contributions were \$2.4 million (7.5 percent) below the budgeted amount. Planned funding was not drawn down due to:
- a later than expected timing of payments associated with the implementation of a new enterprise agreement. This funding was drawn down in July 2014;
 - contingency funding for 2013-14 financial year relating to the Data Storage Infrastructure initiative not being required in 2013-14. This initiative is aimed at meeting the ACT Government's additional data storage requirements over the next 10 to 15 years; and
 - the source of funding for new finance and human resources systems and related training of staff being changed from government contributions to capital injections. Therefore the budgeted Government contributions were not drawn down.

5.165 The Directorate's territorial operations for 2013-14 mainly consist of revenue from the collection of taxes, fees and fines; including land tax, general rates, duties, payroll tax and income tax equivalents. These sources of revenue are recorded in the financial statements of the Territory. The Territory's financial statements are discussed in Chapter 4: 'The Territory's financial statements'.

Audit findings

Table 5-26 Status of audit findings (number of findings)

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

Note 1: The two previously reported audit findings consist of one audit finding reported to the Directorate in 2012-13 and one transferred from the Shared Services Centre. Previously reported audit findings relating to information technology controls for Community 2011 and Territory Revenue System are not included in the above table. The status of these findings is discussed on pages 44 to 51 of Chapter 3: 'Computer information systems'.

5.166 The Directorate reduced the risk of errors in its financial statements by reviewing the accounting policies used to account for various services provided by the Shared Services Centre to ACT Government agencies. Particular attention was given to services where the Directorate performs transactions for other ACT Government agencies and charges fees to these agencies for providing these services. These services include:

- managing capital works projects performed between ACT Government agencies and building contractors;
- providing salary packaging services for ACT Government employees; and
- purchasing of information technology assets and project management services.

5.167 The Directorate produces ageing reports of its taxes, fees and fines receivables for financial reporting purposes. These reports contain information that is needed for the effective management of receivables from revenue management systems (Territory Revenue System and Community 2011). In 2013-14, ageing reports from these systems were improved to provide a breakdown of the receivables balance by individual debtor.

Community Services Directorate

5.168 The Community Services Directorate provides services to assist and support people with a disability; children and young people; families; carers; women; Aboriginal and Torres Strait Islander peoples; and people who are ageing.

The Directorate's responsibilities encompass multicultural affairs, volunteering, community services and facilities, therapy and arts and culture. It also administers Territorial funds which cover a range of concessions and subsidies.

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2013-14 financial statements and an unqualified report of factual findings on its 2013-14 statement of performance.
- The net cost of the Directorate's services (\$249.4 million) was in line with the budgeted cost (\$248.6 million).
- Territorial expenses exceeded the budgeted amount by \$3.9 million (9.1 percent) due mainly to an unexpected increase in the number of people accessing concessions for utility and energy, motor vehicle registration and licences and bus fares, and taxi subsidies.
- The Directorate resolved the one previously reported audit finding. It reduced the risk of payment errors and fraud by ensuring that the approval of payments to suppliers was only made by officers with the relevant financial delegation.
- In 2013-14 the Directorate's statement of performance submitted to the Audit Office for review contained several errors. While these were corrected during the review, the errors indicate that the Directorate's processes for preparing its statement of performance need to be improved.

Table 5-27 Key results - directorate

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Expenses	(246.3)	(260.0)	(253.4)
Income	8.7	10.6	4.8
Net cost of services	(237.6)	(249.4)	(248.6)
Government contributions	226.7	243.2	241.4
Gains from receiving assets from other agencies	1.3	0.7	1.2
Operating deficit	(9.6)	(5.5)	(5.9)

5.169 Expenses mainly consist of permanent and contract employee costs and payments to service providers and non-government organisations to provide disability services, out-of-home care for children and programs for the Office for Children, Youth and Family Support.

5.170 Expenses exceeded the budgeted amount by \$6.6 million (2.6 percent) due to higher than estimated:

- employee expenses as full time equivalent staff numbers exceeded the number used to prepare the budget estimate; and
- contractor and consultants costs relating to the commencement of the National Disability Insurance Scheme. (The National Disability Insurance Scheme provides support to people with a significant and permanent disability which affects their ability to participate in everyday activities.)

5.171 Income was \$5.8 million (120.8 percent) higher than the budgeted amount due to the unexpected receipt of grants from the Commonwealth Government for the National Disability Insurance Scheme.

5.172 The net cost of the Directorate's services (\$249.4 million) was in line with the budgeted cost (\$248.6 million).

5.173 The net cost of the Directorate's services exceeded the prior year's cost by \$11.8 million (5.0 percent). This was mainly due to higher:

- employee expenses as a result of an increase in salaries provided under an enterprise agreement; and
- payments to service providers and non-government organisations relating to new initiatives.

5.174 Government contributions increased from the prior year amount by \$16.5 million (7.3 percent). The Directorate received additional funding in 2013-14 for new initiatives and from the Commonwealth Government in relation to the commencement of the National Disability Insurance Scheme

Table 5-28 Key results – territorial expenses

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Subsidies and concessions	20.7	22.1	19.6
Community service obligations	23.5	24.6	23.2
Concession and community service obligation expenses	44.2	46.7	42.8

5.175 Subsidies and concessions mainly consist of payments to external service providers to subsidise the costs of services provided to low income earners, pensioners and people with disabilities. Subsidies and concessions are provided for general rates, motor vehicle registration, drivers' licences, pensioner transport and spectacles for eligible concession card holders.

5.176 Community service obligation expenses mainly consist of the provision of electricity and gas concessions for pensioners, water and sewerage rebates paid to individuals, schools and benevolent institutions, and a taxi subsidy scheme for people with a disability.

5.177 Territorial expenses exceeded the budgeted amount by \$3.9 million (9.1 percent) due mainly to an unexpected increase in the number of people accessing concessions for utility and energy, motor vehicle registration and licences and bus fares, and taxi subsidies.

5.178 Territorial expenses increased by \$2.5 million (5.7 percent) over the prior year amount. This was due mainly to increases in energy and water utilities concessions, general rates subsidies and a higher number of people accessing these concessions and subsidies.

Table 5-29 Status of audit findings (number of findings)

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

5.179 The Directorate resolved the previously reported audit finding. It reduced the risk of payment errors and fraud by ensuring that the approval of payments to suppliers was only made by officers with the relevant financial delegation.

5.180 The statement of performance submitted to the Audit Office for review contained several errors. While these were corrected during the review, the errors indicate that the Directorate's processes for preparing its statement of performance need to be improved.

5.181 The Directorate has agreed to improve its processes for preparing its statement of performance.

Economic Development Directorate

- 5.182 The Economic Development Directorate (the Directorate) supports economic, business and social development in the ACT. It administers business development and investment programs, the ACT Government's land release program and infrastructure projects, tourism marketing and development programs and sporting, aquatic and recreational venues and major events.
- 5.183 Under changes to administrative arrangements the Directorate was abolished and its functions transferred to the Chief Minister, Treasury and Economic Development Directorate effective 7 July 2014.

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2013-14 financial statements and an unqualified report of factual findings on its 2013-14 statement of performance.
- The net cost of the Directorate's services (\$105.0 million) exceeded the budgeted cost (\$103.6 million) by \$1.4 million (1.4 percent).
- The net cost of the Directorate's services (\$105.0 million) was \$11.7 million (12.5 percent) higher than the prior year cost (\$93.3 million). This was largely due to higher depreciation expenses and a payment made in 2013-14 to secure hosting rights for the Asian Cup football tournament.
- The Directorate did not draw down \$38.4 million (25.1 percent) of the budgeted capital injection funding. Of the \$38.4 million that was not drawn down, \$34.0 million was due to delays in the construction of road and stormwater infrastructure due to unforeseen site conditions, delays obtaining environmental approvals, inclement weather delays and the deferral of the release of land for development.
- Four of the five previously reported audit findings were resolved and one was partially resolved.
- The audit findings that were resolved by the Directorate included improvements to:
 - explanations of material variances between current year, budget and prior year results included in its financial statements and accompanying management discussion and analysis;
 - the processes for ensuring that the results of the accountability indicators reported in its statement of performance were correctly recorded; and
 - arrangements for responding to its major strategic and operational risks.

- One previously reported finding was partially resolved. While aspects of the internal audit arrangements implemented by the Directorate support the independence of the internal audit function, there is scope for further improving the independence of this function.
- The two new audit findings were identified. These were:
 - several instances where the explanations of significant variances between the actual results and related targets in the statement of performance were not clear and informative; and
 - several completed capital works projects that were not transferred from the capital works in progress balance to the property, plant and equipment balance. While these errors were corrected, they indicate that the Directorate needs to improve its processes for identifying completed capital works projects and ensuring that completed projects are transferred from capital works in progress to the relevant property, plant and equipment balance.

Financial results

Table 5-30 Key results

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Expenses	(111.3)	(120.9)	(117.3)
Income	18.0	15.9	13.7
Net cost of services	(93.3)	(105.0)	(103.6)
Government contributions	77.9	81.3	86.1
Assets transferred to other agencies	(44.5)	-	-
Operating deficit	(59.9)	(23.7)	(17.5)
Capital injections	111.4	114.4	152.8

5.184 Expenses largely consist of employee costs, supplies and services costs, grant payments and depreciation and amortisation.

Supplies and services costs include contractor and consultant costs for land release, major events and business development activities, utility costs for major venues and sports grounds, marketing costs associated with tourism and major events, repairs and maintenance costs, and cost of goods sold at major venues.

Grant payments are made to major sporting, business, industry, tourism and event organisations.

5.185 Most income is derived from sporting and tourism events. This includes ticket sales, food and beverage commission revenue, hire of sporting facilities, and tourism activities such as Floriade.

5.186 The net cost of the Directorate's services (\$105.0 million) exceeded the budgeted cost (\$103.6 million) by \$1.4 million (1.4 percent).

5.187 The net cost of the Directorate's services (\$105.0 million) was \$11.7 million (12.5 percent) higher than the prior year cost (\$93.3 million). This was largely due to higher depreciation expenses and a payment made in 2013-14 to secure hosting rights for the Asian Cup football tournament.

5.188 The Directorate did not draw down \$38.4 million (25.1 percent) of the budgeted capital injection funding. Of the \$38.4 million that was not drawn down, \$34.0 million was due to delays in the construction of road and stormwater infrastructure due to unforeseen site conditions, delays obtaining environmental approvals, inclement weather delays and the deferral of the release of land for development.

Audit findings

Table 5-31 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
5	4	1	-	2	3

5.189 Four of the five previously reported audit findings were resolved and one was partially resolved.

5.190 The audit findings that were resolved by the Directorate included the improving of:

- explanations of material variances between current year, budget and prior year results included in its financial statements and accompanying management discussion and analysis;
- the processes which ensure that the results of the accountability indicators reported in its statement of performance are correctly recorded; and

- arrangements for responding to its major strategic and operational risks by:
 - developing additional risk mitigation strategies for addressing risks on the risk register that were assessed as ‘high’ after considering existing strategies; and
 - setting specific implementation or review dates for the additional risk mitigation strategies.

5.191 One audit finding relating to the independence of the internal audit function remained partially resolved in 2013-14. This audit finding was first reported to the Directorate in 2011-12.

5.192 The capacity of an internal audit function to be independent (and to be perceived as independent) and report impartially depends, in part, on the extent to which this function is free from the influences of operational management and responsibility.

While aspects of the internal audit arrangements implemented by the Directorate support the independence of the internal audit function, there is scope for further improving the independence of this function. In particular, the officer responsible for the internal audit function has significant operational responsibilities and is therefore not free from the influences of operational management. To address this weakness:

- the officer responsible for the internal audit function should be freed from the influences of operational management; or
- if the officer responsible for the internal audit function is to manage operational areas, robust safeguards should be implemented to ensure that these areas are reviewed objectively. These arrangements should be documented in the internal audit charter.

5.193 The Directorate advised that it:

... recognises the potential benefits of the separation (and perceived separation) of the Internal Audit Manager role, and within resourcing limits will continue to investigate alternative structures for the provision of an independent internal audit function.

... will put in place mechanisms, documented in the Directorate Internal Audit Charter, to ensure that the Internal Audit Manager will not be responsible for undertaking or managing audits on functions within that officer’s operational responsibilities.

The Directorate has also advised that a full time qualified Internal Audit Manager has been appointed following the transfer of the Economic Development Directorate to the Chief Minister, Treasury and Economic Development as a result of the Administrative Arrangements of 7 July 2014.

- 5.194 The two new audit findings related to explanatory information included in the statement of performance and accounting for completed capital works. These are discussed below.
- 5.195 There were several instances where the explanations of significant variances between the actual results and related targets in the statement of performance were not clear and informative. This increases the risk that users of this information will not be adequately informed about the operating performance of the Directorate.
- 5.196 Several completed capital works projects that were not transferred from the capital works in progress balance to the property, plant and equipment balance. While these errors were corrected, they indicate that the Directorate needs to improve its processes for identifying completed capital works projects and ensuring that completed projects are transferred from capital works in progress to the relevant property, plant and equipment balance.
- 5.197 The Directorate has agreed or partially agreed with all audit findings.

Education and Training Directorate

5.199 The Education and Training Directorate (the Directorate) provides public school education, registration of non-government schools and home education arrangements, early intervention education programs. It also manages vocational education and training initiatives.

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2013-14 financial statements and an unqualified report of factual findings on its 2013-14 statement of performance.
- The net cost of the Directorate's services (\$650.6 million) was \$9.9 million (1.5 percent) below the budgeted cost (\$660.5 million).
- The net cost of the Directorate's services increased from the prior year's cost by \$31.6 million (5.1 percent) due mainly to higher employee related costs associated with enterprise bargaining agreements for teaching and non-teaching staff, an increase in teacher numbers to meet enrolment growth and increased employee benefits due to wage increases and an increase in the rate used to estimate the present value of future payments for long service leave.
- The Directorate did not draw down \$12.7 million (15.9 percent) of the budgeted capital injection due mainly to lower than estimated costs in the building of the Neville Bonner Primary School and Franklin Early Childhood School, delays in awarding the construction tender for the new Coombs Primary School and later than expected timing of cash payments, primarily relating to capital information and communication technology projects.
- Grants provided to non-government schools as part of the Directorate's territorial operations were (\$220.0 million) which aligned with the budgeted cost of (\$221.5 million).
- Grants provided to non-government schools (\$220.0 million) increased by \$17.8 million (8.8 percent) from the prior year's cost (\$202.2 million) due mainly to the indexation of funding provided to individual non-government schools and an overall increase in enrolments in these schools.
- Three of the five previously reported audit findings were resolved, one was partially resolved and one was not resolved.

