

ACT AUDITOR-GENERAL'S REPORT
2020-21 FINANCIAL AUDITS
FINANCIAL RESULTS AND AUDIT FINDINGS

REPORT NO. 12 / 2021

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The Office also conducts performance audits, to examine whether a Government agency is carrying out its activities effectively and efficiently and in compliance with relevant legislation.

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A21/52

The Speaker
ACT Legislative Assembly
Civic Square, London Circuit
CANBERRA ACT 2601

Dear Madam Speaker

I am pleased to forward to you an audit report titled '2020-21 Financial Audits - Financial Results and Audit Findings' for tabling in the ACT Legislative Assembly pursuant to Subsection 17(5) of the *Auditor-General Act 1996*.

Yours sincerely



Michael Harris
Auditor-General
15 December 2021

The ACT Audit Office acknowledges the Ngunnawal people as traditional custodians of the ACT and pays respect to the elders; past, present and future. The Office acknowledges and respects their continuing culture and the contribution they make to the life of this city and this region.

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SUMMARY

Understanding the financial statements of the Australian Capital Territory Government (Territory) is important as they provide essential information to the ACT Legislative Assembly and community about the:

- financial performance and financial position of the Territory;
- capacity of the Territory to meet its financial obligations as they fall due; and
- financial impact and sustainability of the Territory's policies and strategies over time.

This report includes a discussion of the financial results of the Territory and reporting agencies that significantly affect these results for the year ended 30 June 2021, update on progress made by reporting agencies in resolving audit findings and an assessment of the accuracy of the financial and performance information included in reporting agencies' annual reports.

This is the second of the two audit reports on 2020-21 financial audits. The first audit report '2020-21 Financial Audits – Overview' (Report No. 10/2021) was tabled in the ACT Legislative Assembly on 16 November 2021.

Explanations of the key terms used in this report are included in Appendix A.

Conclusions

THE TERRITORY'S FINANCIAL STATEMENTS

An unmodified auditor's report was issued on the Territory's 2020-21 financial statements. This indicates that the financial statements present a true and fair view of the Territory's financial position and results of its operations.

In 2020-21, the Territory incurred a net operating balance deficit of \$658 million. This means that the Territory's expenses exceeded its revenue by \$658 million. The deficit in the net operating balance was however \$221 million lower than the deficit anticipated in the budget. The Territory estimates net operating deficits will continue to be incurred for the next four years as expenses are forecasted to continue to exceed revenue.

After adjusting for other economic impacts, mainly in relation to gains on investments and revenue relating to land sales, the Territory made an operating surplus of \$123 million in 2020-21 compared to the budgeted operating deficit of \$409 million. This was largely due to the lower than expected deficit in the net operating balance and higher than anticipated gains on investments. While a surplus was made in 2020-21, the Territory expects operating deficits to be incurred for the next four years.

The net assets of the Territory were \$14 239 million at 30 June 2021. This was below the budgeted amount by \$2 927 million mainly due to the higher than expected unfunded superannuation liability.

The Territory increased its borrowings in 2021 by \$989 million (13 percent) to \$8 329 million to provide additional funding for the Government's COVID-19 pandemic response. Total borrowings are projected to significantly increase to \$13 870 million in 2025.

The Territory had a strong capacity to pay its liabilities that are due within 12 months as it has a net short-term asset position of \$2 061 million at 30 June 2021. This is expected to remain relatively consistent up until 2025.

AUDIT FINDINGS

Audit findings

The total number of audit findings reported to agencies have decreased slightly from 50 in 2019-20 to 48 in 2020-21 following a reduction of 30 percent (from 63 to 44) in 2018-19. About half of all audit findings reported in 2020-21 related to internal control deficiencies which present a risk of error or fraud.

Agencies need to continue to give attention to addressing previously reported audit findings in a timely manner as 40 percent (20 of 50) of the previously reported audit findings were either not resolved or only partially resolved in 2020-21.

Annual reports

Almost all reporting agencies included complete and accurate versions of their audited financial statements with the auditor's report, and the statement of performance with the limited assurance report, in their draft annual reports provided to the Audit Office. For the small number of instances where errors were identified, they were promptly addressed by the agencies in the published versions of the annual reports on their website.

COMPUTER INFORMATION SYSTEMS

The Audit Office assessed controls over computer information systems used by agencies to prepare their financial statements as satisfactory. This means that these controls provide reasonable assurance that the information reported by agencies in their financial statements from these systems is reliable, accurate and complete.

There are however control weaknesses that need to be addressed by agencies to further reduce the risk of errors and fraud in their financial information, unauthorised access to sensitive information, and cyber security attacks.

1 THE TERRITORY'S FINANCIAL STATEMENTS

- 1.1 The Australian Capital Territory Government's (Territory's) financial statements includes the financial results of:
- ACT Government directorates;
 - Territory authorities;
 - companies controlled by the Territory; and
 - the Territory's share of the financial results of joint ventures such as the ActewAGL Joint Venture and land joint ventures.
- 1.2 Entities whose financial results are combined to form the Territory's financial statements are listed in Appendix B and consist of 35 entities for the reporting period 2020-21.
- 1.3 The key financial results from the Territory's audited 2020-21 financial statements are summarised in this chapter. This includes a discussion on:
- key operating results represented by the net operating balance and operating (deficit)/surplus. These provide an indication of the financial sustainability of the ACT Government's strategies and policies, particularly when assessed over time;
 - long-term financial position represented by the net assets and unfunded liabilities. This provides an indication of the Territory's capacity to meet its financial obligations over the period longer than 12 months;
 - short-term financial position represented by the net short-term assets. This provides an indication of the Territory's capacity to meet its financial obligations over the next 12 months; and
 - estimated financial results for the period from 2021-22 to 2024-25 included in the 2021-22 Budget.

Conclusion

An unmodified auditor's report was issued on the Territory's 2020-21 financial statements. This indicates that the financial statements present a true and fair view of the Territory's financial position and results of its operations.

In 2020-21, the Territory incurred a net operating balance deficit of \$658 million. This means that the Territory's expenses exceeded its revenue by \$658 million. The deficit in the net operating balance was however \$221 million lower than the deficit anticipated in the budget. The Territory estimates net operating deficits will continue to be incurred for the next four years as expenses are forecasted to continue to exceed revenue.

After adjusting for other economic impacts, mainly in relation to gains on investments and revenue relating to land sales, the Territory made an operating surplus of \$123 million in 2020-21 compared to the budgeted operating deficit of \$409 million. This was largely due to the lower than expected deficit in the net operating balance and higher than anticipated gains on investments. While a surplus was made in 2020-21, the Territory expects operating deficits to be incurred for the next four years.

The net assets of the Territory were \$14 239 million at 30 June 2021. This was below the budgeted amount by \$2 927 million mainly due to the higher than expected unfunded superannuation liability.

The Territory increased its borrowings in 2021 by \$989 million (13 percent) to \$8 329 million to provide additional funding for the Government's COVID-19 pandemic response. Total borrowings are projected to significantly increase to \$13 870 million in 2025.

The Territory had a strong capacity to pay its liabilities that are due within 12 months as it has a net short-term asset position of \$2 061 million at 30 June 2021. This is expected to remain relatively consistent up until 2025.

Summary

Net operating balance

A net operating balance deficit of \$658 million was incurred by the Territory in 2020-21 as the cost of services delivered by the ACT Government (\$7 334 million) exceeded its revenue (\$6 676 million).

The net operating balance deficit (\$658 million) was lower than the budgeted deficit (\$879 million) by \$221 million (25 percent) due to revenue being \$237 million more than budgeted. The increase in revenue compared to budget is mainly related to increases in Commonwealth grants resulting from a significant increase in GST collected and passed on by the Commonwealth Government and taxation revenue.

The Territory estimates net operating deficits will continue to be incurred for the next four years, with these peaking at \$1 262 million in 2021-22 before reducing to \$869 million in 2024-25, as the costs of delivering public services are estimated to continue to exceed projected revenue.

Operating result

The Territory incurred an operating surplus of \$123 million in 2020-21 compared to the budgeted operating deficit of \$409 million mainly due to a lower than expected deficit in the net operating balance and higher than expected other economic inflows from better than expected performance of investment markets.

The Territory estimates operating deficits will continue to be incurred for the next four years as the other economic flows are projected to be not sufficient to offset the net operating deficits. These deficits are estimated to peak at \$1 060 million in 2021-22 and gradually reduce over the future years to \$573 million in 2024-25.

Financial position

The net assets of the Territory at 30 June 2021 (\$14 239 million) were \$2 927 million (17 percent) lower than budgeted (\$17 166 million) mainly due to the higher than budgeted unfunded superannuation liability as a result of using a lower discount rate to estimate the liability.

The Territory's borrowing increased by \$989 million from \$7 340 million in 2020 to \$8 329 million in 2021 to provide additional funding for the Territory's response to the COVID-19 pandemic. The Territory's borrowings have significantly increased in the last three years, more than doubling from \$3 441 million in 2018 to \$8 329 million in 2021. Total borrowings are projected to increase further from \$10 052 million in 2022 to \$13 870 million in 2025.

The Territory has a sound net short-term asset position at 30 June 2021 with approximately \$1.80 in short-term assets to meet each dollar of its short-term liabilities (\$2.10 at 30 June 2020). The Territory estimates this to remain relatively strong and stable throughout the forward years to 2025.

Operating results

Table 1-1 Operating results

| | Actual 2016-17 \$m | Actual 2017-18 \$m | Actual 2018-19 \$m | Actual 2019-20 \$m | Actual 2020-21 \$m | Budget 2020-21 \$m |
|---------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Revenue | 5 436 | 5 692 | 6 034 | 5 850 | 6 676 | 6 439 |
| Expenses | (5 673) | (5 734) | (6 271) | (6 811) | (7 334) | (7 318) |
| Net operating balance deficit | (237) | (42) | (237) | (961) | (658) | (879) |
| Other economic inflows/ (outflows) | 333 | 289 | 35 | (6) | 781 | 470 |
| Operating surplus/(deficit) | 95 | 247 | (202) | (967) | 123 | (409) |

1.4 Table 1-1 outlines the Territory's operating results for the period from 2016-17 to 2020-21 and budget for 2020-21.

1.5 The Territory's main sources of revenue are:

- Commonwealth Government grants, relating to a share of the national GST revenue pool and funding received to provide healthcare, education, skills and workforce development, affordable housing and disability services;
- taxation, mainly relating to rates, conveyancing duties and payroll tax;
- sales of goods and services, mainly relating to water supply and sewerage services, hospital and other health related services including services provided under cross-border (interstate) arrangements and regulatory services; and
- land revenue (value-add component). This is the increase in the value of land resulting from development work undertaken by the Territory to prepare land for sale mainly at newly established suburbs in the Territory.

1.6 The Territory's expenses are mainly comprised of employee and superannuation expenses, grants and purchased services, supplies and services, and depreciation and amortisation.

1.7 The net operating balance is a key measure of the Territory's financial performance and is the difference between revenue and expenses.

- 1.8 The operating surplus/(deficit) is the sum of the net operating balance and other economic flows. Other economic flows mainly include:
- net gain/(loss) on financial assets and liabilities at fair value reflecting changes in market conditions that affect the value of investments;
 - land revenue (market gains on land sales). This is an estimate of the profit from land sales due to market price increases;
 - net land revenue (undeveloped land value). This is an estimate of the value of the land to the Territory at the time a decision is made to progress a development; and
 - net gain/(loss) on the sale/(disposal) of non-financial assets mainly relating to the derecognition/revaluation of Large-Scale Generation Certificates and the write-off of inventory (land transfers).

2020-21 operating result compared to budget estimates

Net operating balance

- 1.9 The net operating balance deficit (\$658 million) in 2020-21 was lower than the budgeted deficit (\$879 million) by \$221 million (25 percent). This was mainly due to higher than expected commonwealth grants from higher GST collected by the Commonwealth Government due to better than expected economic conditions.

Operating surplus/(deficit)

- 1.10 The Territory incurred an operating surplus in 2020-21 of \$123 million compared to the budgeted operating deficit of \$409 million. This was mainly due to:
- lower than expected deficit (\$221 million) in the net operating balance;
 - a gain on financial assets of \$269 million (63 percent) resulting from stronger than expected investment market performance largely due to low interest rates and fiscal stimulus as a result of the COVID-19 pandemic; and
 - land revenue (value-add component) due to higher than anticipated residential land sales.

2020-21 operating result compared to prior year result

Net operating balance

- 1.11 The net operating balance deficit in 2020-21 (\$658 million) has decreased from the deficit incurred in 2019-20 (\$961 million) by \$303 million (31 percent). This was due to an increase in revenue (\$826 million) that was higher than the increase in expenses (\$523 million).
- 1.12 The increase in revenue of \$826 million (14 percent) resulted mainly from higher:
- land revenue (value-add component) of \$486 million (273 percent). This was largely due to an increase in residential land sales in the newer suburbs of Whitlam,

Strathnairn, Taylor, North Wright and North Coombs driven by higher demand in the market from buyers and because more land inventory was developed and available for sale in 2020-21;

- Commonwealth Government grants of \$144 million mainly due to higher GST revenue resulting from an increase in GST collected and passed on by the Commonwealth Government due to improved economic conditions; and
- taxation revenue of \$92 million mainly due to increases in residential conveyancing duties and payroll tax.

1.13 The increase in expenses of \$523 million (8 percent) resulted mainly from higher:

- other operating expenses of \$245 million due to an increase in cost of land sold resulting from higher land sales as previously discussed;
- employee expenses of \$153 million mainly due to the extension of temporary employment contracts and hiring additional staff in accordance with the Government's COVID-19 pandemic related policies;
- supplies and services expenses of \$36 million mainly resulting from higher:
 - communication expenses from planning and feasibility stages of multiple ICT projects including the Digital health record project and ACT Health ICT upgrades; and
 - repairs and maintenance expenses for roads, bridges and stormwater systems; and
- grants and purchases services of \$55 million resulting from the provision for the future surrender of Large-Scale Generation Certificates. Further information on the Large-Scale Generation Certificates can be found in the section on the Environment, Planning and Sustainable Development Directorate in Chapter 4 of this report.

Operating surplus

1.14 The Territory incurred an operating surplus of \$123 million in 2020-21 compared with the prior year operating deficit of \$967 million mainly due to:

- the previously mentioned decrease in the net operating balance deficit to \$658 million; and
- an increase in other economic flows by \$787 million mostly from a gain on financial assets of \$704 million. This was due to stronger investment market performance largely as a result of low interest rates and fiscal stimulus caused by the COVID-19 pandemic.

Projected operating results

Table 1-2 Projected operating results

| | Actual 2020-21 \$m | Budget 2021-22 \$m | Estimate 2022-23 \$m | Estimate 2023-24 \$m | Estimate 2024-25 \$m |
|--------------------------------------|--------------------------|--------------------------|----------------------------|----------------------------|----------------------------|
| Revenue | 6 676 | 6 921 | 6 993 | 7 130 | 7 357 |
| Expenses | (7 334) | (8 183) | (7 929) | (8 010) | (8 226) |
| Net operating balance deficit | (658) | (1 262) | (936) | (880) | (869) |
| Other economic inflows | 781 | 202 | 329 | 306 | 296 |
| Operating surplus/(deficit) | 123 | (1 060) | (607) | (574) | (573) |

Source: Territory's 2020-21 financial statements and 2021-22 Budget Papers.

- 1.15 Table 1-2 shows that the Territory estimates net operating balance deficits will continue to be incurred for the next four years as the costs of delivering public services are estimated to exceed projected revenue. The net operating balance deficit will peak at \$1 262 million in 2021-22 before reducing to \$869 million in 2024-25.
- 1.16 The Territory also estimates operating deficits to be incurred over the same period as the other economic flows are not projected to be large enough to offset the net operating deficits. These deficits are estimated to peak at \$1 060 million in 2021-22 and gradually reduce over the future years to \$573 million in 2024-25.

Financial position

Table 1-3 Assets and liabilities

| At 30 June | Actual 2017 \$m | Actual 2018 \$m | Actual 2019 \$m | Actual 2020 \$m | Actual 2021 \$m | Budget 2021 \$m |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Assets | | | | | | |
| Financial assets - Note 1 | 2 450 | 2 218 | 3 192 | 3 863 | 4 573 | 3 633 |
| Property, plant and equipment | 22 225 | 22 744 | 24 450 | 25 485 | 27 445 | 26 232 |
| Other non-financial assets - Note 2 | 2 559 | 2 612 | 2 592 | 2 658 | 2 573 | 2 771 |
| Total assets | 27 234 | 27 574 | 30 234 | 32 006 | 34 591 | 32 636 |
| Liabilities | | | | | | |
| Borrowings | 3 555 | 3 441 | 4 476 | 7 340 | 8 329 | 8 176 |
| Unfunded superannuation - Note 3 | 4 865 | 5 746 | 7 583 | 7 798 | 8 313 | 3 509 |
| Advances received, payables and finance leases | 1 708 | 1 384 | 1 856 | 1 138 | 1 542 | 1 811 |
| Employee benefits and other provisions | 971 | 1 156 | 1 676 | 2 001 | 2 076 | 1 891 |
| Contract and Other liabilities | 48 | 43 | 31 | 150 | 92 | 83 |
| Total liabilities | 11 147 | 11 770 | 15 622 | 18 427 | 20 352 | 15 470 |
| Net assets | 16 087 | 15 804 | 14 612 | 13 579 | 14 239 | 17 166 |
| Ratio of assets to liabilities | 2.4:1 | 2.3:1 | 1.9:1 | 1.7:1 | 1.7:1 | 2.1:1 |

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.

1.17 Assets of the Territory are largely comprised of:

- property, plant and equipment;
- financial assets consisting mainly of investments excluding superannuation investments as well as cash and deposits and receivables; and
- other non-financial assets consisting mainly of the Territory's investments in joint ventures, capital works in progress, inventories and intangibles.

1.18 Liabilities of the Territory largely include unfunded superannuation liabilities, borrowings, lease liabilities, employee benefits and other provisions.

- 1.19 The capacity of the Territory to meet its obligations over the long-term (a period greater than 12 months) can be assessed by evaluating the Territory's net asset position and ratio of assets to liabilities i.e. how much the Territory has in assets to meet its liabilities. It is considered that the Territory should have at least the same amount of assets to meet its liabilities. This can be expressed as a ratio of 1:1. Table 1-3 shows that the Territory has around \$1.7 in assets to meet each dollar of liabilities as at 30 June 2021.
- 1.20 Net assets of the Territory as at 30 June 2021 (\$14 239 million) were lower than budgeted (\$17 166 million) by \$2 927 million (17 percent) mainly due to higher than budgeted unfunded superannuation liability resulting from the use of a lower discount rate to estimate the present value of the liability at 30 June 2021 compared to the higher long-term rate used to prepare the budget estimate. A rate of 2.26 percent was used to estimate the liability at 30 June 2021 compared with the rate of 5 percent used for the purposes of preparing the budget.
- 1.21 The net asset position of the Territory can fluctuate significantly due to changes in the discount rate used to estimate the present value of the Territory's unfunded superannuation liability. Further information on the Territory's superannuation liability, including the discount rate, can be found in the section on the Superannuation Provision Account in Chapter 4 of this report.
- 1.22 Net assets of the Territory at 30 June 2021 (\$14 239 million) were higher than at 30 June 2020 (\$13 579 million) by \$660 million (5 percent). This was mainly due to an increase in:
- property, plant and equipment of \$1 960 million mainly from upward revaluation of the Housing ACT property portfolio, land held by the Chief Minister, Treasury and Economic Development Directorate as well as land and forests at the National Arboretum;
 - investments of \$505 million resulting from the previously discussed net gain on fair value of investments in the current year as a result of the strong investment market performance; and
 - cash and deposits of \$675 million mainly due to higher cash at bank from the borrowings obtained to fund the Government's response to the COVID-19 pandemic response and higher revenue received from the Suburban Land Agency from increased land sales.
- 1.23 The increases in assets were partially offset by an increase in:
- interest bearing liabilities of \$989 million primarily resulting from a new borrowing of \$1 billion during the current year to fund the Government's COVID-19 pandemic response; and
 - superannuation liability of \$1 176 million due to a change in the defined benefit superannuation liability valuation mainly from the use of increased inflation and salary growth assumptions.