- The Directorate resolved previously reported audit findings by:
 - finalising and approving its policy on the management of information and communication technology in schools, including procurement and information technology support; and
 - improving controls over the application used to manage information on students, families, staff, finances, academic records and school administrative functions (Maze).
- The Directorate partially resolved one audit finding by approving policies and procedures for establishing, removing and reviewing user access to Maze and performance of reviews of user access at the school level. However, these policies and procedures do not provide guidance on reviewing user access to Maze at the Directorate level and there was no evidence of such reviews being performed. This weakness presents a risk of unauthorised access to student and financial data, including sensitive student information.
- The Directorate has been unable to implement audit logs for the Maze application and data and there is no policy for monitoring the activity of users by the review of audit logs. This increases the risk that erroneous or fraudulent changes to the Maze application and data will not be promptly detected and rectified.
- Two new audit findings were identified in 2013-14. There was:
 - often no evidence that reviews of salary reports were being performed or performed in a timely manner. This increases the risk that incorrect or fraudulent employee payments will not be promptly detected and addressed; and
 - sometimes no evidence of the satisfactory receipt of goods and services at schools prior to payments being made. While these payments were found to be properly related to the operations of the Directorate, there is a risk of payment errors, irregularities and fraud when payments can be made without clear evidence of the satisfactory receipt of goods and services marked on the payment documentation.

Financial results

Table 5-32 Key results - directorate

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Expenses	(656.9)	(691.3)	(698.3)
Income	37.9	40.7	37.8
Net cost of services	(619.0)	(650.6)	(660.5)
Government contributions	559.0	576.0	589.4
Operating deficit	(60.0)	(74.6)	(71.0)
Capital injections	100.5	67.4	80.1

- 5.200 Expenses mainly consist of employee related costs, supplies and services, school operating costs and depreciation.
- 5.201 Income mainly includes funding provided by voluntary contributions by parents, school excursions, and international student fees. The Directorate also received funding for various specific programs from the Commonwealth Government.
- 5.202 The net cost of the Directorate's services (\$650.6 million) was \$9.9 million (1.5 percent) below the budgeted cost (\$660.5 million).
- 5.203 The net cost of the Directorate's services increased from the prior year cost by \$31.6 million (5.1 percent) due mainly to higher employee related costs associated with enterprise bargaining agreements for teaching and non-teaching staff, an increase in teacher numbers to meet enrolment growth and increased employee benefits due to wage increases and an increase in the rate used to estimate the present value of future payments for long service leave.
- 5.204 The Directorate did not draw down \$12.7 million (15.9 percent) of the budgeted capital injection due mainly to lower than estimated costs in the building of the Neville Bonner Primary School and Franklin Early Childhood School, delays in awarding the construction tender for the new Coombs Primary School and later than expected timing of cash payments, primarily relating to capital information and communication technology projects.

Table 5-33 Key results – territorial expenses

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Grants to non-government schools	(202.2)	(220.0)	(221.5)
Other grants	(0.6)	(0.6)	(0.6)
Territorial expenses	(202.8)	(220.6)	(222.1)

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

- 5.205 Territorial expenses largely consist of grants to non-government schools. Money to fund the payment of these grants is provided by the ACT and Commonwealth Governments. These grants are mostly based on the number of students and include funding for specific projects.
- 5.206 Grants provided to non-government schools (\$220.0 million) aligned with the budgeted cost (\$221.5 million).
- 5.207 Grants provided to non-government schools (\$220.0 million) increased by \$17.8 million (8.8 percent) from the prior year cost (\$202.2 million) due mainly to the indexation of funding provided to individual non-government schools and an overall increase in enrolments in these schools.

Audit findings

Table 5-34 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
5	3	1	1	2	4

- 5.208 Three of the five previously reported audit findings were resolved, one was partially resolved and one was not resolved.
- 5.209 The Directorate resolved previously reported audit findings by:
- finalising and approving its policy on the management of information and communication technology in schools, including procurement and information technology support (Management of Information Communication Technology in Schools). Effective implementation of this policy should reduce the risk of unauthorised, inappropriate and possibly fraudulent use of information technology resources; and
 - improving controls over the application used to manage information on students, families, staff, finances, academic records and school administrative functions (Maze). The Directorate improved controls by:

- finalising and approving a change management policy. This reduces the risk of untested and potentially fraudulent changes being made to the Maze application and the application not operating as intended; and
- documenting and approving backup restoration processes for the Maze application and data. Implementation and testing of these processes should reduce the risk of the Maze application and data not being recoverable in the event of a disaster or other disruption.

5.210 The Directorate partially resolved one audit finding by approving policies and procedures for establishing, removing and reviewing user access to Maze and performance of reviews of user access at the school level. While these policies and procedures should improve management of user access to Maze at the school level, they do not provide guidance on reviewing user access to Maze at the Directorate level and there was no evidence of such reviews being performed. This weakness presents a risk of unauthorised access to student and financial data, including sensitive student information.

The Directorate has advised that it will include guidance on review of user access at Directorate level in its procedures and ensure that these reviews are regularly performed.

5.211 The Directorate has been unable to implement audit logs for the Maze application and data and there is no policy for monitoring the activity of users by the review of audit logs. This increases the risk that erroneous or fraudulent changes to the Maze application and data will not be promptly detected and rectified.

The Directorate has advised that:

... The Directorate has investigated options for audit logs and determined that Maze does not have the capability to produce system or data audit logs. The specifications for an upgrade to the Maze school administration system (the project is currently in a discovery phase) will include a requirement for audit trails and transactional log capability, it is not anticipated that this recommendation can be activated until full implementation of a new system in 2016.

In addition, to minimise potential risks identified by the audit it should be noted that all financial transactions in Maze are locked and cannot be edited or deleted by the user. Each financial record is tagged with the Maze user account and the date and time the transaction occurred.

- 5.212 The two new audit findings relate to the review of salary reports and satisfactory receipt of goods and services. These are discussed below.
- 5.213 Salary reports should be reviewed in a timely manner to provide assurance that employees are valid and have been paid the correct amount. Any errors or irregularities should be promptly investigated.
- 5.214 There was often no evidence that reviews of salary reports were being performed or performed in a timely manner. This increases the risk that incorrect or fraudulent employee payments will not be promptly detected and addressed.
- 5.215 There was sometimes no evidence of the satisfactory receipt of goods and services at schools prior to payments being made. While these payments were found to be properly related to the operations of the Directorate, there is a risk of payment errors, irregularities and fraud when payments can be made without clear evidence of the satisfactory receipt of goods and services marked on the payment documentation.
- 5.216 The Directorate has advised that it will address these new audit findings in 2014-15.

Environment and Sustainable Development Directorate

5.217 The Environment and Sustainable Development Directorate is responsible for implementing policies and programs that address land use and development assessment, regulation of the construction industry, environment protection and sustainability, nature conservation, heritage, water and energy security, sustainable urban design, and sustainable transport.

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2013-14 financial statements and an unqualified report of factual findings on its 2013-14 statement of performance.
- The net cost of the Directorate's services (\$68.4 million) aligned with the budgeted cost (\$69.9 million).
- Assets with a budgeted value of \$33.2 million were not transferred to other agencies as planned due to delays in completing stormwater reticulation network projects in the inner north of Canberra and wetland ponds in Gungahlin.
- The Directorate did not draw down \$9.6 million (53.3 percent) of capital injection funding of \$18.0 million due mainly to delays in completing capital works projects and fewer than expected applications for the carbon neutral government energy efficiency loans being received from ACT Government agencies.
- Fees and fines revenue (\$65.2 million) collected on behalf of the Territory aligned with the budgeted amount (\$65.6 million).
- Two of the three previously reported audit findings were resolved as the Directorate:
 - improved the usefulness of its statement of performance by more clearly defining the accountability indicators reported in its statement of performance; and
 - implemented an approved information technology strategic plan. This should provide more assurance that information technology systems will meet the emerging priorities and needs of the Directorate.
- One previously reported audit finding was partially resolved. Although the Directorate has improved its risk management arrangements, its risk management plan is yet to be completed and approved.

- Four new audit findings were identified in 2013-14. For example, there:
 - was often no evidence that reviews of salary reports were performed in a timely manner. This increases the risk that incorrect or fraudulent employee payments will not be promptly detected and addressed;
 - were instances where explanations of major variances between the current year, budget and prior year results reported in the financial statements, management discussion and analysis, and statement of performance, were not clear or informative; and
 - were errors in the spreadsheet used to calculate extension of time to build fee revenue and receivables. While these errors were corrected, they indicate that processes for checking the accuracy of information supporting the calculation of extension of time to build fee revenue and receivables needs to be improved.

Financial results

Table 5-35 Key results

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Expenses	(88.4)	(81.6)	(76.8)
Income	14.9	13.2	6.9
Net cost of services	(73.5)	(68.4)	(69.9)
Government contributions	72.7	67.4	69.0
Assets transferred to other agencies	(3.1)	-	(33.2)
Operating deficit	(3.9)	(1.0)	(34.1)
Capital injections – Note 1	10.4	8.4	18.0

Note 1: Budgeted capital injections of \$18.0 million consist of \$10.5 million provided in the 2013-14 budget and additional appropriation of \$7.5 million provided during 2013-14.

5.218 Expenses largely relate to the cost of employees, office accommodation, information technology, consultants and contractors. Consultants and contractors are engaged to perform feasibility studies and capital works projects.

Grants were also provided to community groups to fund environmental projects, and lower income households to improve the efficiency of their energy and water use.

5.219 Income mostly consists of extension of time to build fees for breaches of lease covenants, conveyancing fees, drafting and mapping services, and Commonwealth funding for environmental programs.

5.220 Expenses exceeded the budgeted cost by \$4.8 million (6.2 percent). This was mostly due to higher than anticipated:

- employee related expenses as the Directorate incurred unbudgeted termination expenses and employed more staff to complete land planning projects; and
- grants provided to community groups for environmental and climate change projects and households to improve energy and water use.

The Directorate also incurred unbudgeted expenses from waiving extension of time to build fees to stimulate economic growth in the building and construction industry, and incurred impairment losses as fees owing to the Directorate were not expected to be recovered.

These were partially offset by lower than expected:

- consultant and contractor costs due mainly to delays in completing feasibility studies; and
- information technology expenses as upgrades to software resulted in less than expected software maintenance costs.

5.221 Income exceeded the budgeted amount by \$6.3 million (91.3 percent) because:

- extension of time to build fees for lease covenants that have been breached were not budgeted for; and
- additional grants were received from the Commonwealth Government for environmental and climate change projects.

5.222 The net cost of the Directorate's services (\$68.4 million) aligned with the budgeted cost (\$69.9 million).

5.223 Assets with a budgeted value of \$33.2 million were not transferred to other agencies as planned due to delays in completing stormwater reticulation network projects in the inner north of Canberra and wetland ponds in Gungahlin.

5.224 The Directorate did not draw down \$9.6 million (53.3 percent) of capital injection funding of \$18.0 million due mainly to delays in completing capital works projects and fewer than expected applications for the carbon neutral government energy efficiency loans being received from ACT Government agencies.

Table 5-36 Key results – territorial income

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Fees and fines	62.8	65.2	65.6
Land rent (including 30-year loan interest)	4.1	4.7	3.9
Fees and fines and land rent revenue	66.9	69.9	69.5

5.225 Fees and fines revenue mainly consists of fees charged for water abstraction, development applications, environmental protection authorisations and lease variations. Land rent is rental income from leasing land.

5.226 Fees and fines revenue (\$65.2 million) aligned with the budgeted amount (\$65.6 million).

Audit findings

Table 5-37 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
3	2	1	-	4	5

5.227 Two of the three previously reported audit findings were resolved and one was partially resolved.

5.228 The Directorate resolved two audit findings by:

- improving the usefulness of its statement of performance by more clearly defining the accountability indicators reported in the statement of performance; and
- implementing an approved information technology strategic plan. This should provide more assurance that information technology systems will meet the emerging priorities and needs of the Directorate.

5.229 The Directorate partially resolved one audit finding in relation to its risk management arrangements by:

- completing risk registers for all business units; and
- reviewing its risk management arrangements to develop a new strategic risk register which is to be included in an updated risk management plan.

However, the risk management plan is yet to be completed and approved.

5.230 The four new audit findings include findings relating to the review of salary reports, explanatory information included in the financial statements, management discussion and analysis, and statement of performance and errors in the spreadsheet used to calculate extension of time to build fee revenue and receivables. Each of these findings is discussed below.

5.231 Salary reports provide details of salary payments made to employees in a business unit for the preceding fortnight. These reports are distributed to business units for review to ensure that employees on the report are valid, have been paid the correct amount, and that the salary expense has been charged to the correct business unit. Business units are also expected to investigate and resolve any errors and irregularities.

There was often no evidence that reviews of salary reports were being performed in a timely manner. This increases the risk that incorrect or fraudulent employee payments will not be promptly detected and addressed.

5.232 There were instances where explanations of major variances between the current year, budget and prior year results reported in the financial statements, management discussion and analysis, and statement of performance, were not clear or informative. This increases the risk that users of this information will not be adequately informed about the financial and operating performance of the Directorate.

5.233 There were errors in the spreadsheet used to calculate extension of time to build fee revenue and receivables. In particular, there were leases incorrectly included in the calculation that were not in breach of the time to build lease covenant.

While these errors were corrected, they indicate that the processes for checking the accuracy of information supporting the calculation of extension of time to build fee revenue and receivables needs to be improved.

5.234 The Directorate has agreed or partially agreed with all audit findings.

Health Directorate

5.235 The Health Directorate (the Directorate) provides community based health services, hospital and extended care services, manages public health risks, and promotes health and early care interventions.

5.236 Under the national health funding arrangements established in 2011, the Directorate receives payments from the ACT Local Hospital Network Directorate for public hospital services provided by the Canberra Hospital and Health Services.

The new arrangements are outlined on pages 83 to 85 (ACT Local Hospital Network Directorate).

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2013-14 financial statements and an unqualified report of factual findings on its 2013-14 statement of performance.
- The Directorate's net cost of services (\$266.7 million) aligned with the budgeted amount (\$269.0 million).
- The Directorate did not draw down \$72.3 million (38.0 percent) of the funds appropriated for capital works. This was due mainly to delays caused by:
 - changes to methods used to let construction contracts. These changes involved a longer negotiation process and delayed decisions on how procurement should proceed; and
 - the conduct of unplanned assessments of site options for a new building to provide sterilising services.
- The net cost of the Directorate's services (\$266.7 million) decreased by \$137.3 million (34.0 percent) from the previous year's cost (\$404.0 million). This was mainly due to an increase in income resulting from the addition of two service categories (mental health services and sub-acute services) to the range of services purchased from the Directorate by the ACT Local Hospital Network Directorate under national health funding arrangements.
- Four of the eight previously reported audit findings were resolved, two were partially resolved and two were not resolved.
- The Directorate resolved audit findings by finalising its Fraud and Corruption Control Plan, Data Quality Policy and Business Continuity Management Policy and Framework. The Directorate also reduced the risk of errors and fraudulent manipulation of reported waiting times for accountability indicator 'percentage of category one elective surgery patients who receive surgery within 30 days of listing' in its statement of performance.

- The Directorate partially resolved two audit findings by:
 - approving business continuity plans for the patient billing system and client accommodation billing system. However, the Directorate had not finalised the business continuity plan for the dental billing system, and had not fully tested the effectiveness of the business continuity plan for the patient billing system; and
 - finalising a support agreement for the client accommodation billing system. However, the support agreement for the pathology patient billing system had not been finalised.
- The two unresolved audit findings were that:
 - credit card acquittals were not consistently performed in a timely manner. There is a higher risk that the erroneous, irregular and fraudulent use of credit cards will not be promptly detected when credit cards are not acquitted in a timely manner; and
 - daily revenue reconciliations in Canberra Hospital and Health Services were not always being reviewed or were reviewed by the officer who prepared the reconciliation. There is a higher risk of undetected errors, irregularities and fraud when the daily revenue reconciliations are not reviewed by an officer who is independent of the preparer of the reconciliation.
- Six new audit findings were identified in 2013-14. The weaknesses that increase the risk of errors, irregularities and fraud were that:
 - reconciliations of some bank accounts for Canberra Hospital and Health Services were not being prepared in a timely manner;
 - there was sometimes no evidence of goods or services having been satisfactorily received prior to payment; and
 - officers of the Directorate sometimes exceeded their financial delegation or did not have a delegation for approving payments to suppliers, yet they gave approval.
- The Audit Office received incorrect advice from Calvary Health Care ACT (Calvary) that the Directorate owed \$5.2 million to Calvary at 30 June 2014 for providing public hospital services. Calvary subsequently corrected this advice by advising the Directorate that no amounts were owed to Calvary at 30 June 2014.

Financial results

Table 5-38 Key results

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Expenses	(1 083.8)	(1 115.9)	(1 109.7)
Income	679.8	849.2	840.7
Net cost of services	(404.0)	(266.7)	(269.0)
Government contributions	364.3	229.1	231.1
Operating deficit	(39.7)	(37.6)	(37.9)
Decrease in the asset revaluation surplus	-	(14.5)	-
Total comprehensive deficit	(39.7)	(52.1)	(37.9)
Capital injections	130.0	118.1	190.4

5.237 Expenses largely relate to employee costs, services provided by visiting medical officers, purchases of clinical, medical and surgical supplies and pharmaceuticals and insurance costs.

5.238 Grants were also provided to non-government organisations for health services.

5.239 Income mostly consists of funding received from the ACT Local Hospital Network Directorate for providing local public hospital services. The Directorate also receives various fees and charges for providing other health services and supplies.

5.240 The Directorate's net cost of services (\$266.7 million) aligned with the budgeted amount (\$269.0 million).

5.241 The Directorate did not draw down \$72.3 million (38.0 percent) of the funds appropriated for capital works. This was due mainly to delays caused by:

- changes to methods used to let construction contracts. These changes involved a longer negotiation process and delayed decisions on how procurement should proceed; and

- the conduct of unplanned assessments of site options for a new building to provide sterilising services.
- 5.242 Income increased by \$169.4 million (24.9 percent) from the prior year amount. This increase was mainly due to the addition of two service categories (mental health services and sub-acute services) to the range of services purchased from the Directorate by the ACT Local Hospital Network Directorate under the national health funding arrangements following a review of these arrangements.
- 5.243 Expenses exceeded the previous year's amount by \$32.1 million (3.0 percent). This was mainly due to higher employee expenses as a result of an increase in:
- staff numbers from a growth in acute services, cancer services, rehabilitation, aged and community services and mental health services; and
 - pay under new enterprise agreements.
- 5.244 The net cost of the Directorate's services (\$266.7 million) decreased by \$137.3 million (34.0 percent) from the previous year's cost (\$404.0 million). This was mainly due to an increase in income resulting from the addition of two service categories (mental health services and sub-acute services) to the range of services purchased from the Directorate by the ACT Local Hospital Network Directorate under the national health funding arrangements.
- 5.245 Government contributions received by the Directorate decreased by \$135.2 million (37.1 percent) from the previous year's amount. This decrease was mainly due to changes to health funding arrangements. In the previous year, the Directorate received government contributions to fund the costs of providing public hospital services. Under the changed arrangements, the Directorate receives funding for the provision of public hospital services from the ACT Local Hospital Network Directorate.

Audit findings

Table 5-39 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
8	4	2	2	6	10

- 5.246 Four of the eight previously reported audit findings were resolved, two were partially resolved and two were not resolved.
- 5.247 The Directorate finalised its:
- Fraud and Corruption Control Plan in December 2013. Implementation of this plan should provide the Directorate with increased assurance that planned processes for addressing fraud and corruption will be effective;

- Data Quality Policy in December 2013. This policy sets out the requirements for how data is collected, stored and kept relevant, timely, accurate and accessible. Implementation of the policy should reduce the risk of records, including patient information, not being managed in accordance with the Directorate's requirements; and
- Business Continuity Management Policy and Framework in April 2014. Implementation of this policy should provide the Directorate with greater assurance that its operations will be promptly resumed in an effective manner in the event of a major disruption or disaster.

5.248 The Directorate reduced the risk of errors and fraudulent manipulation of reported waiting times for accountability indicator 'percentage of category one elective surgery patients who receive surgery within 30 days of listing' in its statement of performance.

The waiting time (in days) used to calculate a result for this indicator is measured from the date a patient is recorded (i.e. 'listed') on the electronic waiting list rather than from the date a patient is clinically assessed as a category one patient.

While this method is consistent with the description of the indicator and national standards for the reporting of this indicator, the actual waiting time for a patient would be understated whenever there is a delay in recording that patient on the electronic waiting list. Consequently, the use of a listing date in this method is susceptible to errors or fraudulent manipulation.

The Directorate reduced the risk of errors and fraudulent manipulation of reported waiting times by:

- recording the date of clinical assessment in the electronic waiting list; and
- investigating delays between the date of clinical assessment as recorded in the electronic waiting list and the date a patient was listed in the electronic waiting list.

5.249 The Directorate partially resolved two audit findings by:

- approving business continuity plans for the patient billing system (Platypus 2) and client accommodation billing system (Room Master). However, the Directorate had not finalised the business continuity plan for the dental billing system (Titanium), and had not fully tested the effectiveness of the business continuity plan for the patient billing system; and
- finalising a support agreement for the client accommodation billing system (Room Master). However, the support agreement for the pathology patient billing system (Kestral) had not been finalised.

5.250 The two unresolved audit findings were that:

- credit card acquittals were not consistently performed in a timely manner. There is a higher risk that the erroneous, irregular and fraudulent use of credit cards will not be promptly detected when credit cards are not acquitted in a timely manner; and
- daily revenue reconciliations in Canberra Hospital and Health Services were not always being reviewed or were reviewed by the officer who prepared the reconciliation. There is a higher risk of undetected errors, irregularities and fraud when the daily revenue reconciliations are not reviewed by an officer who is independent of the preparer of the reconciliation.

5.251 Six new audit findings were identified in 2013-14.

5.252 Reconciliations of some bank accounts for Canberra Hospital and Health Services were not prepared in a timely manner. This increases the risk that errors or irregularities (including fraud) in accounting records will not be identified and resolved in a timely manner.

5.253 There was sometimes no evidence of goods or services having been satisfactorily received prior to payment. While representatives of the Directorate advised that these payments were for goods and services that were satisfactorily received, there is a higher risk of erroneous, irregular or fraudulent payments when payments can be made without evidence that the goods and services have been satisfactorily received.

5.254 Two out of 36 payments (5.6 percent) reviewed by the Audit Office were authorised by officers in excess of their financial delegation. Furthermore, one of eight payments for gifts and hospitality reviewed by the Audit Office was authorised by an officer who did not have a financial delegation.

While representatives of the Directorate advised that these payments were properly related to the operations of the Directorate, there is a higher risk of erroneous, irregular or fraudulent payments when payments are authorised by officers who do not have the required financial delegation.

5.255 Consultation fees charged to outpatients and services fees charged to inpatients are recorded on the patient billing system (Platypus 2). Patient information such as date of birth, Medicare card number, private health insurance details, admission and discharge dates can also be viewed through this system.

Representatives from the Directorate advised that a review of user access to this system was performed in early 2014, however, there was no evidence of reviews of user access to the patient billing system having been performed.

Where there is no evidence of reviews of user access having been performed there is a higher risk of:

- access privileges granted to users of patient billing system not being commensurate with the current roles and responsibilities users; and
- unauthorised and possibly fraudulent access to patient information.

5.256 The Audit Office received incorrect advice from Calvary Health Care ACT (Calvary) that the Directorate owed \$5.2 million to Calvary at 30 June 2014 for providing public hospital services. Calvary subsequently corrected this advice by advising the Directorate that no amounts were owed to Calvary at 30 June 2014.

5.257 The Directorate has agreed to address all audit findings.

Housing ACT

- 5.258 Housing ACT aims to provide safe and affordable housing that meets the circumstances and needs of lower income and disadvantaged families. Housing assistance is provided by the provision of public housing for rent and subsidised rent to eligible tenants based upon their income.
- 5.259 Housing ACT provides funds to, and manages the arrangements with, the homelessness services sector to provide services to people who have become or are at risk of becoming homeless.
- 5.260 Housing ACT also manages the ACT Government's interest in the Lyons Estate Redevelopment Joint Venture.

Key Issues

Housing ACT

- The Audit Office issued an unqualified audit report on Housing ACT's 2013-14 financial statements and an unqualified report of factual findings on its 2013-14 statement of performance.
- The net cost of Housing ACT's services was \$13.6 million (22.2 percent) below the budgeted cost due mainly to unbudgeted income from the recovery of Goods and Services Tax and share of profits from the Lyons Estate Redevelopment Joint Venture.
- The net cost of Housing ACT's services decreased by \$21.5 million (31.1 percent) from the prior year's cost due mainly to a reduction in grant expenses.
- The value of Housing ACT's property portfolio increased by \$90 million (2.1 percent) from the prior year due mainly to an upwards revaluation of land in 2013-14. This was partially offset by a reduction in the number of parcels of land and dwellings held in 2013-14.
- Four of the six previously reported audit findings were resolved. These included Housing ACT:
 - finalising a support agreement with the supplier of the system used to calculate rent rebates and process payments (Tenancy Information Management System). This provides more assurance that Housing ACT will be able to resolve any disputes or software problems with the supplier in a timely manner; and
 - reducing the risk of unauthorised or fraudulent access to the system used to manage information on social housing services (Homenet).

- One previously reported audit finding was partially resolved. Housing ACT reduced the risk that Homenet would not be recovered in the event of a disaster or other disruption by testing a backup and restoration of the Homenet application and its data. However, results of this testing were not formally documented when the restoration was performed.
- One previously reported audit finding was not resolved. While Housing ACT developed draft policies for the monitoring of audit logs for Homenet, formal reviews of audit logs were not performed to reduce the risk of erroneous or fraudulent changes to Homenet not being promptly identified and addressed.
- Three new audit findings were noted in 2013-14. In particular:
 - there is a higher risk of errors or irregularities in revenue records not being promptly identified because reconciliations between Homenet and the general ledger (Oracle) are not evidenced as having been prepared and reviewed in a timely manner; and
 - reporting on the financial results of the Estate Redevelopment Joint Venture would be improved by the preparation and public reporting of financial statements which present financial results of the Joint Venture from its inception to the end of each reporting period.

Lyons Estate Redevelopment Joint Venture

The Audit Office issued an unqualified audit report on the 2013-14 financial statements of the Lyons Estate Redevelopment Joint Venture.

Financial results

Table 5-40 Key results

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Expenses	(170.0)	(154.6)	(156.7)
Income	99.0	106.3	94.5
Gain from the sale of properties	1.8	0.6	0.9
Net cost of services	(69.2)	(47.7)	(61.3)
Government contributions	42.7	43.0	43.0
Other gains	0.4	3.8	0.5
Losses from transferring assets to other entities	(2.0)	(4.9)	-
Operating deficit	(28.1)	(5.7)	(17.7)

5.261 Expenses mostly consist of salaries and wages and costs of managing public housing properties such as repairs and maintenance costs, water and sewerage charges, and rates. Expenses also include grants paid to the community housing sector for providing affordable housing and homelessness services and depreciation of property, plant and equipment.

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

5.263 The net cost of Housing ACT's services was \$13.6 million (22.2 percent) below the budgeted cost due mainly to unbudgeted income from:

- the recovery of Goods and Services Tax. Housing ACT, based on advice from its tax consultants, changed its method of determining the amount of Goods and Services Tax to be claimed from the Australian Taxation Office. This change in method resulted in Housing ACT claiming \$6.8 million for amounts paid in previous years; and
- its share of profits from Lyons Estate Redevelopment Joint Venture.

5.264 The net cost of Housing ACT's services decreased by \$21.5 million (31.1 percent) due mainly to a reduction in grant expenses. This reduction mainly resulted from the transfer of residential units to Community Housing Canberra Limited (\$15.1 million) and a one-off payment (\$2.7 million) relating to the Narrabundah Long Stay Park in 2012-13 that did not recur in 2013-14.

Property portfolio

Table 5-41 Number and value of land and dwellings

At 30 June	Actual 2012	Actual 2013	Actual 2014
Number of land parcels	6 895	6 851	6 811
Land value (\$m)	\$3 036	\$3 050	\$3 147
Number of dwellings	11 837	11 835	11 773
Dwellings value (\$m)	\$1 272	\$1 277	\$1 270
Total value of land and dwellings (\$m)	\$4 308	\$4 327	\$4 417

Source: Information on land and dwellings was obtained from Housing ACT.

5.265 The value of Housing ACT's property portfolio increased by \$90 million (2.1 percent) from the prior year due mainly to an upwards revaluation of land in 2013-14. This was partially offset by a reduction in the number of parcels of land and dwellings held in 2013-14.

Lyons Estate Redevelopment Joint Venture

5.266 The Lyons Estate Redevelopment Joint Venture (the Joint Venture) is between the Commissioner for Social Housing (Housing ACT), Hindmarsh Lyons Developments Pty Limited and Johrosa Pty Limited. The Joint Venture was established in May 2007 to redevelop a former public housing complex in the Canberra suburb of Lyons.