Unfunded liabilities

Table 1-4 Unfunded liabilities

| At 30 June | Actual 2017 \$m | Actual 2018 \$m | Actual 2019 \$m | Actual 2020 \$m | Actual 2021 \$m | Budget 2021 \$m |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Liabilities | | | | | | |
| Unfunded superannuation - Note 1 | 4 865 | 5 746 | 7 583 | 7 798 | 8 313 | 3 509 |
| Borrowings | 3 555 | 3 441 | 4 476 | 7 340 | 8 329 | 8 176 |
| Advances received, payables and finances leases | 1 708 | 1 384 | 1 856 | 1 138 | 1 542 | 1 811 |
| Other including employee benefits | 1 019 | 1 199 | 1 707 | 2 151 | 2 168 | 1 975 |
| Total liabilities | 11 147 | 11 770 | 15 622 | 18 427 | 20 352 | 15 471 |
| Financial assets - Note 2 | 2 450 | 2 218 | 3 192 | 3 863 | 4 573 | 3 633 |
| Unfunded liabilities | 8 697 | 9 552 | 12 430 | 14 564 | 15 779 | 11 838 |

Note 1: The unfunded superannuation liability is the amount by which estimated superannuation liabilities exceeds superannuation investments.

Note 2: Financial assets exclude the Territory's investments in joint ventures and superannuation investments.

1.24 The long-term financial position of the Territory can also be assessed by comparing total liabilities to financial assets (i.e. unfunded liabilities), as the Territory's short and long-term obligations are primarily funded by its financial assets. This assessment is more conservative than an assessment of the:

- net asset position because it assumes that the Territory's non-financial assets such as schools, hospitals and infrastructure assets are not generally readily available for sale to meet its liabilities; and
- net debt as this measure does not take into account the significant superannuation liability, which makes up almost half of the Territory's total liabilities.

1.25 Table 1-4 shows that the Territory is in an 'unfunded liability position', as the Territory's total liabilities exceed its financial assets.

1.26 Unfunded liabilities of the Territory at 30 June 2021 (\$15 779 million) were higher than budgeted (\$11 838 million) by \$3 941 million (33 percent). This was mainly due to higher than estimated unfunded superannuation liability resulting from the use of a lower discount rate to estimate the present value of the liability at 30 June 2021 compared to the higher long-term rate used to prepare the budget estimate as previously discussed.

- 1.27 Unfunded liabilities of the Territory at 30 June 2021 (\$15 779 million) have increased from 30 June 2020 (\$14 564 million) by \$1 215 million (8 percent) mainly due to the additional borrowings obtained to fund the Government's COVID-19 pandemic response.
- 1.28 Table 1-4 also shows that the Territory's borrowings have significantly increased in the last three years, more than doubling from \$3 441 million in 2018 to \$8 329 million in 2021 mainly to fund capital expenditure and to provide additional liquidity to fund the Government's COVID-19 pandemic response.

Projected unfunded liabilities

Table 1-5 Projected unfunded liabilities

| At 30 June | Actual 2021 \$m | Budget 2022 \$m | Estimate 2023 \$m | Estimate 2024 \$m | Estimate 2025 \$m |
|--|-----------------------|-----------------------|-------------------------|-------------------------|-------------------------|
| Liabilities | | | | | |
| Unfunded superannuation - Note 1 | 8 313 | 4 750 | 4 614 | 4 430 | 4 192 |
| Borrowings | 8 329 | 10 052 | 10 749 | 12 838 | 13 870 |
| Advances received, payables and finance leases | 1 542 | 1 608 | 1 596 | 1 579 | 1 524 |
| Other liabilities including employee benefits | 2 168 | 2 220 | 2 283 | 2 353 | 2 432 |
| Total liabilities | 20 352 | 18 630 | 19 242 | 21 200 | 22 018 |
| Financial assets - Note 2 | 4 573 | 4 215 | 3 871 | 4 583 | 4 178 |
| Unfunded liabilities | 15 779 | 14 415 | 15 371 | 16 617 | 17 840 |

Source: Budget and forward estimates were obtained from the 2021-22 Budget Papers.

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

Note 2: Financial assets exclude the Territory's investments in joint ventures and superannuation investments.

- 1.29 Table 1-5 shows the Territory's estimated unfunded liabilities over the forward years to 2025. Unfunded liabilities at 30 June 2021 of \$15 779 million are estimated to fall to \$14 415 million in 2022 largely due to an estimated decrease in the unfunded superannuation liability before rising to \$17 840 million in 2025 mostly from further increases in borrowings which are estimated to rise to \$13 870 million in 2025.
- 1.30 The unfunded superannuation liability at 30 June 2021 of \$8 313 million is estimated to decrease by \$3 563 million (75 percent) to \$4 750 million at 30 June 2022 and remain at this level through to 2025 mainly due to the use of a higher long-term discount rate to calculate the estimate of the liability.

- 1.31 Total borrowings are projected to significantly increase by \$5 541 million (67 percent) from \$8 329 million in 2021 to \$13 870 million in 2025.

Short-term financial position

Table 1-6 Net short-term assets

| At 30 June | Actual 2017 \$m | Actual 2018 \$m | Actual 2019 \$m | Actual 2020 \$m | Actual 2021 \$m | Budget 2021 \$m |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Short-term assets - Note 1 | 2 450 | 2 218 | 3 192 | 3 863 | 4 573 | 3 633 |
| Short-term liabilities - Note 2 | 1 308 | 1 234 | 2 442 | 1 878 | 2 512 | 2 312 |
| Net short-term assets | 1 142 | 984 | 750 | 1 985 | 2 061 | 1 321 |
| Ratio of short-term assets to short-term liabilities | 1.9:1 | 1.8:1 | 1.3:1 | 2.1:1 | 1.8:1 | 1.6:1 |

Note 1: Short-term assets are financial assets and 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 purposes of this analysis, these investments have been excluded from short-term assets because these investments are not available to meet short-term liabilities.

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

- 1.32 The Territory's short-term financial position can be assessed by its capacity to meet its financial obligations over the short-term by comparing the Territory's short-term assets available to meet its short-term liabilities. It is considered that the Territory should have at least the same amount of short-term assets to meet its short-term liabilities.
- 1.33 Table 1-6 shows that the Territory has a sound net short-term asset position of 1.8:1 at 30 June 2021. This means that it has approximately \$1.8 in short-term assets to meet each dollar of its short-term liabilities.
- 1.34 Net short-term assets of the Territory at 30 June 2021 (\$2 061 million) were higher than budgeted net assets (\$1 321 million) by \$740 million (56 percent) mainly due to higher cash and deposits held by the Territory for operational purposes.
- 1.35 Net short-term assets of the Territory at 30 June 2021 (\$2 061 million) were slightly higher than the prior year net assets (\$1 985 million) by \$76 million (4 percent) mainly due to the previously discussed higher cash and deposits.

Projected short-term financial position

Table 1-7 Projected net short-term assets

| At 30 June | Actual 2021 \$m | Budget 2022 \$m | Estimate 2023 \$m | Estimate 2024 \$m | Estimate 2025 \$m |
|---|-----------------------|-----------------------|-------------------------|-------------------------|-------------------------|
| Short-term assets - Note 1 | 4 573 | 4 215 | 3 871 | 4 583 | 4 178 |
| Short-term liabilities - Note 2 | 2 512 | 1 862 | 1 927 | 1 996 | 2 033 |
| Net short-term assets | 2 061 | 2 353 | 1 944 | 2 587 | 2 145 |
| Ratio of short-term assets to short-term liabilities | 1.8:1 | 2.3:1 | 2.0:1 | 2.3:1 | 2.1:1 |

Source: The budget and forward estimates were obtained from the 2021-22 ACT Budget Papers.

Note 1: Short-term assets are financial assets and 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 purposes of this analysis, these investments have been excluded from short-term assets because these investments are not available to meet short-term liabilities.

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

1.36 Table 1-7 shows that the Territory estimates that its net short-term assets position of 1.8:1 in 2021 will remain relatively strong and stable throughout the forward years to 2025.

2 AUDIT FINDINGS

- 2.1 This Chapter provides an overview of the audit findings identified by the Audit Office during the audit of agencies' financial statements and the limited assurance engagement on their statements of performance.
- 2.2 The Audit Office reports audit findings in an audit management report to those charged with governance of an agency as required by the Australian Auditing Standards. Those charged with governance include Directors-General, Chairs of Governing Boards and Chief Executives. The Audit Office also provides a copy of the audit management report to respective Internal Audit Committees and the Ministers responsible for that agency.
- 2.3 Audit findings reported in audit management reports are categorised as:
- deficiencies in key internal controls which include matters that can result in fraudulent activities and ineffective controls that can undermine the control environment;
 - improvements required in reporting practices for the preparation and presentation of financial statements and statement of performance, including compliance with applicable legislative requirements. These audit findings can result in a modified auditor's report or modified limited assurance report if they are not addressed by agencies; and
 - weaknesses in governance arrangements and matters that pose operational or financial risks.
- 2.4 Audit findings from the review of controls over computer information systems performed as part of financial audits are included in Chapter 3: 'Computer Information Systems' of this report.

Conclusions

Audit findings

The total number of audit findings reported to agencies have decreased slightly from 50 in 2019-20 to 48 in 2020-21 following a reduction of 30 percent (from 63 to 44) in 2018-19. About half of all audit findings reported in 2020-21 related to internal control deficiencies which present a risk of error or fraud.

Agencies need to continue to give attention to addressing previously reported audit findings in a timely manner as 40 percent (20 of 50) of the previously reported audit findings were either not resolved or only partially resolved in 2020-21.

Annual reports

Almost all reporting agencies included complete and accurate versions of their audited financial statements with the auditor's report, and the statement of performance with the limited assurance report, in their draft annual reports provided to the Audit Office. For the small number of instances where errors were identified, they were promptly addressed by the agencies in the published versions of the annual reports on their website.

Status of audit findings

2.5 The status of audit findings reported by the Audit Office to agencies in audit management reports over the three years is shown in Table 2-1.

Table 2-1 Status of audit findings

| Year | Previously Reported | Resolved | Partially Resolved | Not Resolved | New | Balance |
|---------|---------------------|----------|--------------------|--------------|-----|---------|
| 2020-21 | 50 | (30) | 9 | 11 | 28 | 48 |
| 2019-20 | 44 | (25) | 11 | 8 | 31 | 50 |
| 2018-19 | 63 | (41) | 10 | 12 | 22 | 44 |

2.6 The total number of audit findings have decreased slightly from 50 in 2019-20 to 48 in 2020-21, as agencies resolved a higher number of audit findings compared with new audit findings identified by the Audit Office.

2.7 This is in contrast to the significant reduction of 30 percent achieved in 2018-19 where the number of findings decreased from 63 at the beginning of the reporting period to 44 by the end of the reporting period largely due to the higher number of findings resolved by the agencies.

2.8 The efforts of the agencies in implementing audit recommendations to improve their governance arrangements, reporting practices and internal controls are reflected in the large number of resolved audit findings over the past three years. However, agencies

need to continue to focus on addressing issues identified by the Audit Office as 40 percent (20 of 50) of the previously reported audit findings remain not resolved or only partially resolved in 2020-21.

- 2.9 A steady number of new audit findings have been identified over the three reporting periods from the financial statements audits and limited assurance engagements on statements of performance. This indicates that continued attention is required from those charged with the governance of agencies to address a range of deficiencies reported in the audit management reports.

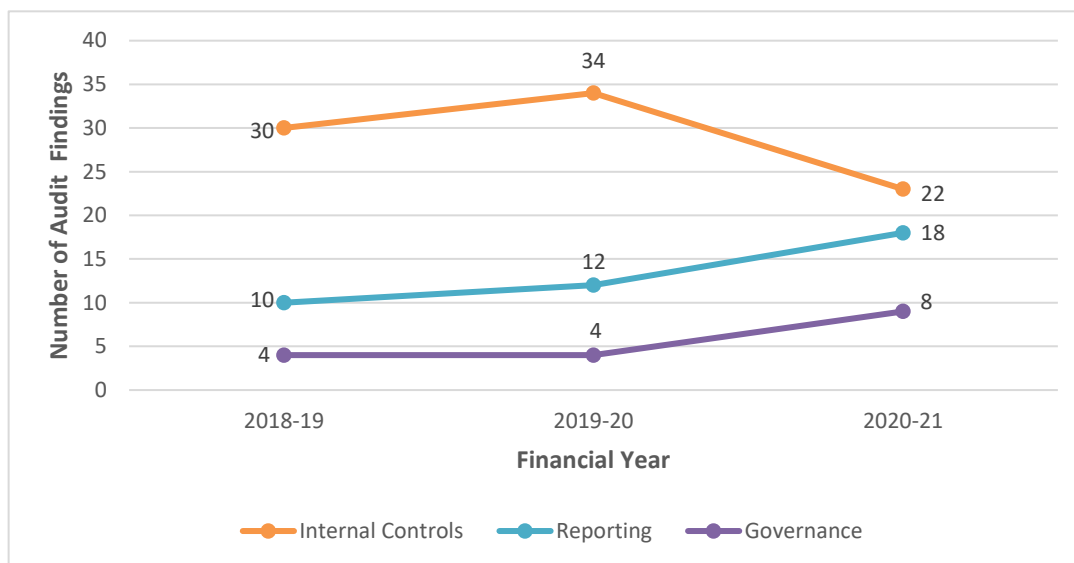
Categories of audit findings

- 2.10 The audit findings reported in the audit management reports of agencies are categorised under the headings of internal controls, reporting and governance. A description of these categories is provided in the table below.

| Category | Description |
|-------------------|---|
| Internal controls | <ul style="list-style-type: none"> Key controls which are ineffective or non-existent. Control weaknesses which are systemic or undermine the control environment. |
| Reporting | <ul style="list-style-type: none"> Matters that resulted in, or could result in, a modified auditor's report or modified limited assurance report if not addressed by the agency. Matters where reporting practices should be improved. |
| Governance | <ul style="list-style-type: none"> Matters that pose an operational or financial risk to the agency. Matters which have been previously reported to management but have not been satisfactorily addressed. |

- 2.11 Figure 2-1 shows the number of findings reported in each category to agencies in audit management reports from 2018-19 to 2020-21.

Figure 2-1 Categories of audit findings



- 2.12 The highest category of findings reported to agencies over the three years relates to internal controls.
- 2.13 The number of audit findings relating to internal controls has fallen from 34 in 2019-20 to 22 in 2020-21 mainly as a result of agencies improving their processes for the review of salary reports, reconciliation of key systems with general ledgers, and the segregation of duties relating to financial transactions.
- 2.14 While agencies are making some progress in implementing and maintaining effective internal controls, they need to continue to focus on rectifying issues identified by the Audit Office as deficiencies in internal controls still represent about half of the audit findings (46 percent or 22 of 48) reported to agencies in 2020-21.
- 2.15 Audit findings relating to governance arrangements and reporting increased from 16 in 2019-20 to 26 in 2020-21. Areas that required improvement included key governance documentation such as risk management, fraud and corruption prevention plans, and instructions relating to record keeping for assets and aspects of the financial management function.

New audit findings

- 2.16 The Audit Office reported 28 new audit findings in 2020-21. Of these, several similar issues were identified across the reporting agencies in relation to internal control deficiencies, weaknesses in governance arrangements, and improvements required in reporting practices. These findings related to:
- documentation and review processes, such as, the independent review of journals before they are included in the general ledger;

- measuring and reporting results for accountability indicators in the statement of performance in accordance with the *Financial Management Act 1996*;
- accountability indicators in the statement of performance that are useful and well defined;
- accuracy of calculations, working papers and records supporting balances in the financial statements;
- accounting policies and procedures, such as guidance required to staff preparing financial statements having complex balances, to comply with the relevant Australian Accounting Standards; and
- governance documents, including risk management, and fraud and corruption prevention plans to ensure they are current and up to date.

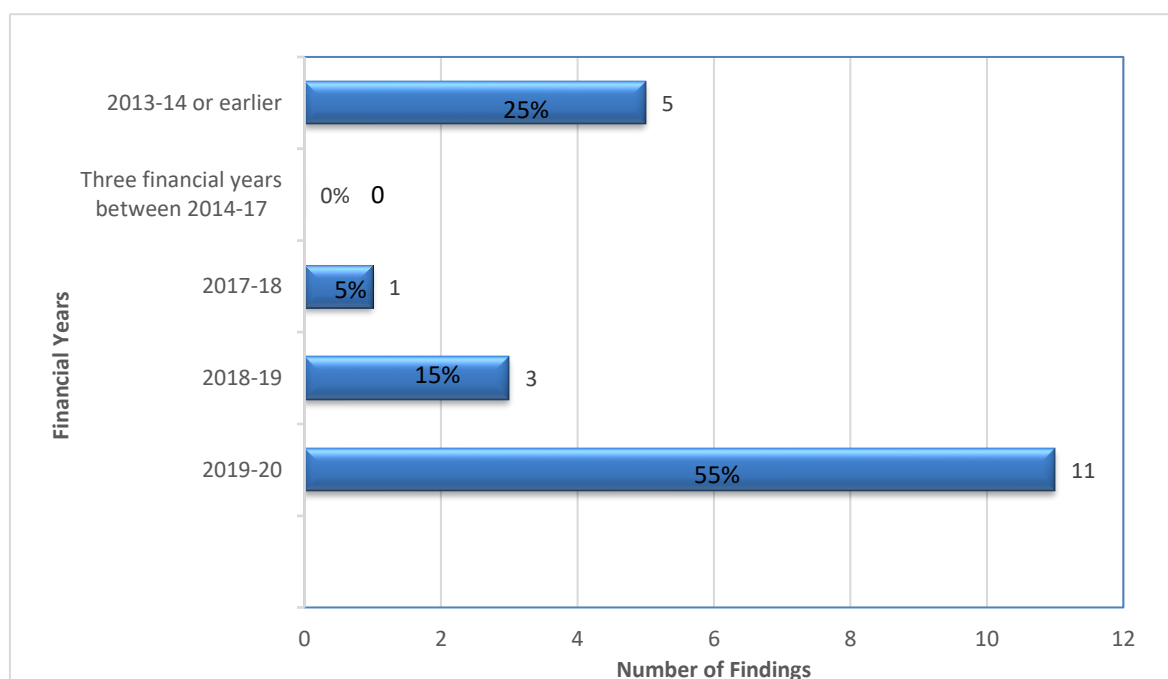
Audit findings not resolved

2.17 As of 30 June 2021, 20 of the 50 (40 percent) audit findings which were previously reported to agencies remained either partially resolved or not resolved.

2.18 The audit management report includes a suggested timeframe for the agency to implement audit recommendations (e.g., within 3, 6 or 12 months) and an update on progress made by the agency in addressing previously reported audit findings that remain unresolved.

2.19 Figure 2-2 shows a breakdown of when these 20 audit findings not resolved or partially resolved were first reported to agencies.

Figure 2-2 Aging of 2020-21 audit findings not resolved or partially resolved



- 2.20 Of the 20 not resolved audit findings, 5 (25 percent) were first reported to agencies seven or more years ago (2013-14 or earlier). Most of these findings were in relation to the review of salary reports where instances of control breakdowns continue to be identified despite improvements being implemented in this area in recent years.
- 2.21 All audit findings reported in 2014-15, 2015-16 and 2016-17 have been resolved by agencies. This demonstrates that agencies have responded positively to the recommendations made by the Audit Office where these are capable of being implemented without significant changes to processes or systems.
- 2.22 The one (5 percent) not resolved audit finding reported in 2017-18 relates to reporting practices of an agency where the usefulness and clarity of accountability indicators reported in the statement of performance could be improved. While this agency has reviewed its accountability indicators as part of the annual budget preparation processes, some indicators require further review and improvement.
- 2.23 Some audit findings not resolved since 2017-18 includes where agencies have responded as 'partially agreed' to implement the recommendations from the Audit Office. Resolving these findings may require an assessment of alternative views or compensating controls implemented by respective agencies to address the risks reported by the Audit Office.
- 2.24 The auditor's reports on the financial statements of the agencies with not resolved audit findings were not modified in respect of these findings. While the audit recommendations on these findings present an opportunity for improvement, the findings did not have a material impact on the financial results reported in the respective financial statements.
- 2.25 Where audit findings were as a result of not measuring a result for accountability indicator or for not establishing accountability indicators, a limited assurance report on respective statement of performance included an emphasis of matter paragraph stating non compliance with the requirements of the *Financial Management Act 1996*.