5.267 Housing ACT contributed land to the Joint Venture for the development while the other joint venture partners met costs of constructing a retirement village and an apartment building.

5.268 Under the Joint Venture agreement, Housing ACT receives 35 percent of the Joint Venture's profits from the sale of units in the retirement village and 50 percent of the profits from the sale of units in the apartment building.

5.269 The Audit Office issued an unqualified audit report on the 2013-14 financial statements of the Lyons Estate Redevelopment Joint Venture.

Audit findings

Table 5-42 Status of audit findings (number of findings)

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

5.270 Four of the six previously reported audit findings were resolved, one was partially resolved and one was unresolved.

5.271 Housing ACT finalised a support agreement with the supplier of the system used to calculate rent rebates and process payments (Tenancy Information Management System). This provides more assurance that Housing ACT will be able to resolve any disputes or software problems with the supplier in a timely manner.

5.272 Housing ACT reduced the risk of unauthorised or fraudulent access to the system used to manage information on social housing services (Homenet) by:

- approving user access administration policies and procedures to ensure that user access is authorised and commensurate with the current roles and responsibilities of users;
- conducting periodic reviews of user access to Homenet; and
- restricting the use of generic (shared) user accounts.

5.273 Housing ACT reduced the risk that Homenet would not be recovered in the event of a disaster or other disruption by testing a backup and restoration of the application and its data. However, results of this testing were not formally documented when the restoration was performed.

5.274 While Housing ACT developed draft policies for the monitoring of audit logs for Homenet, formal reviews of audit logs were not performed to reduce the risk of erroneous or fraudulent changes to Homenet not being promptly identified and addressed.

5.275 Housing ACT uses Homenet to record rental revenue from public housing tenants. This information is then uploaded into the general ledger (Oracle) which is used to prepare the financial statements.

Monthly reconciliations are performed between Homenet and the general ledger to provide assurance that financial information recorded in the general ledger reconciles to Homenet. Reconciling items identified in the reconciliation are investigated and corrected.

The Audit Office was unable to determine whether monthly reconciliations were prepared in a timely manner as the preparing officer did not date the reconciliations. Furthermore, there were significant delays in the review of these reconciliations, with the first 11 reconciliations of the reporting period being reviewed in May and June 2014.

There is a higher risk of errors or irregularities in revenue records when reconciliations between Homenet and the general ledger are not evidenced as having been prepared and reviewed in a timely manner.

- 5.276 The annual report and financial statements of Housing ACT contain information on the financial results of the Joint Venture. However, while this information reflects the stage of the operations of the Joint Venture, it does not provide information on the profits and cash generated by the Joint Venture from its inception to the end of each reporting period.

Reporting on the financial results of the Joint Venture would be improved by the preparation and public reporting of financial statements which present the financial results of the Joint Venture from its inception to the end of each reporting period.

The financial statements should be audited and included in the annual report of Housing ACT so that readers are provided with cumulative information on the profits and cash generated by the Joint Venture.

- 5.277 Housing ACT has either agreed or agreed in principle with all audit findings.

Justice and Community Safety Directorate

5.278 The Justice and Community Safety Directorate facilitates the provision of courts, corrections, legal, justice, emergency, regulatory and policing services to the ACT community.

The Directorate is comprised of the Legislation and Policy Branch, Courts and Tribunal, ACT Government Solicitor's Office, ACT Parliamentary Counsel's Office, ACT Corrective Services, Office of Regulatory Services, Security and Emergency Management Branch and Emergency Services Agency.

Independent statutory offices in the Directorate include the Director of Public Prosecutions, Electoral Commission, Public Advocate, Human Rights Commission and Victim Support ACT.

5.279 The Directorate pays for policing services provided by the Australian Federal Police and information privacy services from the Australian Information Commissioner. Payments for policing services are made from the Directorate's territorial operations.

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2013-14 financial statements and an unqualified report of factual findings on its 2013-14 statement of performance.
- The net cost of the Directorate's services (\$287.4 million) aligned with the budgeted cost (\$288.5 million).
- The net cost of the Directorate's services increased by \$16.5 million (6.1 percent) from the prior year cost due mainly to higher employee costs, and supplies and services expenses.
- Payments made on behalf of the Territory for policing services provided by the Australian Federal Police (\$152.8 million) aligned with the budgeted cost (\$150.0 million). These payments (\$152.8 million) increased by \$6.8 million (4.7 percent) from the prior year (\$146.0 million) mainly to meet higher salary costs and costs associated with the Eastman Inquiry. A Treasurer's Advance of \$2.8 million was received for the Eastman Inquiry.
- The Directorate resolved one, partially resolved one, and did not resolve one of the three previously reported audit findings. No new audit findings were identified in 2013-14.
- The Directorate resolved one audit finding by improving explanations provided in the statement of performance for significant variances between actual and planned results for its accountability indicators.

- One audit finding was partially resolved. To provide assurance that all cash collected from parking machines is banked, Parking Operations staff reconcile records of the cash collected from the parking machines to records of cash banked. While the risk of errors and fraud was reduced by ensuring that the reconciliation and investigation of variances identified through the reconciliation process was independently reviewed, there were some instances where the investigation of variances was not independently reviewed.
- One audit finding was not resolved. The acquittal of credit card transactions was not always performed in a timely manner. This increases the risk of inappropriate and fraudulent use of credit cards.

Financial results

Table 5-43 Key results - directorate

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Expenses	(296.8)	(318.0)	(311.2)
Income	25.9	30.6	22.7
Net cost of services	(270.9)	(287.4)	(288.5)
Government contributions	254.9	271.7	264.9
Operating deficit	(16.0)	(15.7)	(23.6)

- 5.280 Expenses largely relate to the provision of justice services, corrective services, courts and tribunals and emergency services.
- 5.281 Most income is obtained from fees for services provided by various areas, including the ACT Government Solicitor's Office, Office of Regulatory Services and Courts and Emergency Services Agency (fees for ambulance transport and fire protection services).
- 5.282 The net cost of the Directorate's services (\$287.4 million) aligned with the budgeted cost (\$288.5 million).

5.283 The net cost of the Directorate's services increased by \$16.5 million (6.1 percent) from the prior year cost. This was due mainly to higher:

- employee and superannuation expenses of \$15.0 million (7.7 percent) largely resulting from an increase in salaries, staff numbers and workers' compensation insurance premiums; and
- supplies and services costs of \$7.2 million (9.3 percent) as a result of additional costs associated with insurance claims, the Eastman inquiry and implementing background checks on those who work with vulnerable people.

This was partially offset by higher income, which increased by \$4.7 million (18.1 percent) from the previous year, due largely to higher recoveries from services provided by the Courts and Emergency Services Agency; and income from additional legal services provided by the ACT Government Solicitor's Office.

Table 5-44 Key results – territorial expenses

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Payments to the Australian Federal Police	146.0	152.8	150.0
Other expenses	11.4	12.6	9.0
	157.4	165.4	159.0

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

5.284 Territorial expenses largely consist of payments for policing services provided by the Australian Federal Police.

5.285 Payments made on behalf of the Territory for policing services provided by the Australian Federal Police (\$152.8 million) aligned with the budgeted cost (\$150.0 million). These payments (\$152.8 million) were increased by \$6.8 million (4.7 percent) from the prior year (\$146.0 million) mainly to meet higher salary costs and costs associated with the Eastman Inquiry. A Treasurer's Advance of \$2.8 million was received for the Eastman Inquiry.

Audit findings

Table 5-45 Status of findings (number of findings)

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

Note: Table 5-45 does not include audit findings in relation to the system used to record motor vehicle registrations, drivers' licences and vehicle infringement revenue (rego.act). Audit findings relating to rego.act are reported in Chapter 3: 'Computer information systems' on pages 44 to 51.

- 5.286 The Directorate resolved one, partially resolved one, and did not resolve one of the three previously reported audit findings. No new audit findings were identified in 2013-14.
- 5.287 The Directorate resolved one audit finding by improving explanations provided in the statement of performance for significant variances between actual and planned results for its accountability indicators. These explanations were improved by ensuring that they focused on comparing actual results to planned results rather than comparing actual results to the previous year's results.
- 5.288 One audit finding was partially resolved. To provide assurance that all cash collected from parking machines is banked, Parking Operations staff reconcile records of the cash collected from the parking machines to records of cash banked. While the risk of errors and fraud was reduced by ensuring that the reconciliation and investigation of variances identified through the reconciliation process was independently reviewed, there were some instances where the investigation of variances was not independently reviewed.
- 5.289 One audit finding was not resolved. The acquittal of credit card transactions was not always performed in a timely manner. This increases the risk of inappropriate and fraudulent use of credit cards.
- 5.290 The Directorate has agreed to address all audit findings.

Land Development Agency

5.291 The Land Development Agency is a Territory authority established under the *Planning and Development Act 2007*.

The Land Development Agency develops and sells residential, commercial and industrial land on behalf of the ACT Government. It also manages the ACT Government's interest in land joint ventures established for the development and sale of land in the Canberra suburbs of Forde and Crace.

Key Issues

Land Development Agency

- The Audit Office issued an unqualified audit report on the 2013-14 financial statements of the Land Development Agency and an unqualified report of factual findings on the 2013-14 statement of performance.
- The Land Development Agency's operating profit (\$66.7 million) was \$12.0 million (15.2 percent) below the budgeted operating profit (\$78.7 million). This was mostly due to lower than expected gross profit on land sales (revenue less cost of land sold); partially offset by a higher than estimated share of operating profit from land joint ventures.
- The operating profit of the Land Development Agency (\$66.7 million) decreased by \$41.8 million (38.5 percent) from the previous year's operating profit (\$108.5 million). This was mainly due to a reduction in recoveries of overpaid Goods and Services Tax from the Australian Taxation Office and share of operating profit from land joint ventures; partially offset by a higher gross profit on land sold.
- Three of the four previously reported audit findings were resolved. The Land Development Agency:
 - strengthened its arrangements for responding to its major strategic and operational risks;
 - improved its business continuity arrangements by updating and testing the effectiveness of its business continuity plan; and
 - improved the effectiveness of its internal audit function by completing three internal audits in 2013-14. No internal audits were completed in 2012-13.
- One audit finding has been partially resolved by the Land Development Agency. While aspects of the internal audit arrangements implemented by the Land Development Agency support the independence of the internal audit function, there is scope for further improving the independence of this function.

- Two new audit findings were identified during the audit. In particular:
 - some accounting treatments and transactions that affected the financial statements of the Land Development Agency and Forde Joint Venture were not finalised when the financial statements were certified and submitted for audit; and
 - reporting on the financial results of the land joint ventures would be improved by the preparation and public reporting of financial statements which present financial results of the land joint ventures from their inception to the end of each reporting period.

Land joint ventures

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

Financial results

Table 5-46 Key results

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Income	282.8	249.4	488.4
Expenses	(167.4)	(173.9)	(389.6)
Share of operating profit from land joint ventures	39.6	19.8	13.6
Operating profit before income tax equivalents expense	155.0	95.2	112.4
Income tax equivalents expense	(46.5)	(28.6)	(33.7)
Operating profit	108.5	66.7	78.7

5.292 Income and expenses mainly consist of land sales and the costs of these land sales respectively.

5.293 Income was \$239.0 million (48.9 percent) below the budget estimate. This was mainly due to lower than estimated:

- sales of commercial and industrial land. These sales were deferred due to weaker than expected market demand;

- englobo sales because negotiations between the Land Development Agency and a private developer for the sale of land for the new Canberra suburb of Denman Prospect were unsuccessful. (Englobo land sales are sales of undeveloped parcels of land which have the capacity to be developed into smaller parcels of land.); and
- sales of residential and commercial land as anticipated sales in the suburbs of Coombs and Kingston were deferred due to delays in construction caused by inclement weather and delays in obtaining regulatory clearances.

5.294 Expenses were \$215.7 million (55.4 percent) below the budgeted cost as the lower than estimated land sales mentioned previously also resulted in a lower cost of land sold.

5.295 The Land Development Agency's share of operating profit from land joint ventures exceeded the budget estimate by \$6.2 million (45.5 percent). This was mainly due to land sales for the Crace Joint Venture exceeding the budget estimate. Further information on the Crace Joint Venture is provided on page 167.

5.296 The Land Development Agency's operating profit (\$66.7 million) was \$12.0 million (15.2 percent) below the budgeted operating profit (\$78.7 million). This was mostly due to lower than expected gross profit on land sales (revenue less cost of land sold); partially offset by a higher than estimated share of operating profit from land joint ventures.

5.297 The operating profit of the Land Development Agency (\$66.7 million) decreased by \$41.8 million (38.5 percent) from the previous year's operating profit (\$108.5 million). This was mainly due to a reduction in recoveries of overpaid Goods and Services Tax from the Australian Taxation Office and share of operating profit from land joint ventures; partially offset by a higher gross profit on land sold.

Land joint ventures

5.298 The Land Development Agency manages the ACT Government's interests in the Forde Joint Venture and Crace Joint Venture.

Forde Joint Venture

5.299 The Forde Joint Venture is a joint venture between the Land Development Agency and Forde Developments Pty Limited (a subsidiary of CIC Australia Limited) for the development and sale of land in the suburb of Forde.

5.300 The Land Development Agency and Forde Developments Pty Limited each contributed 50 percent of the capital of the Forde Joint Venture.

5.301 No land settlements occurred in 2013-14 as all land in Forde has been sold. (Six land settlements occurred in 2012-13.)

5.302 The Forde Joint Venture is expected to be wound-up in 2014-15.

5.303 The Audit Office issued an unqualified audit report on the financial statements of the Forde Joint Venture.

Crace Joint Venture

5.304 The Crace Joint Venture is a joint venture between the Land Development Agency and Crace Developments Pty Limited (a subsidiary of CIC Australia Limited) for the development and sale of land in the suburb of Crace.

5.305 The Land Development Agency's interest in the Crace Joint Venture at 30 June 2014 was \$0.9 million (30 June 2013: \$8.9 million). The lower amount resulted from a capital distribution to the joint venture partners.

5.306 All remaining land in Crace was sold in 2013-14. There were 255 land settlements in 2013-14 compared to 476 land settlements in 2012-13.

5.307 The Crace Joint Venture is expected to be wound-up in 2015-16 following completion of landscaping works.

5.308 The Audit Office issued an unqualified audit report on the financial statements of the Crace Joint Venture.

Audit findings

Table 5-47 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
4	3	1	-	2	3

5.309 Three of the four previously reported audit findings were resolved. These are discussed below.

5.310 The Land Development Agency strengthened its arrangements for responding to its major strategic and operational risks by:

- developing additional risk mitigation strategies for addressing risks on the risk register that were assessed as 'high' after considering existing strategies; and
- setting specific implementation or review dates for the additional risk mitigation strategies.

5.311 The Land Development Agency improved its business continuity arrangements by updating and testing the effectiveness of its business continuity plan. This reduces the risk of critical systems (including information technology systems) not being recovered, information being lost and operations not being promptly resumed after a disaster, disruption or other adverse event.

5.312 The effectiveness of the internal audit function was improved by the completion of three internal audits in 2013-14. No internal audits were completed in 2012-13.

5.313 The following audit finding was partially resolved.

5.314 The capacity of an internal audit function to be independent (and be perceived as independent) and report impartially depends, in part, on the extent to which this function is free from the influences of operational management and responsibility.

5.315 While aspects of the internal audit arrangements implemented by the Land Development Agency support the independence of the internal audit function, there is scope for further improving the independence of this function. In particular, the officer responsible for internal audit function has significant operational responsibilities and is therefore not free from the influences of operational management. To address this weakness:

- the officer responsible for the internal audit function should be freed from the influences of operational management; or
- if the officer responsible for internal audit function is to manage operational areas, robust safeguards should be implemented to ensure that these areas are reviewed objectively. These arrangements should be documented in the internal audit charter.

5.316 The Land Development Agency advised that it:

... recognises the potential benefits of the separation (and perceived separation) of the Internal Audit Manager role, and within resourcing limits will continue to investigate alternative structures for the provision of an independent internal audit function.

... will put in place mechanisms, documented in the LDA Internal Audit Charter, to ensure that the Internal Audit Manager will not be responsible for undertaking or managing audits on functions within that officer's operational responsibilities.

5.317 Two new audit findings were identified in 2013-14. These are explained below.

5.318 Some accounting treatments and transactions that affected the financial statements of the Land Development Agency and Forde Joint Venture were not finalised when the financial statements were certified and submitted for audit.

The processes for preparing the financial statements of the Land Development Agency should therefore be improved by ensuring that accounting papers for major or complex transactions, accounting treatments and transactions with land joint ventures are finalised before the financial statements are certified and submitted for audit.

5.319 The annual report and financial statements of the Land Development Agency contain information on the financial results of the land joint ventures. However, this information only reflects the current stage of the operations of the joint ventures and does not provide information on the profits and cash generated by the joint ventures from their inception to the end of each reporting period.

Reporting on the financial results of the land joint ventures would be improved by the preparation and public reporting of financial statements which present the financial results of the land joint ventures from their inception to the end of each reporting period.

These financial statements should be audited and included in the annual report of the Land Development Agency so that readers are provided with cumulative information on the profits and cash generated by the joint ventures.

5.320 The Land Development Agency has agreed or agreed-in-principle with all audit findings.

Public Trustee's Office

5.321 The Public Trustee for the ACT (the Public Trustee) is a Territory Authority established under the *Public Trustee Act 1985*. It provides the ACT community with professional executor and trustee services, including the preparation of wills, enduring powers of attorney, estate administration and trust management.

The Public Trustee became responsible for the administration of the Official Visitors Scheme in 2013-14. This includes responsibility for the appointment, administration and training matters relating to Official Visitors. Official Visitors have responsibility for visiting people in ACT Government operated or funded facilities that provide mental health, corrections, homelessness and disability services and care to children and young people.

5.322 The assets of trust clients administered by the Public Trustee are separately reported in the financial statements of the Public Trustee for the ACT – Trust Account (the Trust Account). Assets held in the Trust Account as at 30 June 2014 were valued at \$247.7 million (30 June 2013: \$224.9 million).

Key Issues

- The Audit Office issued unqualified audit reports on the 2013-14 financial statements of the Public Trustee and Trust Account. These audit reports draw attention to disclosures included in the financial statements about irregularities (i.e. suspected fraud) detected in trust funds administered by the Public Trustee.
- The Audit Office issued an unqualified report of factual findings on the 2013-14 statement of performance of the Public Trustee.
- The net cost of the Public Trustee's services (\$0.5 million) was below the budgeted cost (\$0.6 million).
- In 2013-14, the Public Trustee identified 'irregular transactions' (i.e. transactions which are suspected of being fraudulent) in the trust funds it administers under enduring power of attorney and orders of the ACT Civil and Administrative Tribunal. The investigation of these and other suspect transactions by ACT Policing and KPMG Forensic was still in progress at 30 June 2014.
- The estimated amount of the suspected fraud is \$1.6 million. While this estimate is based on the information that was available when the financial statements were prepared, the actual amount of the suspected fraud may vary significantly from this estimate by the time the fraud investigation is complete. The financial statements disclose that this estimate consists of identified 'irregular transactions' of \$0.3 million and an additional estimate of \$1.3 million.

- The estimated cost of compensating trust clients for the suspected fraud is \$1.6 million and cost of investigating the suspected fraud in 2013-14 was \$0.6 million. These costs (\$2.2 million) are expected to be fully covered by a fidelity insurance policy.
- The Public Trustee did not resolve any of the three previously reported audit findings. One audit finding was partially resolved and two were not resolved. This indicates that the Public Trustee needs to improve its processes for addressing audit findings.
- The Public Trustee partially resolved one of the previously reported audit findings by improving the quality of the supporting accounting workpapers which support the financial statements of the Trust Account. However, in 2013-14, as in previous years, the systems and processes used to prepare the financial statements of the Trust Account are prone to error due to the lack of an accounting system and use of manual processes to record transactions.
- Two of the three previously reported audit findings were not resolved as:
 - the quality of the financial statements of the Public Trustee and Trust Account submitted for audit continued to be poor. The 2013-14 financial statements submitted for audit had many errors and omissions; and
 - explanations of major variances between the current year, budget and prior year results included in the management discussion and analysis of the financial statements submitted for audit were often insufficient or inadequate to be readily understood by external users.
- There were no new audit findings in 2013-14.

Financial results

Table 5-48 Key results

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Expenses	(4.7)	(5.3)	(4.7)
Income	4.3	4.8	4.1
Net cost of services	(0.4)	(0.5)	(0.6)
Estimated cost of the suspected fraud	-	(1.6)	-
Cost of investigating the suspected fraud	-	(0.6)	-
Estimated insurance recoveries for the suspected fraud and cost of fraud investigation	-	2.2	-
Estimate net cost of the suspected fraud after insurance recoveries	-	-	-
Government contributions	0.7	0.7	0.7
Operating surplus	0.3	0.2	0.1

- 5.323 Income mostly consists of commissions charged for managing trust clients' investments and management fees for providing services to trust clients.
- 5.324 Expenses largely comprise employee related costs and operating expenses, including costs of computer maintenance and office accommodation.
- 5.325 The net cost of the Public Trustee's services (\$0.5 million) was below the budgeted cost (\$0.6 million).
- 5.326 In 2013-14, the Public Trustee identified 'irregular transactions' (i.e. transactions which are suspected of being fraudulent) in the trust funds it administers under enduring power of attorney and orders of the ACT Civil and Administrative Tribunal. The investigation of these and other suspect transactions by ACT Policing and KPMG Forensic was still in progress at 30 June 2014.

- 5.327 The estimated amount of the suspected fraud is \$1.6 million. While this estimate is based on the information that was available when the financial statements were prepared, the actual amount of the suspected fraud may vary significantly from this estimate by the time the fraud investigation is complete. The financial statements disclose that this estimate consists of identified 'irregular transactions' of \$0.3 million and an additional estimate of \$1.3 million.
- 5.328 The estimated cost of compensating trust clients for the suspected fraud is \$1.6 million and cost of investigating the suspected fraud in 2013-14 was \$0.6 million. These costs (\$2.2 million) are expected to be fully covered by a fidelity insurance policy.

Audit findings

Table 5-49 Status of audit findings (number of findings)

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

- 5.329 The Public Trustee did not resolve any of the three previously reported audit findings. One audit finding was partially resolved and two were not resolved. This indicates that the Public Trustee needs to improve its processes for addressing audit findings.
- 5.330 No new audit findings were identified in 2013-14.
- 5.331 To prepare the financial statements for the Trust Account, data is downloaded from the client management system (TACT) and collated into various different Excel spreadsheets for each balance. (TACT is used to maintain records of transactions relating to funds held in trust for trust clients.) This data and any other manual adjustments required outside of TACT are recorded as journals in Excel to prepare the trial balance. This trial balance is then used as the basis for the balances and disclosures in the financial statements.
- This process requires the reconstruction of financial information to prepare the financial statements.
- 5.332 In 2011-12, the Audit Office advised the Public Trustee that the:
- processes used to prepare the financial statements of the Trust Account are prone to error and do not facilitate the efficient production of financial statements; and
 - supporting accounting workpapers did not contain sufficient information to facilitate the recalculation of balances reported in the financial statements, did not agree to supporting documentation and contained errors.

5.333 In 2012-13, the Public Trustee partially resolved this audit finding by improving the quality of the supporting accounting workpapers which support the financial statements of the Trust Account. This was achieved by implementing a system which extracts financial information from TACT. This information was used to prepare the accounting workpapers. There was also a decrease in the number of errors in these workpapers.

However, in 2013-14, as in previous years, the systems and processes used to prepare the financial statements of the Trust Account are prone to error due to use of manual processes to prepare the financial statements.

5.334 The two previously reported audit findings that were not resolved are discussed below.

5.335 The quality of the certified financial statements of the Public Trustee and Trust Account submitted for audit was assessed to be poor because these financial statements had many errors and omissions. For example:

- information about the suspected fraud and financial effects of the suspected fraud was not adequately disclosed in the certified financial statements submitted for audit; and
- there were several errors in the information included in the financial statements submitted for audit.

5.336 While these errors and omissions were addressed by the Public Trustee, they indicate that the processes implemented by the Public Trustee for preparing its financial statements are inadequate.

5.337 Explanations of major variances between the current year, budget and prior year results included in the management discussion and analysis of the financial statements were often insufficient or inadequate to be readily understood by external users and did not clearly differentiate between variances between actual results and budgeted results and variances between actual results and the previous year's results.

5.338 The Public Trustee has agreed to address all audit findings.

Superannuation Provision Account

- 5.340 The Superannuation Provision Account manages the investments set aside to meet the defined benefit employer superannuation liabilities of the Territory.
- 5.341 The Commonwealth Government agency, (ComSuper) administers the ACT Government employee membership of the Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS) and payment of superannuation benefits to CSS and PSS members. The Territory reimburses ComSuper for the cost of superannuation benefits paid in respect of current and former Territory employees that reflects the period of service with the ACT Government from 1 July 1989. The Commonwealth is liable for all superannuation benefits incurred prior to that date.
- 5.342 The CSS and PSS have been closed to new members since 1 July 1990 and 1 July 2005 respectively. New employees are now offered superannuation accumulation schemes of their choice.

Key Issues

- The Audit Office issued an unqualified audit report on the 2013-14 financial statements of the Superannuation Provision Account and an unqualified report of factual findings on its 2013-14 statement of performance.
- The operating deficit of \$101.9 million incurred by the Superannuation Provision Account was \$162.5 million (61.5 percent) less than the budgeted deficit of \$264.4 million. This was due to higher than estimated gains on the fair value of investments and income from investments; partially offset by a higher than estimated superannuation expense.
- The operating deficit of \$101.9 million incurred by the Superannuation Provision Account was \$63.3 million (38.3 percent) less than the prior year deficit of \$165.2 million. This was due mainly to the combined effects of an increase in income and a reduction in losses incurred on investments.
- The Superannuation Provision Account does not have sufficient investments set aside to fully meet the superannuation liability.
- The unfunded superannuation liability of \$4 461.9 million at 30 June 2014 exceeded the budgeted unfunded liability of \$2 600.8 million by \$1 861.1 million (71.6 percent). This is significantly weaker than the budgeted financial position and is mainly due to the use of a lower rate to estimate the present value of the superannuation liability compared to the rate used to prepare the budget estimate.

- The unfunded superannuation liability increased by \$192.1 million (4.5 percent) from \$4 269.8 million at 30 June 2013 to \$4 461.9 million at 30 June 2014. This weakening of the financial position is mainly due to a reduction in the rate used to estimate the present value of the superannuation liability.
- As disclosed in the 2014-15 Budget Papers, the unfunded superannuation liability is estimated to decrease significantly from the position that existed at 30 June 2014. The unfunded superannuation liability at 30 June 2014 significantly exceeded the budget estimate due mainly to the use of a lower discount rate to estimate the present value of the superannuation liability compared to that used to prepare the budget estimate.
- Annual cash payments to meet the Territory's superannuation obligations are expected to increase steadily until 2045. Annual cash payments in real terms (i.e. in today's money and adjusted for inflation) are expected to increase from \$198.2 million in 2015 to \$325.3 million in 2045 (an average increase of 4.2 percent per annum).
- Substantial increases in capital injections may be required to achieve the long-term objective of fully funding the superannuation liability by 30 June 2030.

Financial Results

Table 5-50 Key results

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Income	103.5	157.7	111.2
Net gains on the fair value of investments	263.1	253.6	87.0
Expenses	(531.8)	(513.2)	(462.5)
Operating deficit	(165.2)	(101.9)	(264.4)

5.343 Income largely consists of distributions, dividends and interest from investments that have been set aside to meet the superannuation liabilities of the Territory.

5.344 Income exceeded the budgeted amount by \$46.5 million (41.8 percent) due to higher than expected distributions, dividends and interest income earned from investments.

- 5.345 Investments set aside to meet the superannuation liability are subject to market risk and fluctuate according to conditions that exist in global investment markets. Gains of \$253.6 million were earned on the fair value of superannuation investments in 2013-14. This compares favourably to the gain of \$87.0 million estimated in the budget and reflects improved conditions in Australian and global equity markets.
- 5.346 Expenses largely consist of superannuation expenses. Expenses exceeded the budgeted amount by \$50.7 million (11.0 percent) due mainly to the use of a lower rate to estimate the present value of the superannuation liability and expense than the rate used to prepare the budget estimate. (A lower rate increases in the estimated present value of the superannuation liability and expense.)
- 5.347 The operating deficit of \$101.9 million was \$162.5 million (61.5 percent) less than the budgeted deficit of \$264.4 million. This was due to higher than estimated gains on the fair value of investments and income from investments; partially offset by a higher than estimated superannuation expense.
- 5.348 The operating deficit of \$101.9 million was \$63.3 million (38.3 percent) less than the prior year deficit of \$165.2 million. This was due mainly to the combined effects of an increase in income and a reduction in losses incurred on investments (recorded in expenses).