Annual reports

- 2.26 Reporting agencies prepare their annual reports in accordance with the Annual Reports Directions issued by the Chief Minister, Treasury and Economic Development Directorate under the *Annual Reports (Government Agencies) Act 2004*.
- 2.27 The Annual Reports Directions require agencies to make their annual reports available to the community on the relevant website on the same day their annual report is tabled in the ACT Legislative Assembly.
- 2.28 The annual reports of reporting agencies include their audited financial statements and auditor's report, and where applicable, their statement of performance and limited assurance report.

Responsibilities

- 2.29 Reporting agencies are responsible for ensuring their annual report includes:
- accurate and complete versions of their audited financial statements and where applicable, statement of performance; and
 - the auditor's report on the financial statements and where applicable, limited assurance report on the statement of performance.
- 2.30 The Audit Office is required by Australian Auditing Standards to review the annual reports of reporting agencies to confirm that the:
- financial statements and statement of performance are accurate and complete;
 - auditor's report and limited assurance report have been included; and
 - relevant financial and performance information in the annual report is consistent with the audited financial statements and statement of performance.
- 2.31 To complete this review, the Audit Office checks the draft copy of the agencies annual report prior to the agencies publishing their annual report for the community on the relevant website. The Audit Office also reviews whether agencies have published a copy of their annual report on the relevant website on the day it was tabled in the ACT Legislative Assembly.

Financial and performance information

- 2.32 Almost all reporting agencies included complete and accurate versions of their audited financial statements with the auditor's report, and where applicable, their statement of performance with the limited assurance report, in their draft annual reports submitted to Audit Office for review.
- 2.33 For the small number (6) of agencies where errors were identified, the Audit Office informed agencies of corrections required to rectify the discrepancies identified during the review of the draft annual reports. The errors identified were as follows:
- one reporting agency did not include the auditor's report on their financial statements;
 - two reporting agencies did not include the limited assurance report on their statement of performance;
 - one reporting agency did not include the correct version of their financial statements;
 - one reporting agency included incorrect auditor's report; and
 - one reporting agency did not include the statement of responsibility page in its statement of performance.
- 2.34 These reporting agencies subsequently corrected the identified discrepancies in their published website versions of their annual report.

Timeliness

- 2.35 Almost all reporting agencies complied with the requirements of the Annual Reports Directions issued under the *Annual Reports (Government Agencies) Act 2004* to publish a copy of their annual report on the relevant website on the day it was tabled in the ACT Legislative Assembly.
- 2.36 One agency placed their annual report on their website one working day after the due date.

3 COMPUTER INFORMATION SYSTEMS

Introduction

As part of the annual financial audit of agencies, the Audit Office reviews controls over computer information systems that are used to ensure the accuracy, completeness and reliability of information reported in their financial statements.

This chapter includes a summary of the audit findings identified in relation to the information technology general controls used by agencies as well as the controls over specific financial applications.

Conclusion

The Audit Office assessed controls over computer information systems used by agencies to prepare their financial statements as satisfactory. This means that these controls provide reasonable assurance that the information reported by agencies in their financial statements from these systems is reliable, accurate and complete.

There are however control weaknesses that need to be addressed by agencies to further reduce the risk of errors and fraud in their financial information, unauthorised access to sensitive information, and cyber security attacks.

General controls over computer information systems

- 3.1 General controls over computer information systems include, for example, the overarching policies, procedures and activities used to manage operating systems, networks, user access, data centres and system changes. These controls are particularly important as they can impact on the proper operation of all applications (financial and non-financial) used by ACT Government agencies.
- 3.2 The general controls implemented by agencies over their computer information systems continue to provide reasonable protection against the risk of:
 - errors and fraud in financial information;
 - unauthorised access to sensitive information; and
 - loss of data and the inability to promptly recover systems in the event of a major disruption or disaster.
- 3.3 However, there are a few weaknesses that need to be addressed to provide further protection against these risks.

Status of audit findings

3.4 Table 3-1 shows the status of general control audit findings reported to agencies in audit management reports in recent years.

Table 3-1 Status of general controls audit findings

| Year | Previously reported | Resolved | Partially resolved | Not resolved | New | Balance |
|---------|---------------------|----------|--------------------|--------------|-----|---------|
| 2020-21 | 3 | (1) | - | 2 | - | 2 |
| 2019-20 | 4 | (1) | - | 3 | - | 3 |
| 2018-19 | 7 | (3) | 2 | 2 | - | 4 |
| 2017-18 | 9 | (3) | 3 | 3 | 1 | 7 |
| 2016-17 | 13 | (4) | 5 | 4 | - | 9 |

3.5 Of the three previously reported audit findings on general controls, one (33 percent) was resolved in 2020-21 and two were not resolved.

3.6 There were no new audit findings identified in general controls in 2020-21.

3.7 The number of general controls audit findings reported to agencies over the last five years has steadily reduced from nine in 2016-17 to two in 2020-21. There has also only been one new audit finding identified during the last five years.

Audit findings

3.8 The previously reported audit findings in relation to general controls over computer information systems were in relation to information security and change management.

3.9 The findings and the recommendations made to address them are discussed below.

Information security

3.10 To protect the confidentiality, integrity, and availability of information held in computer systems, the security controls over these systems is an important part of every agency's protective security arrangement.

3.11 All agencies have a responsibility to consider how their information technology security arrangements may impact other agency's information security arrangements due to the interconnectivity of information systems across the ACT Government. For example, a weakness in one agency's information technology arrangements that affects the security of the ACT Government network, such as the use of generic user accounts, could also affect the security of other agency's information systems and data that are also accessed on that network.

- 3.12 A previously reported weakness in relation to controls over information security, regarding controls over the management of access to the ACT Government network (relating to inactive user accounts on the ACT Government Network) was resolved and the other relating to application whitelisting, while progressed, is not yet resolved. These matters are detailed below.

Management of Access to the ACT Government Network (finding resolved)

Inactive user accounts

- 3.13 Inactive network user accounts pose a risk to the ACT Government and agencies as these accounts may belong to terminated employees (i.e. employees who have ceased employment) who no longer require and in fact are not permitted access to systems and data. Furthermore, these user accounts are more susceptible to being hacked as the activities undertaken using these accounts are more likely to go unnoticed. Therefore, user accounts that have not been used for a specified period (usually no more than 90 days) should be disabled.
- 3.14 Digital, Data and Technology Solutions' (formerly Shared Services ICT) ICT Security Policy states that ICT systems should ensure that a user's access is suspended after 90 days of inactivity.
- 3.15 Since 2015-16, the Audit Office has reported to Chief Minister, Treasury and Economic Development Directorate (Digital, Data and Technology Solutions) that there were many inactive user accounts on the ACT Government network and has recommended that Digital, Data and Technology Solutions disable inactive user accounts in accordance with its ICT Security Policy.
- 3.16 In 2020-21, Digital, Data and Technology Solutions resolved this weakness by implementing an automated process to disable user accounts which have been inactive for the period set out in the User Identity and Authentication Standard.
- 3.17 This reduces the risk of unauthorised or fraudulent access to data and applications on the ACT Government network.

Whitelisting of applications (finding not resolved)

- 3.18 Application whitelisting allows only specified programs to operate on computer systems and prevents the operation of unauthorised or malicious programs (viruses) that may have been downloaded onto a computer from email attachments, portable storage devices or the internet. It reduces the risk of unauthorised access to systems and data from the exploitation of vulnerabilities by malicious programs (e.g. computer viruses).
- 3.19 Application whitelisting has been previously identified by the Australian Signals Directorate (ASD) as one of the essential eight mitigation strategies against targeted cyber security attacks.

- 3.20 Since 2014-15, the Audit Office has reported to Digital, Data and Technology Solutions that application whitelisting has not been implemented for desktop or server computer systems operating on the ACT Government network. This increases the risk of unauthorised access to systems and data from the exploitation of vulnerabilities by malicious programs (e.g. computer viruses).
- 3.21 Application whitelisting has been completed for Windows Server 2019 and Windows 10 Systems on the ACT Government network. However, the implementation of application whitelisting is not universal across the ACT Government network, as it has not been implemented for legacy Windows versions and Linux/Solaris systems.
- 3.22 In 2020-21, Digital, Data and Technology Solutions advised that work with the directorates to analyse and scope viable options to upgrade or re-platform their affected windows systems has progressed but is yet to be completed.
- 3.23 Digital, Data and Technology Solutions agreed with the Audit Office's recommendation to address this weakness and advised:

Digital, Data and Technology Solutions (DDTS) will continue to work with the directorates to analyse and scope viable options to upgrade or re-platform their affected systems.

DDTS will perform a risk assessment on the Linux and Solaris services to ensure compensating controls are an effective replacement for application whitelisting on these platforms.

Change management

- 3.24 Controls over changes to computer information systems are essential to provide assurance that:
- changes operate as intended;
 - the integrity of systems and data is preserved;
 - system performance is maintained; and
 - erroneous or fraudulent changes are prevented or detected.
- 3.25 One previously reported weakness in relation to the reconciliation of system changes has not been resolved. This is discussed below.

Reconciliation of system changes (finding not resolved)

- 3.26 Reconciling system changes recorded in audit logs to records of authorised changes in the change management system provides assurance that system performance problems or security vulnerabilities caused by unauthorised changes will be identified and rectified in a timely manner.
- 3.27 Since 2012-13, the Audit Office has reported to Digital, Data and Technology Solutions that reconciliations of system changes recorded in audit logs to records of authorised changes in the change management system are not performed for Government Critical Systems. This

increases the risk that erroneous or fraudulent changes to these systems will not be identified and rectified in a timely manner.

- 3.28 Digital, Data and Technology Solutions have advised that they conduct regular manual audits of selected changes to mitigate the risk of unauthorised changes not being detected, however this provides less assurance than a complete reconciliation of all system changes.
- 3.29 In 2020-21, Digital, Data and Technology Solutions advised that work to implement an automated process to discover unauthorised changes against configuration item records was still being progressed and was delayed due to COVID-19 pandemic responses.
- 3.30 Digital, Data and Technology Solutions agreed with the Audit Office's recommendation to address this weakness and advised:

...The new Configuration Management Database (CMDB) is in place, however automatic discovery of Configuration Items is still being refined, and Service Mapping is progressing slowly. The automatic detection and reconciliation of discovered changes with logged change records is dependent on a mature CMDB and Service Mapping. Change Management has started Research & Development activities with the functionality and its configuration in the test environment.

Controls over specific major financial applications

- 3.31 This section contains a summary of the findings identified during the Audit Office's review of controls over specific major financial applications used by agencies to record transactions included in their financial statements.
- 3.32 These controls include the policies, procedures and activities used to manage applications and their data and include, for example, controls over data entry and processing, user access, application changes, monitoring of user activities, and data backup and restoration.
- 3.33 Controls over computer information systems are an important means of providing agencies with assurance that the:
- information used to prepare their financial statements is authentic, accurate and reliable;
 - applications operate as intended and in a consistent manner; and
 - information maintained by agencies is secure.
- 3.34 Applications reviewed as part of the financial audits of ACT government agencies include:
- Accounts Payable Invoice Automation Solution (APIAS) – the system used by most ACT Government agencies to automate the recording and approval of supplies and services (administrative) expenditure. The Chief Minister, Treasury and Economic Development Directorate (Shared Services) is responsible for managing this system;
 - CHRIS21 – the human resource management information system used by most ACT Government agencies to process and record the salary payments and leave

- entitlements of ACT public servants. The Chief Minister, Treasury and Economic Development Directorate (Shared Services) is responsible for managing this system;
- Cashlink – several agencies use this system to record amounts received from members of the public for taxes, fees and fines. The Chief Minister, Treasury and Economic Development Directorate (Access Canberra) manages Cashlink;
 - Community 2011 – the system used by the Chief Minister, Treasury and Economic Development Directorate (ACT Revenue Office) to record revenue such as general rates and land tax;
 - Homenet – the system used to process and record rental revenue from public housing tenants and to manage information on social and public housing services. Housing ACT is responsible for the management of Homenet;
 - Maze – the school administration system used by ACT public schools to process and record the revenue and expenses of schools. Maze is managed by the Education Directorate;
 - MyWay – the ticketing system used to process and record bus and light rail fare revenue. MyWay is managed by Transport Canberra Operations;
 - ORACLE – the financial management information system used by most ACT Government agencies. The Chief Minister, Treasury and Economic Development Directorate (Shared Services) is responsible for managing this system;
 - rego.act – the system used to record motor vehicle registrations, drivers' licences, traffic and parking infringement revenue. The Chief Minister, Treasury and Economic Development Directorate (Access Canberra) manages rego.act; and
 - TRev – the system used by the Chief Minister, Treasury and Economic Development Directorate (ACT Revenue Office) to record taxes and fee revenue (such as payroll tax and stamp duty).

Status of audit findings

- 3.35 Table 3-2 shows the status of audit findings reported to agencies in audit management reports by application.

Table 3-2 Status of audit findings by application

| Application | Previously Reported | Resolved | Partially Resolved | Not Resolved | New | Balance |
|----------------|---------------------|------------|--------------------|--------------|----------|----------|
| APIAS | 1 | - | 1 | - | - | 1 |
| CHRIS21 | 2 | - | 2 | - | - | 2 |
| Cashlink | 2 | (2) | - | - | - | - |
| Community 2011 | 5 | (4) | - | 1 | - | 1 |
| Homenet | - | - | - | - | 2 | 2 |
| Maze | 1 | - | - | 1 | - | 1 |
| ORACLE | 1 | - | - | 1 | - | 1 |
| TRev | - | - | - | - | 1 | 1 |
| Total | 12 | (6) | 3 | 3 | 3 | 9 |
| | | | | | | |

3.36 Of the twelve previously reported audit findings, the Audit Office found that agencies had resolved six (50 percent) and partially resolved three (25 percent) of these findings. The remaining 3 (25 percent) findings were not resolved.

3.37 Three new findings were identified by the Audit Office during its review of application controls in 2020-21. These were in relation to the TRev and Homenet applications.

3.38 The number of audit findings on controls over specific major financial applications has decreased by three (25 percent) from twelve in 2019-20 to nine in 2020-21.

Audit findings

3.39 Audit findings in relation to controls over specific major financial applications can be categorised into the following areas:

- information security;
- business continuity and disaster recovery arrangements;
- data processing;
- change management processes; and
- governance arrangements.

3.40 Audit findings in each of these relevant categories are discussed on the following page.

Information security

- 3.41 Threats to the integrity, confidentiality and availability of information can occur due to electronic transactions (e-commerce) and security exposures such as viruses, intrusions and unauthorised releases of confidential information.
- 3.42 Information security controls are safeguards to avoid, detect, counteract or minimise security risks to computer information systems. Effective security controls need to be implemented over applications to ensure:
- information recorded in computer applications is authentic (not fraudulent), accurate and available when required;
 - the confidentiality and privacy of information stored on applications is maintained and information is only accessed by authorised users; and
 - legislative and regulatory requirements and standards are complied with.
- 3.43 Weaknesses were identified in information security controls relating to user access management, monitoring of audit logs, segregation of duties, generic user accounts, and password controls for several applications. These are discussed below.

User access management

- 3.44 To ensure there is an appropriate level of access to applications and information while preventing access by unauthorised users, user access needs to be effectively managed. This requires implementing policies and procedures for the creation, modification, revocation and regular review of user access so:
- users only have a level of access that aligns with their roles and responsibilities; and
 - the access of employees is promptly removed when no longer required (for example, departing employees).

Community 2011 (finding resolved)

- 3.45 In 2019-20, the Audit Office reported to the ACT Revenue Office several weaknesses in relation to the management of user access for the Community 2011 application which increased the risk of unauthorised and fraudulent access to the application and data.
- 3.46 In 2020-21, the ACT Revenue Office resolved the previously reported audit finding by:
- updating the user access matrix to accurately reflect the access rights for each role or function to facilitate the review of whether the assignment of access privileges to a user is appropriate;
 - amending the Community 2011 request for user access form to remove the option of granting user access based on another users' access and only grant user access based on the approved user access matrix. This reduces the possibility of a new user being

unintentionally granted a greater level of access privilege based on another user's approved access; and

- identifying users with privilege user access rights in the procedures for the regular review of user access to allow easy identification of users with inappropriate levels of access.

3.47 This reduces the risk of unauthorised and possibly fraudulent access to the Community 2011 application and data.

Monitoring of audit logs

3.48 Audit logs are system-generated records of activities performed by users. These include, for example, details of users accessing a system, times, dates and locations of access and the various actions performed by users.

3.49 Monitoring of audit logs should be performed on a regular basis to reduce the risk of undetected erroneous or fraudulent changes being made to computer information systems and data.

3.50 As privileged users can perform actions such as changing system security settings or roles and responsibilities of users, their actions should be regularly reviewed by someone independent of these users to promptly detect fraudulent changes to applications and data.

Cashlink (*finding resolved*)

3.51 In 2019-20, the Audit Office reported to Access Canberra that there was no independent regular monitoring (i.e. on a quarterly basis) of privileged user access to the Cashlink receipting system (Cashlink) server and database in accordance with the Cashlink user access policy. In particular, the independent review had only been undertaken once in December 2019 to cover the entire financial year.

3.52 In 2020-21, Access Canberra resolved the previously reported audit finding by:

- performing reviews of audit logs of activities performed by system administrators on a quarterly basis in accordance with the Cashlink user access policy;
- performing reviews of audit logs of activities performed by database administrators on a quarterly basis in accordance with the Cashlink user access policy; and
- retaining evidence of these reviews, including the date, name and position of the reviewing officer. Evidence was also retained to support that any errors or irregularities identified from the reviews had been investigated and resolved.

3.53 This reduces the risk of undetected erroneous and fraudulent changes to Cashlink.

Community 2011 (*finding resolved*)

3.54 In 2019-20, the Audit Office reported to the ACT Revenue Office several weaknesses in relation to the monitoring of audit logs for the Community 2011 application which increased the risk of erroneous or fraudulent changes to the Community 2011 application and data.

- 3.55 In 2020-21, the ACT Revenue Office resolved the previously reported audit finding by:
- identifying which transactions and changes within Community 2011 are high-risk for monitoring;
 - logging activities performed by privileged users;
 - regularly performing independent reviews of the activities performed by privileged users within Community 2011 for high-risk transactions and changes; and
 - documenting a summary of the results of the logs reviewed to provide a formal record of actions undertaken in relation to issues identified as part of the review process.
- 3.56 This reduces the risk of undetected erroneous and fraudulent changes to the Community 2011 application.

Community 2011 (finding not resolved)

- 3.57 Since 2013-14, the Audit Office has reported that the ACT Revenue Office has not documented the procedures for the review of audit logs of changes made by Community 2011 database administrators or performed reviews of these audit logs. In prior years, the ACT Revenue Office advised that the review of audit logs cannot be performed because the current version of the Community 2011 system does not have the functionality to log changes made by the database administrators.
- 3.58 Since 2018-19, the ACT Revenue Office agreed with the Audit Office's recommendation to:
- formally assess the risk associated with the Community 2011 system not being capable of logging changes made by database administrators. This assessment should be documented and used as a basis for ACT Revenue Office's decision about the timing of the upgrade or replacement of the Community 2011 system to provide this capacity; and
 - assess whether other compensating controls or reviews can be implemented that may assist mitigate this risk until the system is upgraded or replaced.
- 3.59 These recommendations have not been implemented in 2020-21. This weakness increases the risk that erroneous or fraudulent changes will not be promptly detected and addressed.
- 3.60 The ACT Revenue Office has agreed to address this weakness.

Maze (finding not resolved)

- 3.61 Maze is the school administration system was used by ACT public schools to process and record the revenue and expenses of schools until early 2021.
- 3.62 Since 2011-12, the Audit Office has reported to the Education Directorate that Maze does not have the capability to generate audit logs on user access to the system and changes made to its data and therefore audit logs cannot be reviewed. This increases the risk that erroneous or fraudulent changes to the school administration system and data will not be promptly detected and rectified.

- 3.63 The Education Directorate has advised that the above control weakness has since been addressed by the replacement of the Maze with the new School Administration System (SAS). SAS generates audit logs of user access and changes made to its data.

TRev (new finding)

- 3.64 In 2020-21, Audit Office reported to the ACT Revenue Office that the activities of the system administrators are monitored by an independent officer reviewing a spreadsheet that the system administrators use to record their activities rather than the TRev system generated audit logs.
- 3.65 This limits the integrity of the review process, as the record (spreadsheet) that is subject to review by the independent officer is maintained by the users that are being reviewed. For example, a system administrator could amend or leave out an entry from the spreadsheet to avoid a fraudulent change from being detected during a review.
- 3.66 In addition, audit logs of activities performed by privileged users were not reviewed on a quarterly basis in accordance with the policy (Business systems privileged user review policy). The review of the audit logs of activities performed by privileged users for the first three quarters of 2020-21 financial year were performed in June 2021.
- 3.67 This increases the risk that erroneous or fraudulent changes to the TRev application, and its data will not be detected and promptly addressed when the reviews are not performed in an effective and timely manner.
- 3.68 The ACT Revenue Office has agreed to address this weakness.

Segregation of duties

- 3.69 A key preventative control in mitigating the risks of unauthorised and potentially fraudulent activities in computer information systems is to segregate incompatible duties between users. For example, duties assigned to users should be appropriately segregated so a single user cannot initiate and complete a transaction.

ORACLE (finding not resolved)

- 3.70 The Audit Office first reported to Shared Services in 2017-18 that staff in the Financial Applications Support Team (FAST), who are the ORACLE system administrators, have the ability to create new user profiles in ORACLE without the need for secondary approval.
- 3.71 While ORACLE controls require two user accounts to authorise updates to vendor records and to pay an invoice, the system administrators could create multiple user accounts without secondary approval to by-pass these controls. Therefore, system administrators could for example, make fraudulent payments by creating two fictitious user accounts with the required functionality to update and approve changes to vendor records, and approve payments to a chosen bank account. On this basis, the Audit Office has recommended that

Shared Services remove the ability of the system administrators to create user profiles without secondary approval.

3.72 In 2018-19, Shared Services advised that the current version of ORACLE does not have the functionality to restrict system administrators from creating user accounts without secondary approval and therefore they have introduced the following compensating controls to address this weakness:

- a manual form is required to be completed to document the approval of new user accounts; and
- a notification email is sent to all staff within FAST when a new user account is created or an existing user account has been modified by a system administrator.

3.73 The Audit Office assessed that while the compensating controls implemented by Shared Services provide a deterrent, system based preventative controls are more effective because they are consistently applied and can prevent unauthorised and fraudulent changes instead of identifying them after they occur. Therefore, the Audit Office recommended that in the absence of system based preventative controls Shared Services should:

- document its risk assessment in the ORACLE System Security Plan; and
- include the requirement for system based controls which would prevent a system administrator from being able to create and use multiple user accounts in any future upgrade or replacement of the ORACLE application.

3.74 Shared Services agreed with the Audit Office's recommendations and advised that as of June 2021, a whole-of-government financial system feasibility study has been completed and has progressed to the budget assessment stage. The risk assessment has been documented in the ORACLE System Security Plan, however, the updated plan has not yet been endorsed as final.

Generic (shared) user accounts

3.75 A generic (shared) user account refers to a single unique login account that is used by more than one person. These accounts compromise ICT security because they reduce management's ability to trace the actions of a user to a specific person. There is a higher risk of unauthorised or fraudulent access to data and applications when generic user accounts are used.

CHRIS21 (finding partially resolved)

3.76 Since 2013-14, the Audit Office has reported to Shared Services that a few staff can make changes to EFT payment files (i.e. salary payments) from the CHRIS21 application before they are sent to the bank to be processed. Ideally, no user should have access to the directory that allows them to change the EFT payment files because this enables erroneous or fraudulent payments to be made. Shared Services advised this access is required for operational reasons.

- 3.77 Shared Services has partially resolved this finding in recent years by implementing mitigating controls, such as restricting access to only a few staff and performing reviews of audit logs of user activity in the directory containing EFT payment files. However, as the CHRIS21 EFT payment files can still be changed via a shared user account, it reduces management's ability to trace users' actions, including fraudulent changes, to a specific individual. This weakness continues to exist in 2020-21.
- 3.78 Due to limitations in CHRIS21, Shared Services has advised that they will address this weakness as part of the project to procure a new Human Resources Information Management System which is expected to be operational in 2021-22.

Password Controls

- 3.79 Strong password controls are fundamental to system security as they reduce the likelihood of unauthorised access to a network or application. For example, passwords with greater complexity are less likely to be guessed or cracked.
- 3.80 The ACT Government's Password Standard (Password Standard) requires passwords to contain a combination of lowercase and uppercase letters, numbers and special characters. When users change their passwords, a message is displayed on the screen which states the necessary complexity for the password.

Homenet (new finding)

- 3.81 In 2020-21, the Audit Office reported to Housing ACT that the Homenet system's password controls are non-compliant with the Password Standard and its own ICT Security Plan.
- 3.82 The Audit Office noted the following weaknesses in relation to the Homenet system's password settings:
- password length is set at a minimum of eight characters as opposed to the ten alphanumeric characters recommended by the Password Standard and the ICT Security Plan;
 - password complexity rules are not enforced to be consistent with the ICT Security Plan, where the system only requires 1 alpha and 1 numeric character (as opposed to the ICT Security Plan, which also requires 1 uppercase, 1 lowercase and 1 other character type); and
 - password history is set to 5, where the ICT Security Plan does not allow for the reuse of previous passwords.
- 3.83 Where password parameters are not enforced in accordance with the Password Standard and Homenet ICT Security Plan and the system does not 'enforce' users to use complex passwords, the users can use weak passwords. A weak password is more easily guessed or otherwise compromised, increasing the risk of unauthorised and possibly fraudulent access to the system.

- 3.84 Housing ACT has advised that the above control weaknesses in relation to the Homenet system's password settings have since been addressed.

Business continuity and disaster recovery arrangements

- 3.85 A business continuity plan helps ensure an organisation's operations continue in the event of an unexpected incident or disaster that adversely affects critical systems, including the ability to use software or hardware and process data. Disaster recovery plans, which include backup and recovery processes, are procedures developed to restore critical systems with minimal (or no) loss of data or functionality.
- 3.86 Development of these plans provide assurance that ACT Government agencies will be able to respond to an incident or disaster and promptly recover its critical systems and data.
- 3.87 The effectiveness of business continuity and disaster recovery plans need to be regularly tested to help ensure that critical systems will be recovered, and operations promptly resumed if a disaster or other disruption were to occur.

Community 2011 (finding resolved)

- 3.88 In 2019-20, the Audit Office reported to the ACT Revenue Office several weaknesses in relation to the management of business continuity and disaster recovery arrangements for the Community 2011 application which increases the risk that they will not be able to resume operations, without the loss of information, in a timely manner in the event of major disruption or disaster.
- 3.89 In 2020-21, the Directorate resolved this previously reported audit finding by updating the Business Continuity and Disaster Recovery Plan to reflect current system arrangements (i.e. the cloud hosted environment) and testing the plan on a regular basis (i.e. annually).
- 3.90 This reduces the risk of the Community 2011 application not being able to be resumed, without the loss of data, in a timely manner in the event of a major disruption or disaster.

Data processing

- 3.91 Data processing is important as the data contained in any IT system is only as good as the quality and accuracy of the data entered into it. Controls over data processing are therefore required to provide assurance over the completeness, accuracy, and validity of data within systems.
- 3.92 The manual entry of data from one system to another can be slow, resource intensive and prone to human error. Therefore, where possible, automated processes should be used to reduce the risk of error, save time and consequently reduce costs.
- 3.93 A weakness remains in data processing controls relating to the CHRIS21 application. This is discussed below.

CHRIS21 (finding partially resolved)

- 3.94 Since 2015-16, the Audit Office has reported to Shared Services that CHRIS21 does not support the recording of timesheet and leave data (e.g. personal leave, annual leave and long service leave) for casual and shift workers. As a result, some ACT Government agencies use their own systems (e.g. PROACT (ACT Health Directorate) and KRONOS (Justice and Community Safety Directorate)) to record timesheet and leave data for casual and shift workers.
- 3.95 While timesheet data is uploaded into CHRIS21 from each of these systems largely via an automated process, leave data for the PROACT and KRONOS systems can only be manually entered by the payroll team into CHRIS21.
- 3.96 In 2019-20, Shared Services partially resolved this finding by automating the process of importing leave data from the PROACT system into CHRIS21 for the majority of the casual and shift working staff. However, leave data from the KRONOS system was still manually entered into CHRIS21.
- 3.97 This weakness continued to exist in 2020-21.
- 3.98 Shared Services has agreed with the recommendations provided by the Audit Office to address this weakness and advised that it will address this weakness as part of the planned replacement of CHRIS21 with the new Human Resources Information Management Solution (HRIMS) which is expected to be operational in 2021-22.

Change management processes

- 3.99 Defined and controlled procedures and processes for making changes to applications are needed so that:
- appropriate changes are made to an application and the integrity of the application, and the associated data is maintained;
 - applications operate as intended and can be used as required; and
 - the risk of unauthorised, untested or unintended changes that may have an adverse effect on the performance of applications and create security vulnerabilities are minimised.
- 3.100 An unauthorised change refers to any change to an application that has not been subject to an approved change management process.
- 3.101 The ACT Government ICT Change Management Policy requires changes to systems be documented in a test plan before being implemented. Changes should be tested in accordance with an approved test plan and the results documented, including the resolution of any problems identified during testing.
- 3.102 A weakness remains in change management controls relating to the APIAS application. This is discussed below.

APIAS (finding partially resolved)

- 3.103 Since 2017-18, the Audit Office reported to Shared Services that there was no process in place for the third-party service provider supporting APIAS to send system generated audit logs of changes made to APIAS to Shared Services for reconciliation to approved changes recorded in the change management system.
- 3.104 In 2018-19, Shared Services advised that the system does not have the capacity to produce a system generated log of changes and agreed to Audit Office's recommendation to:
- assess the risk of not reconciling system generated audit logs of changes made to APIAS to approved changes in the change management system and document this in the APIAS System Risk Management Plan; and
 - assess whether other compensating controls or reviews can be implemented that may assist to mitigate the risk.
- 3.105 In 2020-21, Shared Services partially resolved this audit finding by updating the APIAS Security Risk Management Plan to include the risks and the risk treatment strategies associated with not reconciling system generated logs of changes to the approved changes in the change management system.
- 3.106 However, a compensating control identified as a risk treatment strategy in the APIAS Security Risk Management Plan to regularly review the 'Version Log' to monitor any unplanned changes to the system has not yet been implemented.
- 3.107 There is a higher risk of erroneous changes to APIAS when the risk treatment strategies identified in the APIAS Security Risk Management Plan are not implemented.
- 3.108 Shared Services has agreed to address this weakness.

Governance arrangements

- 3.109 Governance arrangements relate to the processes used by agencies to manage their computer applications to achieve their objectives in an efficient and effective manner. They include, for example, security risk management plans which outline how security risks will be managed for applications, and vendor support agreements for applications and the operating systems that support them.
- 3.110 While weaknesses in governance arrangements relating to the Cashlink and Community 2011 applications were addressed in 2020-21, one new weakness was identified in relation to the Homenet application. This is discussed below.

Unsupported operating system

- 3.111 System vendors usually provide support for major operating systems. This support may include, among other things, releasing 'patches' which protect systems from known security vulnerabilities, or fix errors and address system performance issues.

3.112 This support is usually for a limited time as newer versions of operating systems are developed by the vendor. Operating systems should be upgraded to newer versions before vendors cease providing support for operating systems to provide assurance that servers, applications and data are protected from any security or performance weaknesses.

Cashlink (finding resolved)

3.113 In 2019-20, the Audit Office reported to Access Canberra that the Cashlink application was hosted on a server using the Microsoft Windows Server 2008 operating system which Microsoft ceased providing support for in January 2020.

3.114 In 2020-21, the Directorate resolved the previously reported audit finding relating to Cashlink server by entering into an agreement with Microsoft to provide support until May 2024.

3.115 This reduces the risk that Cashlink and its database will be exposed to security vulnerabilities if Cashlink is hosted on a server which is not supported by the vendor.

Security Risk Management Plans

3.116 A Security Risk Management Plan (formally known as an ICT Security Plan) sets out an entity's arrangements for managing security over a computer information system. The plan addresses how an entity identifies, analyses and prioritises information technology security threats (for example unauthorised access to information) and what resources will be allocated to manage the risks of these threats.

3.117 The ACT Government's ICT Security Policy mandates that agencies must formally assess security risks by developing a security risk management plan for business critical systems. The plan should be reviewed every three years, or when a significant change has occurred in the business, technology or security environment.

Community 2011 (finding resolved)

3.118 In 2019-20, the Audit Office reported to the ACT Revenue Office that the security risk management plan for the Community 2011 application does not reflect the current system architecture, with outdated systems and interfaces being referenced. In addition, the supporting risk register includes risk treatments without identified action plans, owners or due dates.

3.119 In 2020-21, the ACT Revenue Office resolved the previously reported audit finding by updating the Community 2011 Security Risk Management Plan to reflect current system architecture and updating the supporting risk register to include identified action plans, risk owners and due dates for treatments identified.

3.120 This provides more assurance that arrangements for managing security threats over Community 2011 will be effective.

Vendor Support for applications

3.121 A vendor support agreement governs the ongoing maintenance and support of business critical software. It includes arrangements associated with version updates and patching to mitigate the risk of security vulnerabilities and address any system performance issues.

Homenet (new finding)

3.122 In 2020-21, the Audit Office reported to Housing ACT that the vendor support agreement between Housing ACT and the vendor for the provision of the support and maintenance of the Homenet System has expired.

3.123 The lack of a support agreement could impact the ongoing availability of Homenet in the situation where system issues are encountered and may result in an absence of sufficient patching to mitigate security vulnerabilities and system performance issues.

3.124 Housing ACT has agreed with the recommendations provided by the Audit Office to address this weakness.

4 FINANCIAL RESULTS AND AUDIT FINDINGS OF SELECTED REPORTING AGENCIES

- 4.1 This chapter contains a discussion of the financial results of selected reporting agencies and, where applicable, compares these results to budget estimates. It also provides details of audit findings reported in audit management reports provided to these reporting agencies.
- 4.2 Reporting agencies were selected on the basis of their financial significance or where their audit findings were considered to warrant public reporting.

ACT Health Directorate

- 4.3 The ACT Health Directorate (Directorate) is responsible for the planning and development of territory-wide health strategy and policy, implementing health protection programs and services, as well as health population planning and research.
- 4.4 The Directorate also undertakes the design, procurement, delivery, management and support for all critical health information systems and software used by the ACT public health system.
- 4.5 In 2020-21, the Directorate was responsible for leading the Territory's response to the COVID-19 pandemic and the implementation of the COVID-19 vaccination program.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2020-21 financial statements and an unmodified limited assurance report on its 2020-21 statement of performance.
- The net cost of the Directorate's services (\$270 million) was \$19 million (7 percent) lower than budgeted (\$289 million) due to the lower than expected expenses and higher than anticipated income.
- Government contributions (\$249 million) were \$15 million (6 percent) lower than the budgeted amount (\$264 million) as COVID-19 restrictions led to delays and deferrals of some new support services and programs and the planning work for some new computer system projects.
- The Directorate resolved the previously reported audit finding relating to the review of credit card acquittals. No new audit findings were identified in 2020-21.

Financial results

Table 4-1 Key results

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|-----------------------------|--------------------------|--------------------------|--------------------------|
| Expenses | (395) | (404) | (267) |
| Income | 125 | 115 | 20 |
| Net cost of services | (270) | (289) | (247) |
| Government contributions | 249 | 264 | 227 |
| Operating deficit | (21) | (25) | (20) |
| Capital injections | 33 | 35 | 19 |

- 4.6 The Directorate's expenses primarily comprise transfers to the ACT Local Hospital Network Directorate, payments to third parties to provide drug and alcohol counselling and mental health support services, employee costs, computer system and software operating and maintenance expenses as well as amortisation and other administrative costs.
- 4.7 Expenses (\$395 million) were lower than the budgeted amount (\$404 million) by \$9 million mainly due to lower than expected computer expenses as restrictions from the COVID-19 pandemic led to delays in undertaking planning, procurement and design work on the new computer system projects.
- 4.8 The Directorate receives income mostly from:
- transfer revenue and public health services funding from the ACT Local Hospital Network Directorate;
 - other revenue mainly for providing computer project services to other ACT Government agencies; and
 - grants from the Commonwealth and non-government organisations for specific projects including this year for the Clare Holland House expansion project.
- 4.9 Income (\$125 million) exceeded the budgeted amount (\$115 million) by \$10 million (9 percent) due to additional funding from the ACT Local Hospital Network Directorate for the Territory's response to the COVID-19 pandemic, including funding for regular cleaning services on public transport and public schools to reduce the possible risk of transmission of COVID-19.

- 4.10 The net cost of the Directorate's services (\$270 million) was \$19 million (7 percent) lower than budgeted (\$289 million) due to the lower than expected expenses and higher than anticipated income previously mentioned.
- 4.11 Government contributions (\$249 million) were \$15 million (6 percent) lower than the budgeted amount (\$264 million) as restrictions from the COVID-19 pandemic led to delays and deferrals of some new support services and programs such as youth mental health prevention and supporting complex care in General Practice and the planning work for new computer system projects.
- 4.12 Capital injections (\$33 million) were in line with the budget (\$35 million).

Audit findings

Table 4-2 Status of audit findings

| Previously Reported | Resolved | Partially Resolved | Not Resolved | New | Balance |
|---------------------|----------|--------------------|--------------|-----|---------|
| 1 | (1) | - | - | - | - |

- 4.13 The Directorate resolved the previously reported audit finding relating to the timely review of credit card acquittals by ensuring acquittals were completed in the time frame required by the Directorate's 'Corporate Credit Card Procedures'. This provides increased assurance that erroneous or inappropriate use of credit cards will be promptly identified and investigated.
- 4.14 No new audit findings were identified in 2020-21.

ACT Insurance Authority

- 4.15 The ACT Insurance Authority (Authority) operates under the *Insurance Authority Act 2005* to provide insurance to the Territory and ACT Government agencies. It also purchases insurance from external insurance providers to protect against catastrophic risks such as natural disasters and medical malpractice.
- 4.16 The Authority promotes better practices in risk management to ACT Government agencies, settles insurance claims on behalf of the Territory and ACT Government agencies, and provides advice to the Minister about insurance and management of the Territory's risks.

Summary

- The Audit Office issued an unmodified auditor's report on the Authority's 2020-21 financial statements and an unmodified limited assurance report on its 2020-21 statement of performance.
- The Authority recorded an operating surplus of \$43 million compared to the budgeted operating surplus of \$27 million mainly due to higher than expected returns from investments.
- The Authority had sufficient assets to meet estimated insurance claims liabilities at 30 June 2021.

Financial results

Table 4-3 Key results

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|------------------------------------|--------------------------|--------------------------|--------------------------|
| Gross premiums | 49 | 49 | 46 |
| Net returns from investments | 48 | 34 | 11 |
| Income | 97 | 83 | 57 |
| Net incurred claims | (44) | (46) | (51) |
| Reinsurance and other expenses | (10) | (10) | (9) |
| Expenses | (54) | (56) | (60) |
| Operating surplus/(deficit) | 43 | 27 | (3) |

- 4.17 Income comprises mainly of insurance premiums collected from ACT Government agencies and net returns from investments.

- 4.18 Income (\$97 million) was higher than the budgeted amount (\$83 million) by \$14 million (17 percent) due to higher than expected returns from investments resulting from the better than expected performance of global share markets.
- 4.19 Net incurred claims are made up of insurance claims expenses consisting of insurance claims settlement payments, changes in the actuarial estimate of insurance claims liabilities less claim related recoveries from third parties.
- 4.20 The estimate of insurance claims liabilities is affected by the quantity and type of insurance claims received, amounts paid to settle claims, and discount and inflation rates used to estimate the present value of future insurance claims payments.
- 4.21 Net incurred claims (\$44 million) were lower than the budget amount (\$46 million) by \$2 million (4 percent). This was mainly due to an increase in the actuarially estimated insurance claims liabilities from higher property and motor vehicle insurance claims relating to large claims from hail, storm and other property damage events. This was mostly offset by higher than budgeted claim recoveries from reinsurance providers as large claims are expected to exceed reinsurance thresholds.
- 4.22 The Authority operating surplus (\$43 million) was \$16 million (59 percent) higher than the budgeted surplus of \$27 million mainly due to higher than expected revenue.

Financial position

Table 4-4 Net assets

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|---|--------------------------|--------------------------|--------------------------|
| Total assets | 447 | 394 | 357 |
| Total liabilities | (334) | (298) | (288) |
| Net assets | 113 | 96 | 69 |
| Ratio of total assets to total liabilities | 1.3 to 1 | 1.3 to 1 | 1.2 to 1 |

- 4.23 The Authority aims to hold sufficient assets to meet estimated insurance claims liabilities.
- 4.24 The Authority continued to have sufficient assets to cover its liabilities at 30 June 2021. The Authority's ratio of total assets to total liabilities was consistent with the budget expectations.
- 4.25 The Authority's net asset position as at 30 June 2021 (\$113 million) increased by \$44 million from the prior year (\$69 million) mainly due to an increase in investments.