Financial position

Table 5-51 Financial position

At 30 June	Actual 2011 \$m	Actual 2012 \$m	Actual 2013 \$m	Actual 2014 \$m	Budget 2014 \$m
Investments	2 250.6	2 257.9	2 511.8	3 013.2	2 766.7
Superannuation liability	(4 873.4)	(7 494.5)	(6 781.6)	(7 475.1)	(5 367.5)
Unfunded superannuation liability	(2 622.8)	(5 236.6)	(4 269.8)	(4 461.9)	(2 600.8)
Investments to superannuation liability	0.46 to 1	0.30 to 1	0.37 to 1	0.40 to 1	0.52 to 1

Source: Actual figures were obtained from the audited financial statements of the Superannuation Provision Account. Budget figures were obtained from 2013-14 Budget Papers.

- 5.349 The Superannuation Provision Account does not have sufficient investments set aside to fully meet the superannuation liability.

- 5.350 The unfunded superannuation liability of \$4 461.9 million at 30 June 2014 exceeded the budgeted unfunded liability of \$2 600.8 million by \$1 861.1 million (71.6 percent). This is significantly weaker than the budgeted financial position is mainly due to the use of a lower rate to estimate the present value of the superannuation liability compared to the rate used to prepare the budget estimate. (A lower discount rate leads to an increase in the present value of the estimated superannuation liability.)
- 5.351 The unfunded superannuation liability increased by \$192.1 million (4.5 percent) from \$4 269.8 million at 30 June 2013 to \$4 461.9 million at 30 June 2014. This weakening of the financial position is mainly due to a reduction in the rate used to estimate the present value of the superannuation liability.

Unfunded superannuation liability

Table 5-52 Projected unfunded superannuation liability

At 30 June	Actual 2014 \$m	Budget 2014 \$m	Budget 2015 \$m	Budget 2016 \$m	Budget 2017 \$m
Investments	3 013.2	2 766.7	3 236.2	3 477.4	3 736.9
Superannuation liability	(7 475.1)	(5 367.5)	(5 721.6)	(5 995.6)	(6 261.4)
Unfunded superannuation liability	(4 461.9)	(2 600.8)	(2 485.4)	(2 518.2)	(2 524.5)
Investments to superannuation liability	0.40 to 1	0.52 to 1	0.57 to 1	0.58 to 1	0.60 to 1

Source: Actual figures were obtained from the audited financial statements of the Superannuation Provision Account. Budget figures were obtained from the 2014-15 Budget Papers.

- 5.352 As noted previously, the unfunded superannuation liability at 30 June 2014 significantly exceeded the budget estimate due to the use of a lower rate to estimate the present value of the superannuation liability than the rate used to prepare the budget estimate of the superannuation liability.

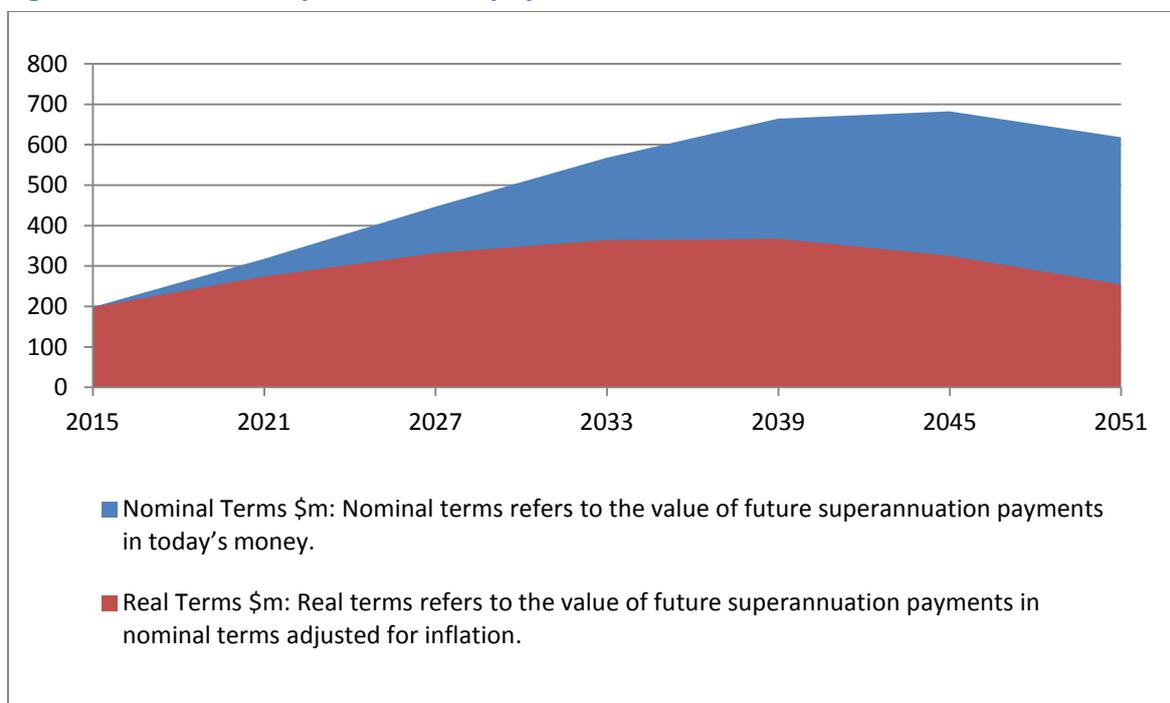
As disclosed in the 2014-15 Budget Papers, the unfunded superannuation liability is estimated to decrease significantly from the position that existed at 30 June 2014.

5.353 The Chief Minister, Treasury and Economic Development Directorate provided the following comments on the projected unfunded superannuation liability:

Australian Accounting Standards require the use of the yield on a Commonwealth Government bond at financial year end (of similar duration to the liability) as the reference discount rate to calculate the present value of the superannuation liability. The level and volatility of domestic interest rates will impact on the valuation of the superannuation liability over future years.

The budget and forward year superannuation liability valuation projections utilise a long term average discount rate of six percent. If long-term domestic interest rates on Commonwealth Government bonds remain below this estimate, then the liability valuation will be higher than the budget estimate and the unfunded superannuation liability will also be higher than estimated.

Figure 5-1 Future superannuation payments schedule



Source: Information on future superannuation payments in nominal terms was obtained from the 'Report as at 30 June 2013 on the projected accrued superannuation liabilities and emerging cost payments' prepared by the Territory's consulting actuary, Russell Investment.

Future superannuation payments in real terms were calculated by the Audit Office based on future superannuation payments in nominal terms adjusted by estimated inflation of 2.5 percent.

5.354 Figure 5-1 shows an actuarial assessment of the estimated annual amounts payable to meet superannuation payments in nominal and real terms in future years. It shows that annual cash payments to meet the Territory's superannuation obligations are expected to increase steadily until 2045. Annual cash payments in real terms (i.e. in today's money and adjusted for inflation) are expected to increase from \$198.2 million in 2015 to \$325.3 million in 2045 (an average increase of 4.2 percent per annum).

5.355 This reflects the:

- relatively short period of the Territory's responsibility for employees' superannuation. The Territory's share of the liability will grow significantly over the next few decades as the years of service with the ACT Public Service becomes a larger proportion of the total years of service provided by its employees; and
- age profile of the Territory's employees. Over the next few decades, many employees will be reaching their retirement age. The Territory will then be required to pay superannuation entitlements that have been accrued over employees' years of service. For many employees, the retirement benefits provided under the defined benefit schemes will be taken as indexed pensions that will continue over the lives of the members and their surviving spouses.

5.356 Substantial increases in capital injections may be required to achieve the long-term objective of fully funding the superannuation liability by 30 June 2030.

Territory and Municipal Services Directorate

5.357 The Territory and Municipal Services Directorate (the Directorate) administers most of Canberra's municipal services and public transport functions. This includes public libraries, collecting and recycling waste, and managing and maintaining the Territory's streetlights, roads, footpaths and cycling paths. As a regulator, the Directorate also monitors compliance with ACT and national standards on animal welfare.

5.358 Canberra Connect is part of the Directorate. Canberra Connect is the main point of contact for ACT Government information, services and payments. The Directorate also provides linen services, manages the Yarralumla Nursery, National Arboretum Canberra and the ACT Government's owned and leased property assets.

Key Issues

- The Audit Office issued an unqualified audit report on the Directorate's 2013-14 financial statements and an unqualified report of factual findings on its 2013-14 statement of performance.
- The net cost of the Directorate's services (\$449.6 million) was in line with the budgeted cost (\$452.8 million).
- Government contributions were \$14.0 million (4.4 percent) below the budgeted amount due mainly to delays in the upgrade of Constitution Avenue.
- Gains from asset transfers were \$87.2 million (52.1 percent) below the budget estimate due to delays in the completion of infrastructure in new suburbs by developers.
- Capital injections exceeded the budgeted and prior year amounts by \$27.6 million (13.7 percent) and \$24.5 million (12.0 percent) respectively as payment of Commonwealth funds to the ACT Government was brought forward in relation to the construction of the Majura Parkway.
- Six of the nine previously reported audit findings were resolved and three were partially resolved. No new audit findings were identified in 2013-14.
- The Directorate resolved audit findings by:
 - including risk mitigation strategies, dates for future risk treatment reviews and names of the officers responsible for monitoring risks in its risk registers;
 - implementing processes to ensure that asset records used in the valuation of assets are accurate and complete reducing the risk of errors in the financial statements; and
 - implementing regular reviews, by an independent officer, of reconciliations of cash collected at the resource management centres at Mitchell and Mugga Lane. These reviews reduce the risk of errors and fraud.

- Three audit findings were partially resolved. In particular:
 - aspects of the Directorate’s internal audit arrangements support the independence of the internal audit function. However, there is scope for further improving its independence;
 - business continuity arrangements were improved as all business units have approved business continuity plans. However, some plans had not been tested by the end of the reporting period; and
 - the Directorate ensured that internal audit contractors had implemented quality assurance procedures that comply with internal auditing standards. However, there are no policies and procedures for quality assurance reviews of work of contracted internal audit providers and these reviews have not been performed.

Financial results

Table 5-53 Key results

	Actual 2012-13 \$m	Actual 2013-14 \$m	Budget 2013-14 \$m
Expenses	(576.7)	(578.8)	(562.4)
Income	126.3	129.2	109.6
Net cost of services	(450.4)	(449.6)	(452.8)
Government contributions	289.5	302.0	316.0
Gains from asset transfers	105.3	80.1	167.3
Assets transferred to ACT Government agencies	(9.9)	(4.5)	-
Operating deficit	(65.5)	(72.0)	(30.5)
Capital injections	204.5	229.0	201.4

5.359 Expenses largely consist of repairs and maintenance costs, operating costs associated with buildings and facilities, contractors and consultants, depreciation and amortisation, employee costs, and payments to ACTION to meet the costs of providing bus services.

- 5.360 Expenses exceeded the budgeted amount by \$16.4 million (2.9 percent). This was mainly due to higher than expected:
- expensing of capital works, including landscaping costs associated with the completion of the North Weston Pond and Bridge and design costs for the duplication of Gundaroo Drive and the Molonglo Riverside Park; and
 - employee expenses from the insourcing of contracts and pay rises under the new Enterprise Agreement.
- 5.361 Most income is obtained from fees charged for rent and property management services, waste acceptance fees and insurance recoveries.
- 5.362 Income exceeded the budget estimate by \$19.6 million (17.9 percent) due mainly to higher than expected:
- insurance recoveries from the ACT Insurance Authority for storm and flood damage to roads, bridges, parks and fire trails in previous years;
 - waste acceptance fees for contaminated waste at tip sites; and
 - property project services revenue for completing upgrades, repairs and maintenance work on ACT Government owned and occupied buildings.
- 5.363 The net cost of the Directorate's services (\$449.6 million) was in line with the budgeted cost (\$452.8 million).
- 5.364 Government contributions were \$14.0 million (4.4 percent) below the budgeted amount due mainly to delays in the upgrade of Constitution Avenue. This upgrade is being funded through government contributions rather than capital injections because the Commonwealth is contributing to the project.
- 5.365 Asset transfers mostly consist of infrastructure assets (primarily roads and stormwater assets built in new suburbs) transferred to the Directorate from ACT Government agencies and private land developers. Gains from asset transfers were \$87.2 million (52.1 percent) below the budget estimate and \$25.2 million (23.9 percent) below the prior year amount due to delays in the completion of infrastructure in new suburbs by developers.
- 5.366 The Directorate's expenses, income and net cost of services were in line with the prior year amounts.
- 5.367 Government contributions exceeded the prior year amount by \$12.5 million (4.3 percent) as the Directorate received additional funding to cover an increase in employee expenses and ACTION's operating costs.
- 5.368 Capital injections exceeded the budgeted and prior year amounts by \$27.6 million (13.7 percent) and \$24.5 million (12.0 percent) respectively as payment of Commonwealth funds to the ACT Government was brought forward in relation to the construction of the Majura Parkway.

Audit findings

Table 5-54 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
9	6	3	-	-	3

Note 1: Two previously reported audit findings relating to the bus ticketing system used by ACTION (MyWay) are not included in the above table. The status of these findings is discussed in Chapter 3: 'Computer information systems' on pages 44 to 51.

5.369 Six of the nine previously reported audit findings were resolved and three were partially resolved. No new audit findings were identified in 2013-14.

5.370 The Directorate resolved audit findings by:

- including risk mitigation strategies, dates for future risk treatment reviews and names of the officers responsible for monitoring risks in its risk registers;
- implementing processes to ensure that asset records used in the valuation of assets are accurate and complete reducing the risk of errors in the financial statements. Furthermore, for assets that were revalued in 2013-14, a detailed review of asset data was performed to reduce the risk of errors in the revaluation of these assets; and
- implementing regular reviews, by an independent officer, of reconciliations of cash collected at the resource management centres at Mitchell and Mugga Lane. These reviews reduce the risk of errors and fraud.

5.371 Partially resolved audit findings relate to the independence of the internal audit function, business continuity arrangements and quality of work of contracted internal audit providers. Each of these is discussed below.

5.372 Aspects of the Directorate's internal audit arrangements support the independence of the internal audit function. However, there is scope for further improving its independence.

The officer responsible for the Directorate's internal audit function is not free from the influences of operational management and operational responsibility because this officer has operational responsibilities for corporate governance.

The Directorate has less assurance that its internal audit function will operate independently when the officer responsible for the Directorate's internal audit function is not free from operational responsibilities. To address this weakness:

- the Directorate should ensure that the officer responsible for the internal audit function is free from the influences of operational responsibility (preferred option), or
- if the officer responsible for the internal audit function is to retain areas of operational responsibility, the Directorate should implement safeguards to ensure that this area is reviewed objectively. These arrangements should be documented in the internal audit charter.