ACT Local Hospital Network Directorate

- 4.26 The functions of the ACT Local Hospital Network Directorate (Directorate) are administered by the Director-General of the ACT Health Directorate. Information on the ACT Health Directorate was provided earlier in this chapter.
- 4.27 Public hospital and health services are funded under the National Health Reform Agreement (and subsequent addendums to the agreement) by the Commonwealth Government and the states and territories. Funding is provided by these parties through the National Health Funding Pool to the Directorate to purchase public hospital services from providers in the ACT (Canberra Health Services, Calvary Public Hospital, Clare Holland House and Queen Elizabeth II Family Centre).
- 4.28 Cross-border health costs for the treatment of interstate residents in ACT public hospitals and for ACT residents treated in interstate public hospitals are settled by joint arrangements in place between the Territory and the other states and the Northern Territory.
- 4.29 In response to the COVID-19 pandemic, the Commonwealth Government along with the states and territories signed the National Partnership on COVID-19 Response Agreement in March 2020. Under this agreement, the Commonwealth Government and the respective state or territory government is to pay an equal share of the cost of treating patients diagnosed with COVID-19 in their respective state or territory as well as provide funding for activities intended to reduce the spread of COVID-19.
- 4.30 In February 2021, the agreement was amended to include the coordination and delivery of COVID-19 vaccines.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2020-21 financial statements and an unmodified limited assurance report on its 2020-21 statement of performance.
- Expenses and cross-border health revenue were \$96 million (6 percent) and \$82 million (41 percent) lower than the budgeted amounts respectively primarily due to a change in funding flows for cross-border health revenue in 2020-21 resulting in budgeted amounts for expense and revenue to be overstated.
- The Directorate's net cost of services (\$1 375 million) was slightly lower than the budgeted net cost of services (\$1 389 million) due to lower than expected expenditure associated with COVID-19 hospitalisation and treatment.

Financial results

Table 4-5 Key results

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Expenses | (1 494) | (1 590) | (1 446) |
| Cross-border health revenue | 119 | 201 | 117 |
| Net cost of services | (1 375) | (1 389) | (1 329) |
| Amounts received from the Commonwealth Government to fund public hospital services | 465 | 489 | 470 |
| Amounts received from the ACT Government to fund public hospital services | 908 | 900 | 869 |
| Operating (deficit)/surplus | (2) | - | 10 |

4.31 Expenses mainly relate to payments to:

- Canberra Health Services, Calvary Public Hospital, Clare Holland House and Queen Elizabeth II Family Centre for providing public hospital and healthcare services to ACT and interstate residents; and
- other Australian states and the Northern Territory for providing public hospital services to ACT residents in their respective jurisdictions under cross-border (interstate) health arrangements.

4.32 Cross-border health revenue is received by the Directorate from other Australian states and the Northern Territory for treating their residents in the ACT public hospital system under cross-border (interstate) health arrangements.

4.33 Expenses and cross-border health revenue were \$96 million (6 percent) and \$82 million (41 percent) lower than the budgeted amounts respectively primarily due to a change in funding flows for cross-border health revenue in 2020-21 resulting in budgeted amounts for expense and revenue to be overstated. All cross-border health revenue received by the Directorate from other states and the Northern Territory is now required to be paid to the ACT Health Directorate before being passed on to the Directorate to purchase public hospital services from providers. The budget was overstated as it anticipated these transactions would be recorded twice as revenue and expenses to include when it is paid to and received from the ACT Health Directorate. However, the Directorate recorded these transactions once in the 2020-21 financial statements to accurately reflect the substance of these transactions.

- 4.34 The Directorate's net cost of services (\$1 375 million) was slightly lower than the budgeted net cost of services (\$1 389 million) due to lower than expected expenditure associated with COVID-19 hospitalisation and treatment.
- 4.35 Amounts received from the Commonwealth Government (\$465 million) were \$24 million (5 percent) lower than the budget amount (\$489 million) due to the overpayment of COVID-19 funding in the prior year which led to a reduction in COVID-19 funding received in the current year.
- 4.36 Amounts received from the ACT Government (\$908 million) were higher than the budgeted amount (\$900 million) as a result of additional funding provided for increased COVID-19 testing in the Territory.

ACTEWAGL Joint Venture

- 4.37 The ActewAGL Joint Venture (ActewAGL) sells energy (electricity and gas) to customers in the ACT and surrounding regions. ActewAGL also owns and operates the energy networks which provide energy to these customers.
- 4.38 ActewAGL consists of the ActewAGL Retail Partnership and ActewAGL Distribution Partnership. The Territory's 50 percent interest in the ActewAGL Retail Partnership and ActewAGL Distribution Partnership is held by Icon Water Limited (Icon Water) through its subsidiaries, Icon Retail Investments Limited and Icon Distribution Investments Limited. Icon Water is discussed later in this chapter.

Summary

- The Audit Office issued unmodified auditor's reports on the 2020-21 financial reports of the ActewAGL Joint Venture, ActewAGL Retail Partnership and ActewAGL Distribution Partnership.
- ActewAGL's profit in 2020-21 (\$82 million) was \$33 million (29 percent) lower than the profit generated in 2019-20 (\$115 million). This was mainly due to an increase in expenses related to feed-in-tariff support payments, and lower profits from energy sales mainly resulting from lower energy consumption.
- ActewAGL had sufficient short-term assets to meet its short-term liabilities at 30 June 2021.
- ActewAGL resolved the one previously reported audit finding by improving the monitoring of privileged user activity for key applications.
- There were three new audit findings identified during the 2020-21 audits relating to financial reporting and internal controls.

Financial results

Table 4-6 Key results

| | Actual 2020-21 \$m | Actual 2019-20 \$m |
|---|--------------------------|--------------------------|
| Income | 871 | 932 |
| Expenses | (789) | (817) |
| Profit | 82 | 115 |
| Distributions paid to partners | 62 | 92 |
| Distributions paid to Icon Water (50 percent) | 31 | 46 |

- 4.39 The majority of ActewAGL's income comes from the sale and distribution of energy (electricity and gas).
- 4.40 Expenses largely consist of energy purchases and network distribution costs, employment costs, depreciation and amortisation, and other operating costs.
- 4.41 ActewAGL's profit in 2020-21 (\$82 million) was \$33 million (29 percent) lower than in 2019-20 (\$115 million) mainly due to an increase in expenses related to feed-in tariff support payments made to large-scale renewable energy generators due to the reduction in the average wholesale spot price for electricity. There was also a decrease in profits from energy sales (lower sales revenue and associated energy purchases and network distribution costs) mainly resulting from lower energy consumption.
- 4.42 Distributions paid to Icon Water (\$31 million) decreased by \$15 million (33 percent) from the prior year (\$46 million) due to the lower profit in 2020-21.

Financial position

Table 4-7 Net short-term assets

| At 30 June | Actual 2021 \$m | Actual 2020 \$m |
|---|-----------------------|-----------------------|
| Short-term assets | 292 | 290 |
| Short-term liabilities | 230 | 223 |
| Net short-term assets | 62 | 67 |
| Ratio of short-term assets to short-term liabilities | 1.3 to 1 | 1.3 to 1 |

Note: The short-term assets position shown in the table above is the position after payment of distributions to partners of ActewAGL.

- 4.43 ActewAGL had sufficient short-term assets to meet its short-term liabilities at 30 June 2021.

Audit findings

Table 4-8 Status of audit findings

| Previously Reported | Resolved | Partially Resolved | Not Resolved | New | Balance |
|---------------------|----------|--------------------|--------------|-----|---------|
| 1 | (1) | - | - | 3 | 3 |

- 4.44 ActewAGL resolved the previously reported audit finding by implementing a control to periodically review activities performed by privileged users within key financial application systems.

4.45 Three new audit findings were identified in 2020-21 relating to financial reporting and internal controls.

4.46 There were unresolved variances between ActewAGL's accounts receivable subledger and the general ledger. There are also long-standing credit balances in the accounts receivable subledger. These variances and long-standing credits reduce the accuracy of financial information and increase the risk of fraudulent transactions to be hidden.

ActewAGL agreed to address this audit finding and advised:

ActewAGL will perform a review to resolve all reconciling items between the accounts receivable subledger and general ledger as well as credit balances to appropriately allocate credits to customer accounts and identify amounts required to be paid to the Public Trustee and Guardian under the *Unclaimed Money Act 1950*.

4.47 ActewAGL's financial management information system is reaching the end of the vendor support period. This system may no longer be fully fit-for-purpose as ActewAGL is using complex work-arounds to maintain the desired level of functionality. Unsupported systems can also create IT security vulnerabilities which require additional controls to mitigate.

ActewAGL agreed to address this audit finding and advised:

A project is currently in its early stages to upgrade the financial management information system to enable ongoing vendor support that efficiently and effectively meet the needs of the business in terms of financial and management accounting/reporting.

4.48 Weaknesses existed in controls over segregation of duties and monitoring of changes made to ActewAGL's key billing systems that would ensure only approved changes are made to the systems. Whilst no inappropriate changes were identified during 2020-21 these weaknesses could lead to untested or unauthorised changes being made to the systems and not being detected.

ActewAGL agreed to address this audit finding and advised:

ActewAGL has commenced formal monitoring controls over all changes implemented in the production environment to ensure that only authorised and successfully tested changes are migrated to the production instance.

Canberra Health Services

- 4.49 Canberra Health Services (Directorate) is responsible for the provision of public hospital and medical services to residents of the ACT and surrounding regions. This includes the provision of emergency and specialist medical treatment through to minor, non-urgent medical care.
- 4.50 Public hospital and health services are mostly paid for by funding received from the ACT Local Hospital Network Directorate. Information on the ACT Local Hospital Network Directorate is discussed earlier in this chapter.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2020-21 financial statements and an unmodified limited assurance report on its 2020-21 statement of performance.
- Expenses (\$1 473 million) were \$65 million (5 percent) higher than the budgeted amount (\$1 408 million) largely due to higher employee expenses and purchased services expenses and an unbudgeted loss on disposal of assets.
- Income (\$1 427 million) exceeded the budgeted amount (\$1 360 million) by \$67 million (5 percent) mainly due to additional funding from the ACT Local Hospital Network Directorate to:
 - meet the higher cost and demand for public hospital and healthcare services; and
 - manage the response to the COVID-19 pandemic including operating the Territory's COVID-19 testing sites and the rollout of COVID-19 vaccination.
- Capital injections (\$53 million) were \$31 million (37 percent) lower than the budgeted amount (\$84 million) resulting from deferrals and delays on most capital works projects such as the expansion of the Centenary Hospital for Women and Children and upgrades to the Directorate's assets mainly due to the impact of the COVID-19 pandemic.
- The Directorate resolved the two previously reported audit findings relating to the review of salary reports and financial statements variance explanation. No new audit findings were identified in 2020-21.

Financial results

Table 4-9 Key results

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|--------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| Expenses | (1 473) | (1 408) | (1 420) |
| Income | 1 427 | 1 360 | 1 355 |
| Operating deficit | (46) | (48) | (65) |
| Capital injections | 53 | 84 | 66 |

- 4.51 The expenses of the Directorate mainly comprise employee related costs, payments for clinical and surgical supplies, information technology support services provided by the ACT Health Directorate, the purchase of pharmaceutical goods, depreciation and health services purchased from private medical service providers.
- 4.52 Expenses (\$1 473 million) were \$65 million (5 percent) higher than the budgeted amount (\$1 408 million) largely due to:
- higher employee expenses primarily due to additional staff required for the public health response to the COVID-19 pandemic, including operating the Territory's COVID-19 testing sites and the rollout of COVID-19 vaccination;
 - higher purchased services expenses for elective surgery provided by private medical service providers to public patients to reduce the backlog of clients waiting for these services following the impact of COVID-19 restrictions on elective surgery from March to July 2020; and
 - an unbudgeted loss on disposal of assets from the demolition of some buildings as part of the Canberra Hospital Expansion Project.
- 4.53 The Directorate's income is primarily from the ACT Local Hospital Network Directorate in the form of grants and contributions funding to provide public hospital and healthcare services to residents in the ACT and surrounding regions.
- 4.54 The Directorate also derives income from:
- fees for doctors and specialists to use its facilities and equipment to perform medical procedures and tests on patients covered by Medicare and private health insurance;
 - fees from certain patients for medical treatment; and
 - the sale of medical and surgical supplies to private hospitals and medical clinics.

- 4.55 Income (\$1 427 million) exceeded the budgeted amount (\$1 360 million) by \$67 million (5 percent) mainly due to additional funding from the ACT Local Hospital Network Directorate to:
- meet the higher cost and demand for public hospital and healthcare services; and
 - manage the response to the COVID-19 pandemic including operating the Territory's COVID-19 testing sites and the rollout of COVID-19 vaccination.
- 4.56 The Directorate's operating deficit (\$46 million) was in line with the budgeted deficit (\$48 million).
- 4.57 Capital injections (\$53 million) were lower than the budgeted amount (\$84 million) by \$31 million (37 percent). This was mainly due to the impact of the COVID-19 pandemic resulting in deferrals and delays on most capital works projects such as the expansion of the Centenary Hospital for Women and Children and upgrades to the Directorate's assets.

Audit findings

Table 4-10 Status of audit findings

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

- 4.58 The Directorate resolved the two previously reported audit findings by:
- reviewing salary reports in a timely manner. This provides the Directorate with increased assurance that its employee expenses are appropriate and irregularities including possibly fraudulent payments will be promptly detected and investigated; and
 - providing draft financial statements for audit that contained variance explanations with clear and comprehensive information for all balances with major variances to allow readers of the financial statements to understand the reasons for significant variances between the current and prior year amounts.
- 4.59 No new audit findings were identified in 2020-21.

Canberra Institute of Technology

4.60 The Canberra Institute of Technology (Institute) provides vocational and tertiary education services to Australian and international students and training programs to public and private sector organisations.

Summary

- The Audit Office issued an unmodified auditor's report on the Institute's 2020 financial statements and an unmodified limited assurance report on its 2020 statement of performance.
- The Institute's net cost of services (\$91 million) was slightly higher than the budgeted cost (\$89 million) as lower income resulting from COVID-19 pandemic restrictions was mostly offset by lower expenses.
- One new audit finding was identified in 2020 relating to evidence of approval for waivers.

Financial results

Table 4-11 Key results (calendar years)

| | Actual 2020 \$m | Budget 2020 \$m | Actual 2019 \$m |
|-----------------------------|-----------------------|-----------------------|-----------------------|
| Expenses | (122) | (125) | (123) |
| Income | 31 | 36 | 39 |
| Net cost of services | (91) | (89) | (84) |
| Government contributions | 80 | 77 | 74 |
| Operating deficit | (11) | (12) | (10) |

4.61 Expenses largely consist of employee expenses and operating costs associated with the provision of tertiary education and training services to students such as contract staff, information technology and teaching materials. Expenses (\$122 million) were slightly lower than the budgeted amount (\$125 million).

4.62 Income is mainly derived from providing tertiary education services to students and training programs to government agencies and the private sector. Income (\$31 million) was \$5 million (14 percent) lower than budgeted amount (\$36 million) mainly due to lower student related revenue resulting from fewer enrolments and delays in completing training programs and courses due to COVID-19 pandemic restrictions.

- 4.63 The Institute's net cost of services (\$91 million) was slightly higher than the budgeted cost (\$89 million) as lower income was mostly offset by lower expenses.
- 4.64 Government contributions (\$80 million) were \$3 million higher than the budgeted amount (\$77 million) due to additional contributions received in 2020 to meet the Institute's cash requirements during the January 2021 shutdown period.

Audit findings

Table 4-12 Status of audit findings

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

- 4.65 One new audit finding was identified in 2020. In response to the COVID-19 pandemic, the Institute waived rent payable by CIT Solutions Pty Ltd and students living in student accommodation for a period of time. While there was documentation to support the basis of the waivers, there was no evidence that these waivers had been approved by the Chief Executive Officer as required by its financial delegations. This increases the risk of erroneous, inappropriate or fraudulent waivers.
- 4.66 The Institute partially agreed with this audit finding and advised:

Along with the ACT Government more broadly, CIT complied with the (ACT Government's) direction to waive the charges as a response to the COVID-19 emergency and did not at the time consider it necessary in effect, for a second or secondary delegation to be executed internally. CIT notes however the advice of the ACT Audit Office that despite the existence of internal correspondence relating, a form of internal approval would be appropriate to the circumstances in providing a suitable form of evidence to support the waivers.

Chief Minister, Treasury and Economic Development Directorate

4.67 The Chief Minister, Treasury and Economic Development Directorate (Directorate) provides strategic advice and support on policy development to the ACT Public Service. The Directorate's key functions include:

- coordinating the Territory's budget process and ensuring appropriate financial management;
- providing support and direction across the ACT Public Service on policy and strategy;
- providing ACT Government agencies with information and communication technology, human resources, and financial services (shared services), as well as procurement, property management and records management services;
- collecting and managing the Territory's taxation revenue;
- promoting business development, investment programs, tourism and events;
- managing ACT arts facilities, and facilitating sporting and major events; and
- providing licencing and regulatory services to businesses and community through Access Canberra.

4.68 The Directorate is responsible for planning, developing, coordinating and implementing key ACT Government policies and strategies. Some other key responsibilities include the overall financial, budget, revenue and economic management of the Territory.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2020-21 financial statements and an unmodified limited assurance report on its 2020-21 statement of performance.
- The net cost of the Directorate's services (\$437 million) was \$85 million lower than the budgeted cost (\$522 million) mainly due to various project delays, resulting in lower than estimated information technology costs and other expenses, and higher than anticipated income from recording gains.
- Government contributions (\$419 million) were \$49 million lower than the budgeted amount (\$468 million) largely due to the Directorate not drawing down all of its budgeted appropriation as a result of delays in projects.
- The Directorate partially resolved one of the three previously reported audit findings relating to the quality of accounting workpapers. The two remaining findings relating to the review of salary reports and the usefulness of accountability indicators reported in the statement of performance were not resolved.
- There were no new audit findings identified for reporting in 2020-21.

Financial results

Table 4-13 Key results

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|--|--------------------------|--------------------------|--------------------------|
| Expenses excluding assets transferred to other ACT Government agencies | (764) | (793) | (693) |
| Income | 327 | 271 | 268 |
| Net cost of services | (437) | (522) | (425) |
| Government contributions | 419 | 468 | 397 |
| Assets transferred to other ACT Government agencies | (10) | (8) | (2) |
| Operating deficit | (28) | (62) | (30) |

- 4.69 The Directorate's expenses, excluding assets transferred to other ACT Government agencies, mainly consist of expenses relating to employees, consultants, contractors and professional services, information technology and office equipment, property services, repairs and maintenance and depreciation. Expenses also include grants paid to major sporting teams, business, industry, tourism and event organisations.
- 4.70 Expenses, excluding assets transferred to other ACT Government agencies (\$764 million) were \$29 million below the budgeted amount (\$793 million). This was mainly due to various project delays, including the new Human Resource Information Management System becoming operational, resulting in lower than estimated information technology costs, and other infrastructure projects such as supporting smarter working in the new ACT Government office projects, therefore deferring consultant costs to be spent in future years. This was partially offset by higher employee expenses (\$16 million) due to extending temporary employment contracts and hiring additional staff to assist with the implementation of the ACT Government's COVID-19 pandemic related policies.
- 4.71 Income is mainly derived from providing property management, information and communication technology, procurement, human resources, finance, publishing and records management services to other ACT Government agencies. Income is also received from non-ACT Government sources, mainly relating to sporting and tourism events.
- 4.72 Income (\$327 million) was higher than the budget amount (\$271 million) by \$56 million mainly due to recording gains resulting from a decrease in payables to correct a prior period error.

- 4.73 The net cost of the Directorate's services (\$437 million) was \$85 million lower than the budgeted amount (\$522 million) due to the lower expenses and higher income discussed previously.
- 4.74 Government contributions (\$419 million) were \$49 million lower than the budgeted amount (\$468 million) largely due to the Directorate not drawing down all budgeted appropriation as a result of the lower than expected expenses, as discussed previously.
- 4.75 The Directorate's Territorial operations mainly consist of revenue from Commonwealth Government grants, and taxes, fees and fines. This revenue is discussed in Chapter 1: 'The Territory's financial statements'.