The Directorate has advised that it disagrees with the audit finding on the basis of its assessment that the internal audit arrangements provide sufficient support for the independence of its internal audit function.

- 5.373 Business continuity arrangements were improved as all business units have approved business continuity plans. However, some plans had not been tested by the end of the reporting period. The Directorate has indicated that the remaining business continuity plans were being tested after the end of the reporting period.
- 5.374 The Directorate engages internal audit contractors to perform internal audits. The Directorate ensured that internal audit contractors had implemented quality assurance procedures that comply with internal auditing standards. Furthermore, there was evidence of the review of internal audit reports prepared by contractors. However, there are no policies and procedures for quality assurance reviews of work of contracted internal audit providers and these reviews have not been performed.
- 5.375 The Directorate has agreed to address all audit findings except the previously reported audit finding on the independence of the internal audit function.

UCU LTD

- 5.376 UCU Ltd is a not-for-profit company that is controlled by the University of Canberra (the University). UCU Ltd provides goods and services to staff and students of the University and visitors to the campus.
- 5.377 UCU Ltd operates retail food and beverage outlets, catering services, a retail shop and campus sports and recreation centre, and manages student engagement activities, including oversight of University clubs, and coordinates live entertainment and other major events held on campus.

Key Issues

- The Audit Office issued an unqualified audit report on UCU Ltd's 2013 financial statements.
- UCU Ltd's operating surplus increased from \$0.1 million in 2012 to \$0.5 million in 2013.
- UCU Ltd's operating results and financial position have improved, however, it could not pay its liabilities without financial support from the University.
- Six of the seven previously reported audit findings were resolved and one was partially resolved. No new audit findings were identified in 2013.
- UCU Ltd reduced the risk of errors and fraud by improving controls over cash collected by each of its operations and bank reconciliations. However, high risk transactions were not being monitored to further reduce the risk of fraud. This control weakness was resolved during the audit.
- The risk of errors, regularities and fraud was reduced by the improvement of controls over the inventory management system.
- UCU Ltd complied with a requirement of the *Corporations Act 2001* to notify the Australian Securities and Investment Commission of the resignation or appointment of Directors within 28 days of their resignation or appointment.

Financial results

Table 5-55 Key results (calendar years)

	Actual 2012 \$m	Actual 2013 \$m
Income	9.0	7.7
Expenses	(8.9)	(7.2)
Operating surplus	0.1	0.5

- 5.378 Most of UCU Ltd's income is obtained from sales at its retail outlets, hire of sport and recreational facilities, and hire of venues and equipment for live entertainment events. UCU Ltd also receives funding from the University through the 'Student Services and Amenities Fee' collected by the University from students to improve campus services and provide other support services for students such as managing tenancies for sports and fitness facilities and food, beverage, and retail outlets.
- 5.379 Income decreased by \$1.3 million (14.4 percent) from the prior year amount due mainly to lower reimbursements received from the University for providing various support services for students, including tenancy management on behalf of the University.
- 5.380 UCU Ltd's expenses consist mainly of employee expenses, payments for services provided by the University (including accommodation, information technology services, utilities and administrative services) and cost of goods sold.
- 5.381 Expenses decreased by \$1.7 million (19.1 percent) from the prior year amount. This was mainly due to a:
- contribution paid to the University in 2012 to fund the refurbishment and fit-out of the student centre. This contribution was not paid in 2013; and
 - reduction in the costs of providing live entertainment. In 2012, UCU Ltd incurred the full cost of holding events, including paying musicians for major entertainment events. In 2013, these events were organised and paid for by external parties, leading to a reduction in live entertainment costs.
- 5.382 UCU Ltd's operating surplus increased from \$0.1 million in 2012 to \$0.5 million in 2013.

Financial position

Table 5-56 Historical short-term asset coverage (calendar years)

At 31 December	Actual 2012 \$m	Actual 2013 \$m
Short-term assets	0.7	0.5
Short-term liabilities	2.0	1.3
Net short-term liabilities	(1.3)	(0.8)
Ratio of short-term assets to short-term liabilities	0.4 to 1	0.4 to 1

Table 5-57 Historical assets to liabilities coverage (calendar years)

At 31 December	Actual 2012 \$m	Actual 2013 \$m
Assets	1.1	1.0
Liabilities	2.0	1.4
Net liabilities	(0.9)	(0.4)
Ratio of assets to liabilities	0.6 to 1	0.7 to 1

5.383 Table 5-56 and Table 5-57 show that UCU Ltd continues to have net short and long-term liability positions at 31 December 2013. UCU Ltd's operating results and financial position have improved, however, it could not pay its liabilities without financial support from the University.

Audit Findings

Table 5-58 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
7	6	1	-	-	1

5.384 Six of the seven previously reported audit findings were resolved and one was partially resolved. No new audit findings were identified in 2013.

5.385 UCU Ltd improved its operating results and financial position. This reduces the amount of financial support required from the University to pay its liabilities.

5.386 UCU Ltd reduced the risk of errors and fraud by improving controls over cash collected by each of its operations and bank reconciliations. Controls over cash and the related records were improved by ensuring that:

- an independent officer checked the accuracy of daily cash register counts before cash is deposited at the bank and cash register floats retained for the next day's trade. Evidence of the investigation of variances between daily sales reports and cash deposited at the bank was also retained; and
- bank reconciliations were consistently reviewed by an independent officer in a timely manner and evidenced as such.

However, high risk transactions, such as opening a cash register without processing a sale, were not being monitored to further reduce the risk of fraud. UCU Ltd resolved this control weakness during the audit.

5.387 The risk of errors, regularities and fraud was reduced by the improvement of controls over the inventory management system. Controls over inventory were improved by ensuring that:

- responsibility for the purchase, custody and recording of inventory items was segregated. This reduces the risk of fraud by, for example, ensuring that an individual cannot steal inventory and conceal fraud by modifying inventory records; and
- evidence of the investigation and resolution of significant variances identified during the monthly and year-end stocktakes was retained.

5.388 UCU Ltd complied with a requirement of Section 205B of the *Corporations Act 2001* to notify the Australian Securities and Investment Commission of the resignation or appointment of Directors within 28 days of their resignation or appointment.

University of Canberra

- 5.389 The University of Canberra (the University) provides tertiary education services to domestic and international students including graduate and post-graduate education. The University also performs research and provides consultancy services.
- 5.390 The University controls University of Canberra College Pty Limited, UCU Ltd and UC Global Pty Limited (previously NATSEM Pty Limited).
- 5.391 University of Canberra College Pty Limited provides a range of bridging programs and courses for students to gain entry into university. UCU Ltd provides goods and services to staff, students and visitors to the University campus. UCU Ltd is discussed on pages 186 to 189.
- 5.392 UC Global Pty Limited (previously NATSEM Pty Limited) provided research and social and economic modelling services until its operations were transferred to the University in 2014.
- 5.393 The Audit Office audited the 2013 financial statements of University of Canberra College Pty Limited and UCU Ltd under the requirements of the *Corporations Act 2001*. The Audit Office was advised that an audit of NATSEM Pty Limited was not required in 2013.

Key Issues

- The Audit Office issued unqualified audit reports on the 2013 financial statements of the University, University of Canberra College Pty Limited and UCU Ltd.
- The University's operating surplus excluding net income from activities funded by Structural Adjustment Fund grants and capital grants received for building and equipment upgrades increased from \$0.4 million in 2012 to \$4.6 million in 2013.
- The University had short-term liabilities in excess of its short-term assets at 31 December 2013. The University has borrowing facilities with banks which can be used to meet these liabilities if required and receives fortnightly funding from the Commonwealth Government which assists with meeting working capital requirements.
- The University had sufficient assets to cover its liabilities at 31 December 2013, however, its asset coverage of liabilities has reduced since 31 December 2012.
- Five of the 14 previously reported audit findings were resolved, six were partially resolved and three were not resolved.
- The University improved the quality and timeliness of its financial statements and supporting accounting workpapers.

- The risk of undetected errors and irregularities in student and payroll records were reduced by ensuring that monthly reconciliations of these records to the general ledger were prepared and reviewed in a timely manner.
- Several previously reported weaknesses in controls over key computer information systems and business applications have not been fully addressed. The weaknesses increase the risk of erroneous and fraudulent access to these systems and applications.
- The University does not require documented evidence of the satisfactory receipt of goods and services by someone other than the financial delegate who approved the payments prior to payments below \$5 000 being made. This weakness presents a risk of payment errors and fraud.
- Risk registers and risk treatment plans for portfolio areas that cover functions such as Human Resources, Finance and Business Services, Student Administration and Estate Management have not been developed.
- The University's financial statements submitted for audit were improved to disclose that the University's current liabilities exceeded its current assets, and the basis for the University's view that it could meet its liabilities. However, further improvements to the accuracy and clarity of these disclosures are needed.
- There are positive aspects of the University's internal audit arrangements that support the independence of the internal audit function. However, the internal audit function is not fully independent from the operations of the University, because the officer responsible for the internal audit function also has major operational responsibilities.
- The University's 'Report by the Members of the University of Canberra Council' which accompanies the financial statements should be improved to provide sufficient information to assist readers of the financial statements gain a better understanding of the financial and operating results of the University.
- The Audit Office concluded that the University's accounting for its arrangement with a third party for the construction and subsequent use of a building for a 'GP Super Clinic', and fees receivable from domestic and continuing international students does not comply with relevant accounting standards. The audit report on the financial statements was not qualified for these errors as they were not material to the financial statements.
- Documented evidence of the review of salary reports was not always retained. There is a risk that errors or irregularities (including fraud) in employee payments may not be identified and addressed where there is no evidence of the review of salary reports.

Financial Results

Table 5-59 Key results (calendar years)

	Actual 2012 \$m	Actual 2013 \$m
Income	226.4	242.4
Expenses	(212.3)	(227.7)
Operating surplus	14.1	14.7
Structural Adjustment Fund grant income	(10.8)	(15.1)
Structural Adjustment Fund grant expenses	-	5.7
Less: Net income from activities funded by the Structural Adjustment Fund grants	(10.8)	(9.4)
Less: Capital grants received for building and equipment upgrades	(2.9)	(0.7)
Operating surplus <u>excluding</u> net income from activities funded by the Structural Adjustment Fund grants and capital grants for building and equipment upgrades	0.4	4.6

5.394 Income mainly consists of financial assistance provided by the Commonwealth Government and fees and charges received from Australian and international students.

5.395 Financial assistance provided by the Commonwealth Government includes Commonwealth Grant Scheme funding for student places, HECS-HELP student loan payments and scholarships. The Commonwealth Government also provided:

- Structural Adjustment Fund grants to support projects including investments to increase student numbers through investment in teaching, learning technologies and academic support services, and expand the provision of courses to students in regional southeast New South Wales; and
- capital grants for building and equipment upgrades.

5.396 Income exceeded the prior year amount by \$16.0 million (7.1 percent). This was mainly due to an increase in:

- the Structural Adjustment Fund grant. The University received a second and final Structural Adjustment Fund grant from the Commonwealth Government in 2013; and
- student numbers and indexation of financial assistance received from the Commonwealth Government for undergraduate student places supported by the Commonwealth.

- 5.397 Expenses consist mainly of employee costs, administration expenses and depreciation.
- 5.398 Expenses increased by \$15.4 million (7.3 percent) over the prior year amount. This was mainly due to higher:
- costs resulting from employing more staff and engaging information technology consultants and education specialists to identify new study courses, flexible learning options and opportunities for delivering courses in regional areas. These costs were funded by the Structural Adjustment Fund grant referred to previously;
 - employee-related expenses resulting from:
 - a pay rise provided under an enterprise bargaining agreement; and
 - the recruitment of staff to support an increased number of students undertaking degree courses and provide research and consultancy services; and
 - payments to other tertiary level training providers for providing courses that will lead to degrees awarded by the University.
- 5.399 The University's operating surplus excluding net income from activities funded by Structural Adjustment Fund grants and capital grants received for building and equipment upgrades increased from \$0.4 million in 2012 to \$4.6 million in 2013.

Table 5-60 Historical short-term asset coverage (calendar years)

At 31 December	Actual 2012 \$m	Actual 2013 \$m
Short-term assets	33.0	33.7
Short-term liabilities (Note 1)	63.5	67.3
Net short-term liabilities	(30.5)	(33.6)
Ratio of short-term assets to short-term liabilities	0.5 to 1	0.5 to 1

Note 1: Short-term liabilities do not equal the current liabilities presented in the Statement of Financial Position. For the purpose of this analysis, the estimated amount of liabilities payable within 12 months has been used.

- 5.400 The historical short-term asset coverage of the University can be assessed by comparing the amount of short-term assets available to cover short-term liabilities.
- 5.401 Table 5-60 shows that the University had short-term liabilities in excess of its short-term assets at 31 December 2013. The University has borrowing facilities with banks which can be used to meet these liabilities if required and receives fortnightly funding from the Commonwealth Government which assists with meeting working capital requirements. While the University can meet its short-term obligations it will need to carefully manage its finances to do so.

Table 5-61 Historical assets to liabilities coverage (calendar years)

At 31 December	Actual 2012 \$m	Actual 2013 \$m
Assets	434.2	517.0
Liabilities	128.5	198.5
Net assets	305.7	318.5
Ratio of assets to liabilities	3.4 to 1	2.6 to 1

5.402 Table 5-61 shows that the University had sufficient assets to cover its liabilities at 31 December 2013. However, its asset coverage of the liabilities has reduced from \$3.40 in assets to meet each dollar of liabilities at 31 December 2012 to \$2.60 in assets to meet each dollar of liabilities at 31 December 2013.

5.403 This reduction in asset coverage is mainly as a result of the increase in borrowings to fund construction work on several student accommodation buildings and other facilities, and amounts owing to suppliers on these capital works undertaken during 2013. These student accommodation facilities will become operative in 2014.

5.404 The University has advised that:

The investment in the construction of 677 new student accommodation beds in 2013 for operation in 2014, has led to an increase in liabilities in the 2013 calendar year. The business cases for these long term assets, indicate that the future earning capacity of these facilities will repay these borrowings over the 14 to 16 year fixed term of the loans as the student accommodation facilities become fully operational.

Audit Findings

Table 5-62 Status of audit findings (number of findings)

Previously Reported	Resolved	Partially Resolved	Not Resolved	New	Balance
14	5	6	3	3	12

5.405 Five of the 14 previously reported audit findings were resolved, six were partially resolved and three were not resolved.

5.406 The University improved the quality and timeliness of its financial statements and supporting accounting workpapers. The financial statements and supporting accounting workpapers submitted for audit were complete and agreed to supporting financial records.

5.407 The risk of undetected errors and irregularities in student and payroll records were reduced by ensuring that monthly reconciliations of these records to the general ledger were prepared and reviewed in a timely manner.

5.408 Several previously reported weaknesses in controls over key computer information systems and business applications have not been fully addressed. The weaknesses increase the risk of erroneous and fraudulent access to these systems and applications. The University has agreed to address the following weaknesses:

- Users can make changes to applications on desktop computers without going through the approved change management processes. This presents a risk of unauthorised or erroneous changes being made to key corporate systems such as the student, payroll and finance systems.
- In 2013, the University reviewed whether users should continue to have access to the student, payroll and finance systems. However, this review did not include a review of access privileges granted to users to ensure that the access was commensurate with the current roles and responsibilities of the users. Furthermore, there was no documentation of the level of access privileges granted to users or a policy for granting privileges to users.
- These weaknesses in controls over access to the student, payroll and finance systems present a risk of unauthorised access to student, payroll and financial data, including sensitive payroll and student information.
- Users are not 'forced' by automated system controls to change passwords on a regular basis. Furthermore, the University has not implemented a system for checking whether users are changing their passwords in accordance with its policy. There is an increased risk of unauthorised and fraudulent access to key corporate systems when passwords are not changed on a sufficiently regular basis.

The University has advised that:

... it relies on enforcing strong passwords rather than incurring risks that have been identified with frequent password changes.

- Audit logs provide a record of exceptions and other significant security-relevant events. The review of audit logs can assist in detecting security violations, unauthorised changes to systems and data as well as performance problems and potential flaws in a system.

The University performed a limited review of the audit logs of system administrators for the finance system. However, no reviews for the student and payroll systems were performed. Furthermore, there are no procedures for the performance of the review of audit logs.

There is a higher risk that erroneous or fraudulent activities will not be detected and addressed when the reviews of audit logs are limited or not performed.

5.409 The University does not require documented evidence of the satisfactory receipt of goods and services by someone other than the financial delegate who approved the payments prior to payments below \$5 000 being made. This weakness presents a risk of payment errors and fraud.

The University has advised that:

... it has assessed the risk of errors and fraud to be low where payments below \$5 000 have been authorised by a delegate. The University therefore does not agree that there is a need for documented evidence of the satisfactory receipt of goods and services for payments below \$5 000, where the financial delegate has appropriately authorised the invoice.

5.410 Risk management is a systematic approach to identifying, assessing, mitigating and communicating significant risks. A risk register and risk treatment plan provide details of the significant risks identified by an organisation and how it plans to mitigate these risks.

Risk registers and risk treatment plans for portfolio areas that cover functions such as Human Resources, Finance and Business Services, Student Administration and Estate Management have not been developed.

The University has advised that:

The University has in place an extensive Risk Management Framework and has agreed to complete the four outstanding Risk Registers for portfolio areas by 30 September 2014.

5.411 The University's financial statements submitted for audit were improved to disclose that the University's current liabilities exceeded its current assets and the basis for the University's view that it could meet its liabilities. While disclosures were improved, the financial statements submitted for audit did not disclose:

- a material restriction imposed by the ACT Treasurer under the *University of Canberra Act 1989* and *Financial Management Act 1996* on the use of debt facilities to meet its short-term liabilities. The financial statements were revised to correctly disclose this information; and
- the amount by which current liabilities exceeded current assets. The University advised that it did not disclose this amount because it could be ascertained by the reader from information in the statement of financial position.

While readers can work out the amount by which current liabilities exceeded current assets from information provided in the statement of financial position, the Audit Office considers that important information should be disclosed so that a reader does not need to work out amounts from information provided elsewhere in the financial statements.

5.412 The capacity of an internal audit function to be independent and report impartially depends, in part, on the extent to which this function is free from the influences of operational management and operating responsibility.

There are positive aspects of the University's internal audit arrangements that support the independence of the internal audit function. These include the Audit and Risk Management Committee, on the delegated authority of the Council, approving the internal audit charter, risk-based internal audit plan, internal audit budget and resource plan.

However, the internal audit function is not fully independent from the operations of the University, because the officer responsible for the internal audit function also has major operational responsibilities. To provide assurance that the internal audit function is free from the influences of operational management and responsibility, the Audit Office recommended that:

- the University ensure that the officer responsible for the internal audit function is free from the influences of operational management and responsibility (preferred option), or
- if the officer responsible for the internal audit function is to retain areas of operational management and responsibility, the University should implement robust safeguards to ensure that these areas are reviewed objectively. These arrangements should be documented in the internal audit charter.

The University has agreed to review its arrangements.

5.413 The University's 'Report by the Members of the University of Canberra Council' (Council Report) accompanies the financial statements and contains a review of the operations of the University and results of its operations.

The Audit Office recommended that the Council Report be improved to provide sufficient information to assist readers of the financial statements gain a better understanding of the financial and operating results of the University. The Council Report could be improved by, for example, including a succinct but comprehensive discussion of:

- the University's financial performance, financial position, cash flows, liquidity position, debt levels and other matters that would assist readers of the financial statements in gaining an understanding of the financial and operating results of the University; and
- 'challenges' and 'areas of concern' in addition to 'achievements' of the University.

The University has agreed to review the information included in the Council Report.

5.414 The Audit Office concluded that the University's accounting for its arrangement with a third party for the construction and subsequent use of a building for a 'GP Super Clinic', and fees receivable from domestic and continuing international students does not comply with relevant accounting standards.

The audit report on the financial statements was not qualified as these errors were not material to the financial statements.

- 5.415 Documented evidence of the review of salary reports was not always retained when no errors or anomalies were identified in the review. There is a risk that errors or irregularities (including fraud) in employee payments may not be identified and addressed where there is no evidence of the review of salary reports.

APPENDIX A: REPORTING AND AUDITING

This appendix provides an overview of the main legislative requirements of the Auditor-General for auditing and reporting of financial and non-financial results of the ACT public sector and those entities in which the ACT Government has a direct financial interest.

Reporting and auditing requirements

The Financial Management Act 1996, Territory-owned Corporations Act 1990, Annual Reports (Government Agencies) Act 2004 and Auditor-General Act 1996 provide the legislative framework for auditing and reporting arrangements.

The auditing and reporting arrangements are an important means of keeping the ACT Government accountable to the ACT Legislative Assembly and the public, for its management of public sector resources.

Key features of the above-mentioned legislation are outlined below.

Financial Management Act 1996

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

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

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

Territory-owned Corporations Act 1990

The *Territory-owned Corporations Act 1990* presents the reporting requirements of Territory-owned corporations. These corporations are required to appoint the Auditor-General as their statutory auditor under the *Corporations Act 2001*. Consequently, the Audit Office performs the audit of the financial statements of these corporations under the *Corporations Act 2001*.

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

Annual Reports (Government Agencies) Act 2004

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

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

Auditor-General Act 1996

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

The Act supports the independence of the Audit Office by providing that the Auditor-General and staff of the Audit Office are not subject to direction by the Executive or any Minister in the exercise of the Auditor-General's functions. The Auditor-General reports to the ACT Legislative Assembly in undertaking the functions in the *Auditor-General Act 1996*.

Financial auditing

Purpose of a financial audit

The ACT Legislative Assembly and the community rely on the Auditor-General to provide an independent opinion on whether financial statements of the Territory and its agencies present a true and fair view of reported performance.

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

Public reporting

Audit reports

An independent written opinion is provided based on the Audit Office's examination of financial statements and statements of performance.

The audit report on financial statements includes an opinion on whether the financial statements fairly present the financial results of the reporting agency in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia.

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

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

Types of opinion

Under Australian Auditing Standards, audit reports and reports of factual findings may include modified or unmodified opinions.

Unmodified opinions

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

An 'emphasis of matter' paragraph maybe included in an audit report where the Audit Office decides to emphasise matters that are relevant to users of the financial statements or statement of performance. An emphasis of matter paragraph can be included in either an unqualified or a qualified audit opinion.

Modified opinions

A modified opinion may be issued either to highlight a matter affecting the financial statements or statement of performance or where the Audit Office is unable to express an unqualified opinion.

The types of modified opinions are briefly explained below.

A 'qualified opinion' indicates that the financial statements or statement of performance are overall in accordance with the relevant accounting standards and/or other mandatory reporting requirements 'except for' certain matter(s) etc.

An 'adverse opinion' is issued where the effect of a disagreement with management on accounting requirements or omissions, errors and misstatements in data provided are so material and pervasive that the financial statements or statement of performance as a whole are misleading or of little use.

A 'disclaimer of opinion' is issued where a limitation on the scope of the audit exists that is so material and pervasive that an opinion is unable to be formed.

Before expressing a modified opinion, the Audit Office is required by the Australian Auditing Standards to take reasonable steps to be in a position to express an unmodified opinion. Potential audit modifications are usually averted through consultation with the reporting agency. In almost all cases, agencies will amend the financial statements and statements of performance through a consultative process. However, when unresolved differences of opinion occasionally arise between an agency and the Audit Office on significant matters, the audit opinion will be modified and include information on these differences.

Modified opinions are not necessarily a reflection of the integrity or quality of a reporting agency's management because agencies are required to form their own view on their financial statements and statements of performance.

Reporting on significant matters

Significant matters, such as control weaknesses or breakdowns, legislative breaches, errors or fraud may be identified during audits. The Audit Office is required by the Australian Auditing Standards to report these matters to those responsible for the governance of the agency. These matters are therefore reported in audit management reports provided to directors-general, chief executive officers, governing boards and the relevant ministers.

Matters reported in these audit management reports may be publicly reported to the ACT Legislative Assembly to facilitate an appropriate level of accountability to the Legislative Assembly and wider community.

APPENDIX B: 'EXPECTATION GAP'

Purpose

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

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

Significant matters such as control weaknesses or breakdowns, legislative breaches, errors or fraud may be identified during an audit. The Audit Office is required by the Australian Auditing Standards to report these matters to those responsible for governance of the agency. Those responsible for governance of the agency (for example, directors-general, chief executive officers, governing boards and the relevant ministers) are responsible for addressing these matters.

The 'Expectation Gap'

It is recognised in the auditing profession that an 'expectation gap' may exist because users of Auditor-General's reports on financial statements and statements of performance may tend to assume that the scope of the auditor's role and responsibilities are wider than they actually are. Therefore, the respective responsibilities of management of the reporting agency and the Audit Office need to be understood. The respective responsibilities are outlined below.

A reporting agency's management is responsible for maintaining adequate:

- accounting and other records, and preparing the financial statements and statements of performance; and
- systems of internal controls to prevent or detect errors, irregularities and fraud.

The Auditor-General:

- is responsible for forming an opinion on whether the financial statements prepared by management present a view that is consistent with the Audit Office's understanding of the reporting agency's financial position, its operations and cash flows in accordance with the Accounting Standards and other mandatory financial reporting requirements in Australia. Similarly, the Audit Office is required to form an opinion on whether the accountability indicators included in statements of performance prepared by directorates and authorities fairly present the reported performance;
- does not provide an opinion on the appropriateness of budget information included in the financial statements and statements of performance for directorates and authorities, or whether a reporting agency could reasonably have been expected to achieve budget. No opinion is provided on the systems, significant accounting policies and estimates that have been used in preparing the budget;

- does not examine every transaction of the reporting agency. It is the responsibility of the reporting agency to ensure that all transactions are valid, checked and correctly recorded. If the Audit Office did check all transactions this then audits would be prohibitively expensive and time consuming. The Audit Office reviews major systems and examines a sample of transactions for all items that are considered material and/or of higher risk. These are items that, if materially misstated as a result of an error or fraud, could adversely affect decisions made by users of financial statements or statements of performance;
- conducts audits and provide reports which provide users of financial statements and statements of performance with reasonable assurance that they are free of material errors. However, the audit cannot provide a guarantee of absolute accuracy of every amount and disclosure made in the financial statements and statement of performance;
- does not express a view on the efficiency and effectiveness with which the reporting agency conducts its affairs, nor do they guarantee a reporting agency's future viability;
- does not express a view on the prudence of decisions made by a reporting agency's management;
- does not attest to the information accompanying the financial statements or statement of performance provided by management to explain the performance of a reporting agency. The Audit Office is only required to check the information in any accompanying analysis to ensure that it is not materially inconsistent with the information reported in the reports; and
- responsibility is confined to providing an opinion on an agency's financial statements and statement of performance. The opinion only considers whether the financial statements and statement of performance comply with the provisions of the legislation that apply directly to the financial statements and statement of performance.

Audit reports

Reports Published in 2014-15	
Report No. 06 – 2014	Annual Report 2013-14
Reports Published in 2013-14	
Report No. 05 – 2014	Capital Works Reporting
Report No. 04 – 2014	Gastroenterology & Hepatology Unit, Canberra Hospital
Report No. 03 – 2014	Single Dwelling Development Assessments
Report No. 02 – 2014	The Water and Sewerage Pricing Process
Report No. 01 – 2014	Speed Cameras in the ACT
Report No. 08 – 2013	Management of Funding for Community Services
Report No. 07 – 2013	2012-13 Financial Audits
Report No. 06 – 2013	ACT Auditor-General's Office Annual Report 2012-13
Report No. 05 – 2013	Bushfire Preparedness
Reports Published in 2012-13	
Report No. 04 – 2013	National Partnership Agreement on Homelessness
Report No. 03 – 2013	ACT Government Parking Operations
Report No. 02 – 2013	Executive Remuneration Disclosed in ACTEW Corporation Limited's (ACTEW) 2010-11 Financial Statements and Annual Report 2011
Report No. 01 – 2013	Care and Protection System
Report No. 10 – 2012	2011-12 Financial Audits
Report No. 09 – 2012	Grants of Legal Assistance
Report No. 08 – 2012	Australian Capital Territory Public Service Recruitment Practices
Report No. 07 – 2012	Annual Report 2011-12
Report No. 06 – 2012	Emergency Department Performance Information
Reports Published in 2011-12	
Report No. 05 – 2012	Management of Recycling Estates and E-Waste
Report No. 04 – 2012	Development Application and Approval System for High Density Residential and Commercial Developments
Report No. 03 – 2012	Early Childhood Schooling
Report No. 02 – 2012	Whole-of-Government Information and ICT Security Management and Services
Report No. 01 – 2012	Monitoring and Minimising Harm Caused by Problem Gambling in the ACT
Report No. 06 – 2011	Management of Food Safety in the Australian Capital Territory
Report No. 05 – 2011	2010-11 Financial Audits
Report No. 04 – 2011	Annual Report 2010-11

These and earlier reports can be obtained from the ACT Auditor-General's website at <http://www.audit.act.gov.au>.