Audit findings

Table 4-14 Status of audit findings

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

- 4.76 Of the three previously reported audit findings one was partially resolved and two remained not resolved in 2020-21.
- 4.77 The Directorate did not resolve an audit finding relating to the timely review of fortnightly salary reports that has been reported since 2013-14. Although a new electronic review process was in use throughout 2020-21, there were still instances of payroll report reviews not being performed in a timely manner. The lack of timely review of payroll reports increases the risk that incorrect or fraudulent employee payments will not be promptly detected and addressed.
- 4.78 The Directorate partially agreed with this audit finding and advised:
- The Directorate considers other controls may be available to help safeguard against the occurrence of fraud or materially incorrect financial reporting of salaries, rather than using the current timely review of salary reports control once the Territory's new Human Resource and Information Management System (HRIMS) is in place. In the interim, the Directorate continues to send regular communications to business units to remind them of their responsibility to review salary reports in a timely manner.
- 4.79 An audit finding that was first reported in 2017-18 relating to the usefulness of accountability indicators included in the statement of performance remains not resolved. Although the Directorate reviewed its accountability indicators and changed some accountability indicators each year since 2017-18, these reviews have not been fully effective in improving the overall quality of the Directorate's accountability indicators. In particular, there continue to be some accountability indicators that may not provide readers with useful information about the Directorate's performance. The Audit Office has recommended the Directorate review each accountability indicator and remove any

indicators from its budget papers that are not useful, with the aim to having fewer but more useful accountability indicators.

- 4.80 The Directorate has agreed with this finding and advised that it has reviewed its accountability indicators as part of the 2021-22 Budget process and that as a result of this review 29 indicators will be discontinued and 15 new and more useful indicators have been introduced.
- 4.81 An audit finding that was first reported in 2019-20 relating to the quality of the accounting workpapers provided by the Directorate to support financial statement balances was partially resolved. The Directorate made some improvements to the accounting workpapers, however, there were instances where the information provided to support financial statement balances was not adequate and did not always include sufficient information to enable someone other than the preparer to easily understand them. This also increases the time needed to complete the audit.
- 4.82 The Directorate has agreed to address this finding by further improving the contextual information in workpapers to support future financial statement audits and to assist officers other than the preparers of the workpapers to understand them with limited assistance.

Community Services Directorate

4.83 The Community Services Directorate (Directorate) provides services to assist women, children and young people, Aboriginal and Torres Strait Islander people, people with disability, carers, families, people from culturally and linguistically diverse background, veterans and seniors.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2020-21 financial statements and an unmodified limited assurance report on its 2020-21 statement of performance.
- The net cost of the Directorate's services (\$210 million) was \$5 million (2 percent) lower than the budgeted (\$215 million) due to the lower than expected expenses and higher than anticipated income.
- Territorial payments represent ACT Government's contributions (\$159 million) to the Commonwealth Government for the National Disability Insurance Scheme (NDIS) and were largely in line with the budget (\$161 million).

Financial results

Table 4-15 Key results

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|-----------------------------|--------------------------|--------------------------|--------------------------|
| Expenses | (218) | (221) | (208) |
| Income | 8 | 6 | 8 |
| Net cost of services | (210) | (215) | (200) |
| Government contributions | 207 | 213 | 199 |
| Operating deficit | (3) | (2) | (1) |

4.84 The Directorate's expenses mainly consist of payments to non-government organisations to deliver community and disability support services, employee expenses including superannuation contributions, and supplies and services expenses including costs relating to information technology, office accommodation, contractor and consultants mostly relating to client support services, emergency food relief under the COVID-19 Pandemic Economic Survival Package and legal costs.

4.85 Expenses (\$218 million) were lower than the budgeted amount (\$221 million) by \$3 million mainly as a result of:

- cancellation of 2021 National Multicultural Festival;
- delay of out of home care programs related to therapeutic care and strategy evaluation due to extremely complex needs of programs requirement, as well as impact from COVID-19 pandemic; and
- lower than expected demand for emergency food relief as the COVID-19 pandemic eased towards the last quarter of 2020-21 in the ACT.

4.86 The Directorate's income mainly includes:

- resources received free of charge from other ACT Government entities mainly for legal services, finance and human resources;
- rental income from Affordable Rental Scheme properties relating to housing needs of older and low income Canberrans and income generated from the National Multicultural Festival; and
- grants from the Commonwealth Government and the ACT Government to fund various Community programs.

4.87 Income (\$8 million) exceeded the budgeted amount (\$6 million) by \$2 million. This was mainly due to higher than expected rental income from higher number of Affordable Rental Scheme properties managed under the ACT Affordable Rental Office Scheme and additional funding received from other ACT Government Directorates for programs such as early childhood strategy and family and domestic violence.

4.88 The net cost of the Directorate's services (\$210 million) was \$5 million (2 percent) lower than the budgeted (\$215 million) mostly due to the lower than expected expenses and higher than anticipated income mentioned above.

4.89 Government contributions (\$207 million) were \$6 million (3 percent) lower than the budgeted amount (\$213 million) mostly due to undrawn appropriation associated with lower supplies and services expenses.

Table 4-16 Key results – Territorial expenses

| Grants and Purchased Services | Actual 2020-21 \$m | Budget 2020-21 \$m |
|--------------------------------------|-----------------------------------|-----------------------------------|
| | | |
| National Disability Insurance Scheme | 159 | 161 |
| | | |

4.90 Territorial expenses relate to the financial contributions of ACT Government to the Commonwealth Government for the Territory's cost of the NDIS. In 2020-21, these expenses were largely in line with the budget.

Education Directorate

4.91 The Education Directorate (Directorate) provides public school education, registers and regulates home education, early childhood learning centres and non-government schools, and enrolls international students.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2020-21 financial statements and an unmodified limited assurance report on its 2020-21 statement of performance.
- The net cost of the Directorate's services (\$915 million) was above the original budgeted cost (\$900 million) by \$15 million mainly due to lower than expected school revenue and higher than expected employee expenses.
- Government contributions (\$833 million) exceeded the budgeted amount (\$823 million) by \$10 million mainly due to additional funding to meet the higher than budgeted employee expenses.
- Capital injections were lower than the budgeted amount mainly due to deferrals and delays in some capital works projects.
- The Directorate resolved an audit finding in relation to not measuring a result in accordance with the *Financial Management Act 1996* in the statement of performance for an accountability indicator. The Directorate partially resolved audit findings relating to the review of salary reports and the review of audit logs for its school administration system. The Directorate did not resolve one audit finding in relation to its bank signatories.

Financial results

Table 4-17 Key results - controlled

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|-----------------------------|--------------------------|--------------------------|--------------------------|
| Expenses | (965) | (960) | (914) |
| Income | 50 | 60 | 40 |
| Net cost of services | (915) | (900) | (874) |
| Government contributions | 833 | 823 | 773 |
| Gains | 7 | - | 4 |
| Operating deficit | (75) | (77) | (97) |
| Capital injections | 127 | 145 | 91 |

4.92 Expenses mainly consist of employee expenses including superannuation contributions, supplies and services expenses including costs relating to property maintenance, materials and services, depreciation expenses and school operating expenses including utilities, cleaning, security and the cost of external educational enrichment activities.

4.93 Income consists mainly of reimbursements received from the ACT Government to meet additional cleaning and staff cost associated with the COVID 19 pandemic, international student tuition fees, school revenue from voluntary contributions, fund raising and excursion funds, and funding received from the Commonwealth Government for various school programs.

4.94 The net cost of the Directorate's services (\$915 million) was \$15 million (2 percent) above the budgeted cost (\$900 million) mainly due to:

- lower than expected income of \$10 million mainly relating to school revenue as a result of restrictions on school excursions and activities under the COVID-19 pandemic environment; and
- higher than expected expenses of \$5 million mainly due to employee expenses including superannuation contributions mostly due to unbudgeted pay increases under the enterprise agreements, growth in staff numbers to meet increased student enrolment and school needs, and higher costs relating to the Directorate's response to the management of the COVID-19 pandemic. Higher employee expenses were partially offset by lower than expected school expenses as a result of previously discussed COVID-19 pandemic related restrictions.

- 4.95 Government contributions (\$833 million) exceeded the budgeted amount (\$823 million) by \$10 million mainly to meet the higher than expected staff costs discussed previously.
- 4.96 The Directorate reported a gain of \$7 million that was not anticipated in the budget from a block of land received free of charge to build a new school in Throsby.
- 4.97 Capital Injections (\$127 million) were lower than the budgeted amount (\$145 million) by \$18 million (12 percent). This was mostly associated with capital works projects as a result of deferrals and payments not falling due within the 2020-21 financial year for some completed projects, including the expansion of the Franklin Early Childhood School.

Table 4-18 Key results - Territorial expenses

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|----------------------------------|--------------------------|--------------------------|--------------------------|
| Grants to non-government schools | 320 | 321 | 341 |
| Total expenses | 320 | 321 | 341 |

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

- 4.98 Territorial expenses mostly consist of grants paid to non-government schools. The Directorate receives funding from the ACT Government and Commonwealth Government to provide these grants. Grants paid to non-government schools were mostly in line with the budgeted amount.

Audit findings

Table 4-19 Status of audit findings

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

- 4.99 One of the four previously reported audit findings was resolved, two were partially resolved, and one was not resolved.
- 4.100 The Directorate resolved an audit finding relating to not measuring a result in accordance with the *Financial Management Act 1996* (FMA) in the statement of performance for an accountability indicator. In the current year, results have been measured for all accountability indicators, and reported in accordance with the FMA.
- 4.101 The Directorate partially resolved an audit finding relating to the timely review of salary reports which was first reported in 2013-14. A small number of salary reports were not independently reviewed by the relevant cost centre. In addition, some reports were either not reviewed in a timely manner or not dated to determine the timeliness of the review.

Salary reports should always be reviewed in a timely manner to promptly identify and correct erroneous or possible fraudulent salary payments.

- 4.102 The Audit Office has reported since 2011-12 that the Directorate's school administration system (MAZE) does not have the capability to generate audit logs on user access to the system and changes made to its data. This increases the risk that erroneous or fraudulent changes to the school administration system and data will not be promptly detected and rectified. Representatives of the Directorate have advised that the control weakness will be addressed once the ongoing MAZE replacement project is completed.
- 4.103 The Directorate did not resolve an audit finding in relation to bank signatories. Since 2019- 20, the Audit Office has found that bank signatories who can make payments using cheques or electronic funds transfer from the Directorate's bank accounts are not always current or relevant ACT Government employees.
- 4.104 The Directorate has agreed to address all previously reported audit findings. No new audit findings were identified in 2020-21.

Environment, Planning and Sustainable Development Directorate

- 4.105 The Environment, Planning and Sustainable Development Directorate (Directorate) is responsible for developing and implementing plans and policies that address strategies of ACT Government in relation to climate change, sustainable growth, building and planning, land, parks and reserves management and urban renewal.
- 4.106 The Directorate manages parks and reserves across the ACT and is responsible for the delivery of the ACT Government's Loose-Fill Asbestos Insulation Eradication Scheme. The Directorate also has the responsibility for urban renewal including land supply and related policy functions such as affordable housing.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2020-21 financial statements.
- An unmodified limited assurance report with an emphasis of matter paragraph was issued to the Directorate on its 2020-21 statement of performance as the Directorate did not have accountability indicators for Output Class 6: 'Public Housing Renewal Taskforce' to measure the performance of this output class as required by the *Financial Management Act 1996*.
- The net cost of the Directorate's services (\$326 million) was higher than the budgeted cost (\$249 million). This was primarily due to the recording of a provision in respect of the carrying value of the Large-Scale Generation Certificates for the first time in 2020-21 and expenses arising from the write off of assets relating to completed capital works-in-progress projects.
- Government contributions (\$140 million) and capital injections (\$23 million) were lower than the budgeted amounts by \$13 million and \$20 million respectively mainly due to delays in the acquisition, demolition and remediation work under the Loose-Fill Asbestos Eradication Scheme.
- The Directorate resolved one previously reported audit finding relating to the accounting policy for unleased rural Territorial land.
- Four new audit findings were reported in 2020-21. Two of these findings were relating to the statement of performance, one was in relation to the financial reporting arrangement for the West Belconnen Joint Venture and one was in relation to asset records.

Financial results

Table 4-20 Key results

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|-----------------------------|--------------------------|--------------------------|--------------------------|
| Expenses | (425) | (345) | (288) |
| Income | 99 | 96 | 92 |
| Net cost of services | (326) | (249) | (196) |
| Government contributions | 140 | 153 | 136 |
| Gains | 22 | 14 | 31 |
| Operating deficit | (164) | (82) | (29) |
| Capital injections | 23 | 43 | 31 |

4.107 Expenses mainly consist of the costs associated with Large-Scale Generation Certificates (LSGCs) intangible assets, employee costs including superannuation, supplies and services expenses, transfers to government, grants and purchased services, and asset transfers and write offs.

4.108 Expenses (\$425 million) were higher than the budgeted cost (\$345 million) by \$80 million (23 percent). This was mainly due to the expenses not anticipated in the budget for:

- the first-time creation of a provision (\$59 million) for the surrender of LSGCs to meet ACT Government's renewable energy targets. Under the *Electricity Feed-in (Large-scale Renewable Energy Generation) Act 2011*, large-scale generators of electricity are required, after generating a sufficient amount of renewable energy into the electricity network, to create renewable energy certificates and provide these certificates to the Directorate. The value of these LSGCs received at no cost to the Directorate are recognised as an intangible asset and revenue. The eventual de-recognition of LSGCs, or the present obligation created by the ACT Government's policy decision to surrender LSGCs to meet its renewable energy target, is recognised as an expense; and
- asset write-off of \$20 million relating to completed capital works-in-progress projects that no longer met the recognition criteria of an asset.

4.109 Total income (\$99 million) was materially in line with budget (\$96 million).

- 4.110 The net cost of the Directorate's services (\$326 million) was higher than the budgeted amount (\$249 million) by \$77 million (31 percent). This was primarily due to the expenses not anticipated in the budget, as discussed previously.
- 4.111 Government contributions (\$140 million) were lower than the budgeted contributions (\$153 million) by \$13 million (8 percent) mainly due to a delay in the acquisition or buyback of properties affected by loose-fill asbestos (Mr Fluffy) insulation under the Loose-Fill Asbestos Eradication Scheme.
- 4.112 Gains (\$22 million) were higher than the budgeted amount (\$14 million) by \$8 million (57 percent), mainly due to reassessment of the provision (liability) relating to the Loose-Fill Asbestos Insulation Eradication Scheme. Costs associated with the acquisition, demolition and land remediation are recorded as a liability with a corresponding expense in the operating statement. The adequacy of these provisions is assessed annually, and a gain is recorded when the re-assessed balance of the provision is lower than the amount anticipated in the budget.
- 4.113 Capital injections (\$23 million) were lower than the budgeted amount (\$43 million) by \$20 million (46 percent) due to delays in the acquisition and demolition of affected properties under the Loose-Fill Asbestos Insulation Eradication Scheme.

Table 4-21 Key results – Territorial income

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|---------------------|--------------------------|--------------------------|--------------------------|
| Fees | 14 | 12 | 12 |
| Land revenue | 1 | 23 | 16 |
| Other | 7 | 9 | 7 |
| Total income | 22 | 44 | 35 |

- 4.114 The Directorate collects fees and land revenue on behalf of the Territory. Fees mostly consist of amounts charged for development applications and lease variations. Land revenue is received from leasing Territorial land and transferring land to the Suburban Land Agency.
- 4.115 Land revenue (\$1 million) was lower than the budgeted amount (\$23 million) due to lower than expected land transfers to the Suburban Land Agency. No significant land parcels had reached the required stage of development to be transferred to the Suburban Land Agency.

Audit findings

Table 4-22 Status of audit findings

| Previously Reported | Resolved | Partially Resolved | Not Resolved | New | Balance |
|---------------------|----------|--------------------|--------------|-----|---------|
| 1 | (1) | - | - | 4 | 4 |

4.116 The Directorate resolved the previously reported audit finding in relation to the accounting policy for unleased rural Territorial land. In 2019-20, the Audit Office recommended that the Directorate clarify key requirements for the transfer of unleased rural Territorial land and finalise related written arrangements with relevant ACT Government entities. In 2020-21, the Directorate resolved this audit finding by implementing a change in its accounting policy for recording the transfer of unleased rural Territorial land, and entering into arrangements with the Suburban Land Agency and City Renewal Authority for managing and clarifying key requirements for the transfer of land.

4.117 New audit findings identified in 2020-21 were in relation to:

- the requirement to establish a more permanent basis for reporting ACT Government's interest in the West Belconnen Joint Venture. Whilst the Directorate, as the Territory representative has control over the Joint Venture, the Suburban Land Agency currently reports relevant transactions in its financial statements under a written confirmation provided by the Directorate. This arrangement is not permanent in nature as the Directorate has the discretion to change the reporting requirement on an annual basis;
- the non-compliance with the *Financial Management Act 1996* as the Directorate did not have accountability indicators for Output Class 6: 'Public Housing Renewal Taskforce' to measure the performance of this output class. The Directorate has advised that no accountability indicators were established and reported due to the Public Housing Renewal Taskforce completing the project delivery phase in 2019-20, resulting in the completion of the associated accountability indicators. However, some funding was provided in the 2020-21 financial year to complete the final aspects of the program. The Audit Office also found that some accountability indicators and related targets in the statement of performance do not provide a basis for a meaningful assessment of the Directorate's performance;
- internal control weaknesses in the record keeping systems for capital works-in-progress, and improvements to the Territorial land asset register to ensure its completeness and accuracy; and
- the interim result of an accountability indicator that did not provide details of the extent to which the performance criteria set out in the budget had been met.

4.118 The Directorate has agreed to address all audit findings.

Housing ACT

- 4.119 Housing ACT provides safe, affordable and appropriate housing to address the needs of socially and financially disadvantaged families. This includes the provision of support and assistance to those trying to sustain a tenancy in the private rental market through a range of programs.
- 4.120 Housing ACT manages arrangements with organisations as part of these programs that provide services to people who have become or are at risk of becoming homeless.

Summary

- The Audit Office issued an unmodified auditor's report on Housing ACT's 2020-21 financial statements and an unmodified limited assurance report on its 2020-21 statement of performance.
- The net cost of Housing ACT's services (\$129 million) was \$5 million (4 percent) higher than budgeted (\$124 million) due mainly to the higher than anticipated expenses arising from public housing properties.
- Gains from disposal and remeasurement of assets (\$24 million) were \$15 million (60 percent) higher than budgeted (\$9 million) due to higher prices achieved in several property sales.
- The value of property portfolio at 30 June 2021 (\$6 713 million) exceeded the value at 30 June 2020 (\$5 485 million) by \$1 228 million mainly due to an upward revaluation of land and buildings.
- Housing ACT resolved the two previously reported audit findings. These related to financial delegations applicable to Housing ACT's tenant management system for total facilities management payments and measuring results for accountability indicators in the statement of performance as required by the *Financial Management Act 1996*.
- No new audit findings were identified in 2020-21.

Financial results

Table 4-23 Key results

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Expenses | (226) | (219) | (221) |
| Income | 97 | 95 | 95 |
| Net cost of services | (129) | (124) | (126) |
| Government contributions | 55 | 55 | 56 |
| Gains from disposal and remeasurement of assets | 24 | 9 | 4 |
| Operating deficit | (50) | (60) | (66) |

- 4.121 Expenses mainly consist of public housing property management costs, employee expenses and grants paid to organisations that provide services to people who have become or are at the risk of becoming homeless. Property management costs include repairs and maintenance costs, depreciation of public housing properties, and sewerage, water and general rates.
- 4.122 Expenses (\$226 million) were higher than the budgeted amount (\$219 million) by \$7 million mainly due to higher than expected:
- cost of demolition and write-down of the value of dwellings for redevelopment purposes; and
 - depreciation expenses resulting from an increase in the fair value of the public housing properties following a revaluation performed during the year.
- 4.123 Income mainly consists of rent received from public housing tenants. Income (\$97 million) exceeded the budgeted amount (\$95 million) by \$2 million mainly due to higher than expected recovery of maintenance costs from tenants for property damage and settlement of insurance claims for damage of property and goods.
- 4.124 The net cost of Housing ACT's services (\$129 million) was \$5 million (4 percent) higher than budgeted (\$124 million) due mainly to the higher than anticipated expenses arising from public housing properties mentioned above.
- 4.125 Government contributions of \$55 million were consistent with the budgeted amount.
- 4.126 Gains from disposal and remeasurement of assets (\$24 million) were \$15 million (60 percent) higher than budgeted (\$9 million). This was mainly due to higher than anticipated prices achieved in property sales, reflecting the current state of the

ACT property market. Proceeds from the sale of public housing properties are used to fund the replacement and renewal of public housing portfolio to meet the needs of low income and disadvantaged individuals and families and fund Housing ACT's operations.

Property Portfolio

Table 4-24 Number and value of land and dwellings

| At 30 June | Actual 2019 | Actual 2020 | Actual 2021 |
|--|----------------|----------------|----------------|
| Number of land parcels – Note 1 | 6 877 | 6 868 | 6 815 |
| Land value (\$m) | \$3 864 | \$3 863 | \$4 782 |
| Number of dwellings – Note 1 | 11 582 | 11 704 | 11 595 |
| Dwellings value (\$m) | \$1 566 | \$1 622 | \$1 931 |
| Total value of land and dwellings (\$m) | \$5 430 | \$5 485 | \$6 713 |

Source: Information on land and dwellings was provided by Housing ACT.

Note 1: The number of land parcels and dwellings excludes assets held for sale or distribution.

4.127 The value of property portfolio at 30 June 2021 (\$6 713 million) exceeded the value at 30 June 2020 (\$5 485 million) by \$1 228 million mainly due to an upward revaluation of land and buildings.

4.128 The number of dwellings has decreased by 109 in 2021 from 2020. Housing ACT has advised that \$152 million will be invested over six years to renew 1 000 properties and to increase the number of dwellings by at least 260.

Audit findings

Table 4-25 Status of audit findings

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

4.129 Housing ACT resolved the two previously reported audit findings by:

- updating its financial delegations to be consistent with the payment approval processes embedded in Housing ACT's tenant management system for total facilities management payments; and
- reporting a result for all accountability indicators included in its statement of performance as required by the *Financial Management Act 1996*.

Icon Water Limited

- 4.130 Icon Water Limited (Icon Water) provides water and sewerage related services to the ACT and Queanbeyan. It also manages its 50 percent interest in the ActewAGL Joint Venture (ActewAGL) energy business. ActewAGL is discussed earlier in this chapter.
- 4.131 Icon Water's two subsidiaries, Icon Retail Investments Limited and Icon Distribution Investments Limited, hold a 50 percent interest in the ActewAGL Retail Partnership and ActewAGL Distribution Partnership respectively.

Summary

- The Audit Office issued unmodified auditor's reports on the 2020-21 financial reports of Icon Water Limited, Icon Distribution Investments Limited and Icon Retail Investments Limited.
- Icon Water's operating profit (\$67 million) was \$13 million (16 percent) lower than the prior year profit (\$80 million) mainly due to decreased water sales revenue and lower profits received its investment in ActewAGL. This was partially offset by lower interest and operating expenses.
- Icon Water's share of profit from ActewAGL in 2020-21 (\$42 million) decreased by \$16 million (28 percent) from the prior year (\$58 million).
- Dividends paid to the ACT Government in 2020-21 decreased by \$28 million (48 percent) from \$58 million in 2019-20 to \$30 million in 2020-21 reflecting the lower operating profit.
- Icon Water had sufficient short-term assets to cover its short-term liabilities at 30 June 2021.
- Three new audit findings were identified during the 2020-21 audit. These findings related to Icon Water's accounting policy and procedures for revaluing water and sewerage assets, the methodology and inputs used to calculate the fair value of water and sewerage assets, and the alignment of accounting policies when accounting for its investment in ActewAGL.

Financial results

Table 4-26 Key results

| | Actual 2020-21 \$m | Actual 2019-20 \$m |
|---|--------------------------|--------------------------|
| Revenue excluding share of net profit from investment in ActewAGL | 357 | 384 |
| Share of net profit from investment in ActewAGL | 42 | 58 |
| Revenue | 399 | 442 |
| Expenses | (304) | (325) |
| Operating profit before income tax expense | 95 | 117 |
| Income tax expense | (28) | (37) |
| Operating profit | 67 | 80 |
| Dividends paid to the ACT Government | 30 | 58 |

Note: The financial information is for Icon Water Limited and Controlled Entities.

- 4.132 Revenue mostly consists of water supply and sewerage charges and Icon Water's share of net profit from its investment in ActewAGL.
- 4.133 Revenue excluding Icon Water's share of net profit from investment in ActewAGL (\$357 million) was \$27 million (7 percent) lower than the prior year amount (\$384 million). This was mainly due to a reduction in water sales revenue resulting from reduced water consumption by customers due to higher-than-average rainfall for the region.
- 4.134 Icon Water's share of net profit from investment in ActewAGL in 2020-21 (\$42 million) decreased by \$16 million (28 percent) from the prior year (\$58 million) as the ActewAGL partnerships recorded lower profits in 2020-21.
- 4.135 Expenses comprise mainly of business operating costs, interest costs incurred on borrowings, employee expenses and depreciation. Expenses (\$304 million) were \$21 million (6 percent) lower than the prior year amount (\$325 million) mainly as a result of lower:
- interest costs on borrowings attributable to lower interest rates and the lower consumer price index on indexed bonds; and
 - operating costs mainly from utilities network facility taxes due to reduced water consumption, and from electricity and equipment hire costs.

- 4.136 Income tax expense (\$28 million) was lower than the prior year expense (\$37 million) by \$9 million (24 percent) due to a lower taxable profit.
- 4.137 Icon Water's operating profit (\$67 million) was \$13 million (16 percent) lower than the prior year profit (\$80 million) due largely to the decrease in water sales revenue and profits received from the investment in ActewAGL which was partially offset by lower expenses for interest and operating expenses.
- 4.138 Dividends paid to the ACT Government decreased by \$28 million (48 percent) from \$58 million in 2019-20 to \$30 million in 2020-21 reflecting the lower operating profit.

Financial position

Table 4-27 Net short-term assets

| At 30 June | Actual 2020-21 \$m | Actual 2019-20 \$m |
|---|--------------------------|--------------------------|
| Short-term assets | 151 | 116 |
| Short-term liabilities including dividend payable to the ACT Government | (102) | (92) |
| Net short-term assets | 49 | 24 |
| Ratio of short-term assets to short-term liabilities | 1.5 to 1 | 1.3 to 1 |

- 4.139 Icon Water had sufficient short-term assets to meet its short-term liabilities at 30 June 2021.
- 4.140 Icon Water's short-term assets position at 30 June 2021 (\$49 million) was stronger than the short-term asset position at 30 June 2020 (\$24 million) mainly due to higher cash and cash equivalents, partially offset by higher short-term liabilities predominantly relating to provisions for dividends.

Audit findings

Table 4-28 Status of audit findings

| Previously Reported | Resolved | Partially Resolved | Not Resolved | New | Balance |
|---------------------|----------|--------------------|--------------|-----|---------|
| 2 | (2) | - | - | 3 | 3 |

- 4.141 Three new audit findings were identified in 2020-21. These findings relate to:
- the need for Icon Water to review and update its accounting policy and procedures for revaluing water and sewerage assets to ensure that they comply with current

Australian Accounting Standards so that these assets are correctly recorded at fair value in the financial reports;

- the methodology and inputs used by Icon Water to calculate the fair value of water and sewerage assets, which is based on the present value of future cash flows generated by the assets, need to be reviewed and updated to ensure they reflect assumptions that market participants would use in accordance with Australian Accounting Standard AASB 13: 'Fair Value Measurement'; and
- the requirement for Icon Water to align ActewAGL's accounting policies for property, plant and equipment (cost value) to its own accounting policies (fair value) when valuing its investment in ActewAGL in accordance with Australian Accounting Standard AASB 128: 'Investments in Associates and Joint Ventures'. While Icon Water calculated adjustments to align the accounting policies, the adjustments were not recorded as required by the accounting standard as it had assessed the amounts to be immaterial based on its historical revaluation policy and procedures. Icon Water should record the adjustments to align the accounting policies each year unless they are insignificant.

4.142 Icon Water has agreed to address these audit findings.

Justice and Community Safety Directorate

- 4.143 The Justice and Community Safety Directorate (Directorate) seeks to maintain a fair, safe and peaceful community in the ACT where people's rights and interests are respected and protected. The Directorate provides courts, corrections, legal, emergency and policing services.
- 4.144 The Directorate is supported by independent statutory offices including Office of ACT Human Rights Commission, Office of the Inspector of Correctional Services, ACT Solicitor-General, Courts and Tribunal Principal Registrar, and Director of Public Prosecutions.
- 4.145 ACT Policing services provided by the Australian Federal Police are paid through the Directorate's Territorial operations.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2020-21 financial statements and an unmodified limited assurance report on its 2020-21 statement of performance.
- The net cost of the Directorate's services (\$390 million) was consistent with the budgeted cost (\$390 million).
- Payments to the Australian Federal Police for policing services (\$180 million) was consistent with the budgeted amount (\$181 million).
- The Directorate's public private partnership commitments for the new ACT Courts and Tribunal facilities (\$345 million) was \$18 million lower than the prior year amount (\$363 million) mainly due to monthly service payments made during the year.
- The Directorate resolved two previously reported audit findings relating to reconciliation between Integrated Court Management System and Oracle and the quality of variance explanations in the financial statements.
- One new audit finding was identified in 2020-21 relating to improvements required to how legal services revenue is recorded from the Open Practice System to Oracle.

Financial results

Table 4-29 Key results

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|-----------------------------|--------------------------|--------------------------|--------------------------|
| Expenses | (435) | (430) | (426) |
| Income | 45 | 40 | 45 |
| Net cost of services | (390) | (390) | (381) |
| Government contributions | 341 | 359 | 347 |
| Operating deficit | (49) | (31) | (34) |
| Capital injections | 20 | 31 | 23 |

- 4.146 The Directorate's expenses mainly consist of employee expenses and supplies and services costs associated with the provision of justice services, corrective services, courts and tribunal, and emergency services.
- 4.147 Expenses (\$435 million) were slightly higher than the budgeted expenses (\$430 million). This was mainly due to higher than anticipated employee and superannuation expenses mainly resulting from more staff recruited to implement various government activities, including providing professional legal services.
- 4.148 Income is mainly derived from providing legal and emergency services (e.g., ambulance transport and fire protection related services) and cost recoveries.
- 4.149 Income (\$45 million) was \$5 million (12 percent) higher than budgeted amount (\$40 million) mainly due to higher than anticipated sales of goods and services from contracts with customers due to higher demand for these services.
- 4.150 The net cost of the Directorate's services excluding other gains (\$390 million) was consistent with the budgeted amount (\$390 million).
- 4.151 Government contributions (\$341 million) were \$18 million (5 percent) lower than the budgeted amount (\$359 million) as the Directorate did not draw down all of its budgeted appropriation mainly due to lower than expected cost resulting from delays in projects and having sufficient cash to cover operating activities.
- 4.152 Capital injections (\$20 million) were significantly lower than the budgeted amount (\$31 million) by \$11 million (35 percent) due to funds not being drawn down due to delays in projects. These include Alexander Maconochie Centre capital works projects, Emergency

Services Agency (ESA) vehicle replacement projects, various ESA station upgrade projects, ICT projects related to ACT Corrective Services and ESA critical ICT investment, ACT Public Private Partnership Courts Facilities.

Table 4-30 Key results – Territorial expenses

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|--|--------------------------|--------------------------|--------------------------|
| Payments to the Australian Federal Police (AFP) - Note 1 | 180 | 181 | 170 |
| Other expenses - Note 2 | 22 | 28 | 25 |
| Total expenses | 202 | 209 | 195 |

Note 1: Payments to the AFP do not include non-cash expenses such as depreciation and amortisation.

Note 2: Other expenses exclude transfers to Government.

4.153 Territorial expenses mainly consist of payments to the Australian Federal Police to provide policing services. Payments to the Australian Federal Police (\$180 million) was consistent with the budgeted amount (\$181 million).

Table 4-31 ACT Courts and Tribunal Project – Public Private Partnership Commitments

| | Public Private Partnership Commitments | |
|--|--|----------------|
| | 2020-21 \$m | 2019-20 \$m |
| Within one year | 18 | 18 |
| Later than one year but not later than five years | 71 | 72 |
| Later than five years | 256 | 273 |
| Total Public Private Partnership Commitments – Note 3 | 345 | 363 |

Source: Note 28: 'Commitments' to the Directorate's 2020-21 financial statements.

Note 3: Total Public Private Partnership Commitments excludes finance lease commitments. All commitments are exclusive of GST.

4.154 At 30 June 2021, the Directorate had \$345 million in commitments relating to the public private partnership with a private sector consortium (Juris Partnership) to construct, operate and maintain the new ACT Courts and Tribunal facilities. This was \$18 million lower than the \$363 million in commitments at 30 June 2020 due to monthly service payments made during the year.

Audit findings

Table 4-32 Status of audit findings

| Previously Reported | Resolved | Partially Resolved | Not Resolved | New | Balance |
|---------------------|----------|--------------------|--------------|-----|---------|
| 2 | (2) | - | - | 1 | 1 |

- 4.155 The Directorate resolved the two previously reported audit findings by performing a reconciliation between Integrated Court Management System and Oracle, and improving the quality of variance explanations in the financial statements.
- 4.156 One new audit finding was identified in 2020-21 relating to revenue recorded in Open Practice system (system used to record legal services revenue transactions).
- 4.157 The Directorate (ACT Government Solicitor’s Office or ACTGS) uses the Open Practice system to record legal services revenue transactions. This system is separate from the Directorate’s financial management system (Oracle). The Directorate performs a manual process, with limited subsequent checks or reconciliations performed, to check that the revenue and receivables recorded in the Open Practice system agree with Oracle.
- 4.158 The Audit Office has recommended the Directorate:
- review whether the Open Practice system is fit-for-purpose to record revenue transactions (invoices) and assess whether the processes for recording revenue from Open Practice system to Oracle can be automated or improved; and
 - regularly reconcile the revenue and receivables recorded in Open Practice system to Oracle and in particular at year-end.
- 4.159 The Directorate has agreed to address this audit finding.

Major Projects Canberra

4.160 Major Projects Canberra was established on 1 July 2019 as a result of *Administrative Arrangement 2019 (No.1)* to consolidate project procurement, contract management and delivery oversight on behalf of the ACT Government for its infrastructure works.

4.161 The key outputs of Major Projects Canberra include:

- directly procuring and delivering infrastructure projects designated by the ACT Government as major projects. The designated projects currently include the expansion of Canberra Hospital, the extension of light rail to Woden and the delivery of a new CIT campus and public transport hub in Woden;
- delivering other whole-of-government infrastructure projects in partnership with other directorates;
- providing advice and industry representation on infrastructure matters;
- contractor pre-qualification and Industrial Relations and Employment obligations certification, project management and reporting, superintendency of works and Workplace Health and Safety Active Certification; and
- the ACT Chief Engineer function facilitating the engineering capability required to meet the future needs and growth of the Territory.

Summary

- The Audit Office issued an unmodified auditor's report on Major Projects Canberra's 2020-21 financial statements and an unmodified limited assurance report on its 2020-21 statement of performance.
- The net cost of Major Projects Canberra's services (\$12 million) was \$3 million (33 percent) higher than budgeted (\$9 million) due to the higher than expected capital funded employee expenses not meeting the capitalisation criteria for designated projects.
- Major Projects Canberra drew down additional \$7 million (7 percent) in capital injections than budgeted amount (\$93 million) mainly due to accelerated capital works performed on Canberra Hospital expansion project and Canberra Light Rail – New Mitchel Light Rail Stop. The related capital works advance will be deducted from the project's future year budget appropriation.
- Major Projects Canberra resolved all four of the previously identified audit findings relating to the review of salary reports, accounting workpapers supporting the financial statements, accounting for capital works in progress and non-compliance with the Whole-of-Government reporting timetable for the statement of performance.

Financial results

Table 4-33 Key results

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|-----------------------------|--------------------------|--------------------------|--------------------------|
| Expenses | 34 | 31 | (33) |
| Income | 22 | 22 | 15 |
| Net cost of services | (12) | (9) | (18) |
| Government contributions | 7 | 8 | 11 |
| Operating deficit | (5) | (1) | (7) |
| Capital injections | 100 | 93 | 71 |

- 4.162 Major Projects Canberra's expenses mainly consist of employee expenses, supplies and services expenses and amortisation of computer information systems.
- 4.163 Expenses (\$34 million) were slightly higher than the budgeted amount (\$31 million) by \$3 million mainly due to capital funded employee expenses not meeting the capitalisation criteria for designated projects.
- 4.164 Major Projects Canberra's income is mostly derived from providing capital works project management services to other ACT Government agencies.
- 4.165 Income (\$22 million) was in line with budget (\$22 million).
- 4.166 The net cost of Major Projects Canberra's services (\$12 million) was \$3 million (33 percent) higher than budgeted (\$9 million) due to the higher than expected employee expenses mentioned above.
- 4.167 Government contributions (\$7 million) were in line with the budget (\$8 million).
- 4.168 Major Projects Canberra drew down additional \$7 million (7 percent) in capital injections than budgeted (\$93 million) mainly due to accelerated capital works performed on Canberra Hospital expansion project and Canberra Light Rail – New Mitchel Light Rail Stop. This additional capital works advance was drawn in accordance with instruments prepared under the *Financial Management Act 1996* and will be deducted from the project's future year budget appropriation.

Audit findings

Table 4-34 Status of audit findings

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

4.169 All four of the previously identified audit findings were resolved during the audit of the 2020-21 financial statements. In the prior year, the Audit Office had recommended that Major Projects Canberra:

- perform timely reviews of salary reports and evidence of such reviews be retained. Major Projects Canberra resolved this audit finding by performing timely review of salary reports and maintained evidence of those reviews. This reduces the risk that errors or irregularities (including fraud) in salary reports will not be promptly detected and resolved;
- provide accounting workpapers that agree to financial statements and include sufficient information in a format that was easy to understand. Major Projects Canberra resolved this audit finding by providing workpapers that were clearly presented, reconciled and enabled easier understanding of how balances in the draft financial statements were prepared and compiled from accounting and other records. This reduces the risk of errors in the financial statements and delays in the completion of the audit;
- develop a specific capitalisation procedure due to the complexity of designated capital projects undertaken by Major Projects Canberra for assessing the appropriateness of costs capitalised in accordance with Australian Accounting Standard AASB 116: 'Property, Plant and Equipment'. Major Projects Canberra resolved this audit finding by preparing a capital works in progress capitalisation policy that provides specific guidance for capitalisation of designated project costs expected to be incurred by Major Projects Canberra. This reduces the risk of expenditure being incorrectly capitalised and non-compliance with AASB 116; and
- should review and improve its processes for the preparation of its statement of performance to provide its certified statement of performance to the Audit Office to comply with the Whole-of-Government reporting timetable (timetable) issued by the Chief Minister, Treasury and Economic Development Directorate. Major Projects Canberra resolved this audit finding by complying with the 2020-21 timetable and providing its certified statement of performance to the Audit Office on 22 September 2021. This was within the date of 23 September 2021 as required by the timetable and enabled the limited assurance report to be issued on that date.

4.170 No new audit findings were identified in 2020-21.

Public Sector Workers Compensation Fund

- 4.171 The Public Sector Workers Compensation (PSWC Fund) operates under the *Public Sector Workers Compensation Fund Act 2018* to manage the Territory's workers' compensation liabilities and payments for associated claims.
- 4.172 The PSWC Fund was established on 1 March 2019 when the Territory became a licenced self-insurer for workers' compensation under the *Safety, Rehabilitation and Compensation Act 1988 (Commonwealth)* and assumed responsibility for workers' compensation claims from the Commonwealth Government (Comcare).

Summary

- The Audit Office issued an unmodified auditor's report on the PSWC Fund's 2020-21 financial statements and an unmodified limited assurance report on its 2020-21 statement of performance.
- The PSWC Fund's operating surplus (\$55 million) exceeded the budgeted operating surplus (\$1 million) by \$54 million largely due to lower than expected expenses mainly from lower actuarially estimated claims that also resulted in a reduction in outstanding claims liabilities.
- The PSWC Fund had sufficient assets to meet estimated workers' compensation claims liabilities at 30 June 2021. However, this is largely dependent on the PSWC Fund receiving cash from Comcare under the transitional arrangements of the Territory's self-insurance licence.
- The one previously reported audit finding relating to internal controls implemented by the Fund's contracted claims management service provider remained partially resolved in 2020-21.
- One new audit finding was identified in 2020-21 relating to the PSWC Fund's processes for preparing its financial statements, recording its transactions, and accounting workpapers.

Financial results

Table 4-35 Key results

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|------------------------------|--------------------------|--------------------------|--------------------------|
| Underwriting revenue | 56 | 56 | 56 |
| Underwriting expenses | (4) | (48) | (43) |
| Underwriting gain | 52 | 8 | 13 |
| Other revenue | 4 | 1 | 5 |
| Total income | 56 | 9 | 18 |
| Supplies and services | (1) | (8) | (1) |
| Expenses | (1) | (8) | (1) |
| Operating surplus | 55 | 1 | 17 |

4.173 The PSWC Fund's income mostly consists of underwriting revenue from workers' compensation premium contributions collected from ACT Government agencies.

4.174 Underwriting revenue (\$56 million) was consistent with the budgeted amount (\$56 million).

4.175 Underwriting (or claims related) expenses consist of payments for workers' compensation claims, changes in the actuarial estimate of outstanding claim liabilities and claims administration expenses paid to the PSWC Fund's claims management service provider, Employers Mutual Limited (EML).

4.176 Total underwriting expenses (\$4 million) were \$44 million (92 percent) lower than the budgeted amount (\$48 million). This was mainly due to lower actuarially estimated claims related expenses resulting in a reduction in outstanding claims liabilities. The actuarial estimate was lower due to changes in actuarial assumptions primarily relating to lower incapacity and medical benefit costs from fewer active older claims.

4.177 The PSWC Fund's operating surplus (\$55 million) exceeded the budgeted operating surplus (\$1 million) mainly due to lower than anticipated underwriting expenses.

Financial position

Table 4-36 Net assets

| At 30 June | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|---|--------------------------|--------------------------|--------------------------|
| Total assets - Note 1 | 402 | 393 | 393 |
| Total liabilities | (328) | (373) | (374) |
| Net assets | 74 | 20 | 19 |
| Ratio of total assets to total liabilities | 1.2:1 | 1.1: 1 | 1.1 :1 |

Note 1: Total assets include compensation receivable from Comcare which was estimated at \$304 million on a central estimate basis at 30 June 2021. Central estimate basis means there is an equal probability that the estimate will be above or below the actual amount.

4.178 The PSWC Fund had sufficient assets to meet its liabilities at 30 June 2021. However, this is dependent on the Fund receiving payment from Comcare under the transitional arrangements of the Territory's self-insurance licence for the workers' compensation liabilities the PSWC Fund acquired on 1 March 2019. This was expected to be received in 2020-21 but is now anticipated to be received in 2021-22.

Audit findings

Table 4-37 Status of audit findings

| Previously Reported | Resolved | Partially Resolved | Not Resolved | New | Balance |
|---------------------|----------|--------------------|--------------|-----|---------|
| 1 | - | 1 | - | 1 | 2 |

4.179 One previously reported audit finding relating to internal controls implemented by the PSWC Fund's contracted claims management service provider for claims payments remained partially resolved. The PSWC Fund appointed an independent auditor to test if the controls implemented by EML were operating effectively for the period from November 2019 to 30 June 2021. However, this work including the report from the PSWC Fund's appointed independent auditor was not completed in time for the certification of the financial statements and issuing of the auditor's report by the Audit Office.

4.180 The Audit Office has recommended the PSWC Fund to schedule audits of controls implemented by EML as close as possible to 30 June each year so that the audit testing covers the full or most of the financial year, and in a timeframe that ensures that the report is available to the PSWC Fund before certifying its financial statements.

4.181 The PSWC Fund has agreed to address this finding.

- 4.182 One new audit finding was identified in 2020-21 relating to the PSWC Fund's processes for preparing its financial statements, recording its transactions, and accounting workpapers.
- 4.183 The processes used to record transactions in the PSWC Fund's financial management system (Oracle) and prepare the financial statements were complex and time consuming. The complexity of these processes presented a risk of error and made it more difficult to verify whether balances in the financial statements were accurate and, in some instances, there was insufficient documentation included in the PSWC Fund's accounting workpapers to support the balances.
- 4.184 The Audit Office has recommended the PSWC Fund to:
- improve and simplify its processes for recording transactions in Oracle and preparing its financial statements. This could be done by recording actual transactions throughout the year as they occur, and recording monthly journals for claims payments based on the actual claims processed by EML; and
 - include separate account codes in its trial balance for balances which the PSWC Fund believes will need to be separately reported in the financial statements so that manual splits of balances are not required. Otherwise, include sufficient documentation in its workpapers to support the split of balances.
- 4.185 The PSWC Fund has agreed with this audit finding.

Suburban Land Agency

- 4.186 The Suburban Land Agency is a Public Trading Enterprise established under the *City Renewal Authority and Suburban Land Agency Act 2017*. The Suburban Land Agency, on behalf of the ACT Government, develops and sells suburban, residential, community, commercial and industrial land in town centres and suburbs outside 'declared urban renewal precincts'.
- 4.187 Consistent with the ACT Government's policy on competitive neutrality (*Competitive Neutrality in the ACT, October 2010*), the Suburban Land Agency applies similar costing and pricing principles, taxation, debt guarantee requirements and regulations to a private sector entity.

Summary

- The Audit Office issued an unmodified auditor's report on the Suburban Land Agency's 2020-21 financial statements and an unmodified limited assurance report on its 2020-21 statement of performance.
- Revenue from contracts with customers (\$812 million) was consistent with budgeted amount (\$812 million).
- Gross profit on land sales (\$472 million) was \$25 million (5 percent) below the budgeted gross profit (\$497 million) mainly due to higher cost of land sold (\$25 million).
- Operating profit (\$295 million) was \$12 million (4 percent) below the budgeted amount (\$307 million) mainly due to the lower gross profit on land sales.
- The Audit Office has advised the Suburban Land Agency to liaise with the Environment, Planning and Sustainable Development Directorate to establish a more permanent basis for financial reporting of ACT Government's interest in the West Belconnen Joint Venture.

Financial results

Table 4-38 Key results

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|---|--------------------------|--------------------------|--------------------------|
| Revenue from contracts with customers – Note 1 | 812 | 812 | 202 |
| Cost of land sold | (340) | (315) | (68) |
| Gross profit on land sales | 472 | 497 | 134 |
| Other income | 8 | 11 | 12 |
| Inventory write-down | (4) | - | (1) |
| Other expenses | (54) | (69) | (45) |
| Operating profit before income tax equivalents expense | 422 | 439 | 100 |
| Income tax equivalents expense | (127) | (132) | (32) |
| Operating profit | 295 | 307 | 68 |

Note 1: Revenue from contracts with customers relates to different types of land sales (residential, mixed use, commercial and community land sales) and revenue related to the Affordable Housing sales made through the West Belconnen Joint Venture.

- 4.188 Revenue from Contracts with Customers (\$812 million) was materially consistent with the budgeted amount (\$812 million).
- 4.189 Cost of land sold (\$340 million) was \$25 million (8 percent) higher than the budgeted amount (\$315 million) mainly due to costs relating to critical infrastructure assets which were budgeted under capital works in progress rather than in the cost of land sold. These included costs for the Molonglo Valley Interceptor Sewer, Deep Creek Pond and power lines.
- 4.190 Gross profit on land sales (\$473 million) was \$25 million (5 percent) below the budgeted gross profit (\$497 million) due to higher than budgeted cost of land sold.
- 4.191 Other expenses (\$54 million) were \$15 million (22 percent) below the budgeted amount (\$69 million) mainly due to lower than expected expenses on:
- training as a result of COVID-19 pandemic; and
 - rural land management, digital transformation and consultancy expenses from delays in these activities and projects.
- 4.192 Income tax equivalents expense (\$127 million) was \$5 million (4 percent) below the budgeted amount (\$132 million) in line with the lower gross profits and higher expenses, discussed above.

- 4.193 Operating profit (\$295 million) was \$12 million (4 percent) below the budgeted amount (\$307 million) mainly as a result of higher cost of land sold discussed previously.

Financial reporting arrangements for West Belconnen Joint Venture

- 4.194 West Belconnen Joint Venture is a joint operation with ACT Government and Riverview Developments (ACT) Pty Ltd formed in 2016 to develop land in West Belconnen ACT and across the border into NSW.
- 4.195 The Suburban Land Agency reports ACT Government's interest in the West Belconnen Joint Venture in its financial statements. However, as the Environment, Planning and Sustainable Development Directorate (Directorate) has control over this interest, a written confirmation was provided by the Directorate to facilitate financial reporting of ACT Government's interest in the 2020-21 financial statements of the Suburban Land Agency. This arrangement is not permanent in nature as the Directorate has the discretion to change the reporting requirement on an annual basis.
- 4.196 The Audit Office has advised the Suburban Land Agency to liaise with the Directorate to establish a more permanent arrangement for financial reporting of ACT Government's interest in the West Belconnen Joint Venture in its financial statements.

Superannuation Provision Account

- 4.197 The Superannuation Provision Account administers funds set aside to meet the defined benefit employer superannuation liabilities of the Territory. These defined benefit superannuation liabilities relate to:
- current and former ACT Government employees who are members of Commonwealth Government defined benefit superannuation schemes, the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS); and
 - Members of the ACT Legislative Assembly who are eligible for the defined benefit superannuation scheme under the *Legislative Assembly (Members' Superannuation) Act 1991*.
- 4.198 The Commonwealth Superannuation Corporation (CSC) administers the CSS and PSS superannuation schemes and makes superannuation benefits payments to eligible members. The Territory reimburses CSC for the employer-financed share of the superannuation benefits paid for eligible current and former ACT Government employees from 1 July 1989. The superannuation liabilities incurred before this date are covered by the Commonwealth Government.
- 4.199 The CSS and PSS were closed to new members from 1 July 1990 and 1 July 2005 respectively. The Public Sector Superannuation Accumulation Plan (PSSap) was offered to employees from 1 July 2005 until 7 October 2006 when access to this scheme was closed to new ACT Government employees. New employees are offered superannuation accumulation schemes of their choice.

Summary

- The Audit Office issued an unmodified auditor's report on the Superannuation Provision Account's 2020-21 financial statements and an unmodified limited assurance report on its 2020-21 statement of performance.
- The operating surplus (\$320 million) was higher than budgeted (\$40 million) by \$280 million mainly due to the higher than estimated distributions from investments and net gain on the fair value of investments.
- The unfunded superannuation liability at 30 June 2021 (\$8 099 million) was substantially higher than budgeted (\$3 441 million) by \$4 658 million mainly due to the lower actuarially assessed discount rate of 2.26 percent compared to 5 percent used to estimate the present value of the superannuation liability.
- Annual cash payments required to discharge the superannuation obligations are projected to increase significantly over future years, peaking at \$705 million in 2044 and then reducing until fully paid.
- The Superannuation Provision Account will continue to rely on budget appropriation funding to meet the annual cash payments for the Territory's superannuation obligations until the liability is fully funded.

Financial Results

Table 4-39 Key results

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|---|-----------------------------------|-----------------------------------|-----------------------------------|
| Income | 248 | 124 | 81 |
| Net gain on the fair value of investments | 556 | 400 | 1 |
| Expenses | (484) | (484) | (511) |
| Operating surplus/(deficit) | 320 | 40 | (429) |

- 4.200 Income largely consists of distributions from investments and interest income. Income (\$248 million) was \$124 million (100 percent) higher than budgeted (\$124 million) as net distributions received on investments were higher than estimated due to stronger performance of investment markets.
- 4.201 Net gain on the fair value of investments (\$556 million) was higher than budgeted (\$400 million) by \$156 million (39 percent) due to a higher than estimated return on financial investments.
- 4.202 Expenses mainly consist of superannuation costs associated with the estimated growth in the superannuation liability. The superannuation expense was consistent with budget.
- 4.203 The operating surplus (\$320 million) was higher than budgeted (\$40 million) by \$280 million mainly due to the higher than estimated distributions from investments and net gain on the fair value of investments.

Actual unfunded superannuation liability

Table 4-40 Actual financial position

| At 30 June | Actual 2018 \$m | Actual 2019 \$m | Actual 2020 \$m | Actual 2021 \$m | Budget 2021 \$m |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Financial assets – Note 1 | 4 000 | 4 237 | 4 322 | 5 132 | 4 841 |
| Superannuation liability | (9 736) | (11 774) | (12 056) | (13 231) | (8 283) |
| Unfunded superannuation liability | (5 736) | (7 537) | (7 734) | (8 099) | (3 442) |
| Investments to superannuation liability | 0.4 to 1 | 0.4 to 1 | 0.4 to 1 | 0.4 to 1 | 0.6 to 1 |

Source: Actual figures were obtained from Superannuation Provision Account's audited financial statements. Budget figures were obtained from 2020-21 Budget Papers.

Note 1: Financial assets consist of cash at bank, investment distributions receivable and investments.

- 4.204 The Superannuation Provision Account's financial assets which consist of cash at bank, investment distributions receivable and investments, are not sufficient to cover the superannuation liability, therefore a substantial component of the liability is unfunded.
- 4.205 The superannuation liability is valued to present value using a Commonwealth Government bond (discount) interest rate at the end of the financial year. This valuation is sensitive to changes in the discount rate due to the long-term settlement period of the liability. Therefore, the rate used to calculate the present value of the superannuation liability has a significant impact on its estimated value. A lower discount rate increases the estimated superannuation liability and a higher rate decreases the estimated superannuation liability.
- 4.206 The unfunded superannuation liability at 30 June 2021 (\$8 099 million) was substantially higher than budgeted (\$3 441 million) by \$4 658 million (135 percent) mainly due to the lower actuarially assessed discount rate of 2.26 percent compared to 5 percent used to estimate the present value of the superannuation liability.
- 4.207 The Superannuation Provision Account uses a long-term average discount rate in the budget and forward year estimates to remove significant valuation volatility resulting from changes in the Commonwealth Government bond (discount) interest rate from year to year.
- 4.208 The unfunded superannuation liability at 30 June 2021 (\$8 099 million) increased from the unfunded position at 30 June 2020 (\$7 734 million) by \$365 million (5 percent) mainly due to the changes in demographic assumptions and updated financial assumptions (discount rates, salary inflation and consumer price index) following the 30 June 2020 triennial actuarial review.

4.209 The unfunded superannuation liability position has fluctuated significantly in recent years mostly due to the changes in the Commonwealth Government bond (discount) rate.

Projected unfunded superannuation liability

Table 4-41 Estimated forward years financial position

| At 30 June | Actual 2021 \$m | Estimate 2022 \$m | Estimate 2023 \$m | Estimate 2024 \$m |
|--|-----------------------|-------------------------|-------------------------|-------------------------|
| Financial assets – Note 1 | 5 132 | 5 488 | 5 870 | 6 279 |
| Superannuation liability | (13 231) | (10 103) | (10 346) | (10 568) |
| Unfunded superannuation liability | (8 099) | (4 615) | (4 476) | (4 289) |
| Investments to superannuation liability | 0.4 to 1 | 0.6 to 1 | 0.6 to 1 | 0.6 to 1 |

Source: Actual figures were obtained from Superannuation Provision Account's audited financial statements. Forward estimate figures were obtained from the 2021-22 Budget Papers.

Note 1: Financial assets consist of cash at bank, investment distributions receivable and investments.

4.210 The unfunded superannuation liability position is estimated to decrease substantially from \$8 099 million at 30 June 2021 to an estimated \$4 289 million by 30 June 2024 as reported in the forward estimates. This is due to:

- an increase in financial assets of \$1 147 million (22 percent) over the forward years from the current balance of \$5 132 million to \$6 279 million by 30 June 2024; and
- a reduction in the superannuation liability by \$2 663 million (20 percent) from \$13 231 million in the current year to \$10 568 million by 30 June 2024.

4.211 For the large estimated decrease in the unfunded superannuation liability to occur over the forward years, there would need to be a significant increase in the discount rate used to estimate the superannuation liability, unless other assumptions used in the estimation were to change.

Table 4-42 Future superannuation cash payments schedule

| Year ended 30 June | Nominal terms \$m |
|--------------------|----------------------|
| 2022 | 328 |
| 2027 | 438 |
| 2032 | 550 |
| 2038 | 662 |
| 2044 (peak) | 705 |
| 2050 | 661 |
| 2055 | 573 |
| 2060 | 460 |

Source: Information above was obtained from the 'Report on Actuarial Investigation as at 30 June 2020' prepared by the Territory's consulting actuary, Willis Tower Watson. The actuarially assessed amounts are represented in nominal terms (i.e. not adjusted for inflation).

- 4.212 The annual cash payments required to meet superannuation obligations are projected to increase significantly in future years, peaking at \$705 million in 2044 and then reducing over the years until fully paid. This reflects when employees, who are members of the CSS and PSS, are expected to retire over the next two decades. For many members, the retirement benefits provided under these defined benefit schemes will be taken as indexed pensions and will continue throughout their lives and that of their surviving spouses.
- 4.213 The Superannuation Provision Account will continue to rely on budget appropriation funding to meet the projected significant increase in annual cash payments for the Territory's superannuation obligations until the liability is fully funded. The timing of when the superannuation liability becomes fully funded is subject to the achievement of estimated investment returns and the projected cash payments not significantly increasing beyond the estimated amounts in future years.

Transport Canberra and City Services Directorate

- 4.214 Transport Canberra and City Services Directorate (Directorate) is responsible for Canberra's municipal services and public transport planning functions. The Directorate is responsible for the planning, building and maintenance of the majority of the Territory's infrastructure assets and also operates linen cleaning services and the Yarralumla Nursery.
- 4.215 On 4 November 2020, the Directorate received the transport regulation and safety function from the Justice and Community Safety Directorate and the parking policy function from the Environment, Planning and Sustainable Development Directorate as a result of *Administrative Arrangements 2020 (No.3)*.

Summary

- The Audit Office issued an unmodified auditor's report on the Directorate's 2020-21 financial statements and an unmodified limited assurance report on its 2020-21 statement of performance.
- The net cost of the Directorate's services (\$661 million) was consistent with the budgeted cost (\$663 million).
- Capital injections (\$140 million) were \$71 million (34 percent) lower than the budgeted amount (\$211 million) mainly due to deferrals and delays of several capital infrastructure projects.
- The Directorate resolved two previously reported audit finding relating to the review of salary reports and duplication of accountability indicators for Output Class 1.1: Transport Canberra.
- The Directorate did not resolve one previously reported audit finding relating to reconciliations of the waste management system and the finance system.
- One new audit finding was identified in 2020-21 audit relating to an accountability indicator where the result was not measured in accordance with the *Financial Management Act 1996*.

Financial results

Table 4-43 Key results

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Expenses | (720) | (714) | (658) |
| Income | 59 | 51 | 52 |
| Net cost of services | (661) | (663) | (606) |
| Government contributions | 464 | 471 | 412 |
| Contributed assets from other ACT Government entities and private developers | 145 | 131 | 82 |
| Operating deficit | (52) | (61) | (112) |
| Capital injections | 140 | 211 | 157 |

- 4.216 The Directorate's expenses mainly consist of depreciation of infrastructure assets, contractor and consultant expenses, repairs and maintenance costs, employee expenses and payments to Transport Canberra Operations for public transport services.
- 4.217 Expenses (\$720 million) were \$6 million higher than the budgeted amount (\$714 million) mainly due to:
- unbudgeted expensing of capital works in progress that did not meet the Directorate's asset recognition criteria under the Australian Accounting Standards; and
 - higher than expected employee expenses as a result of additional staff employed by the Directorate to deliver the Directorate's operations internally rather than outsourcing.
- 4.218 This was partially offset by lower supplies and services expenses mostly due to delays to infrastructure feasibility studies and community infrastructure repairs works and lower contractor and consultancy expenses.
- 4.219 The Directorate's income is mostly derived from providing linen cleaning services, collecting fees for the disposal of contaminated waste at the Territory's landfill sites and the sale of plants from Yarralumla Nursery.
- 4.220 Income (\$59 million) was \$8 million (16 percent) higher than the budgeted amount (\$51 million) mainly due to higher than expected fees and fines collected from land use fees and road traffic permits issued during the year.

- 4.221 The net cost of the Directorate's services (\$661 million) was consistent with the budgeted cost (\$663 million).
- 4.222 Government contributions (\$464 million) were \$7 million lower than budgeted (\$471 million) due to less funding required as a result of deferral and delays in infrastructure feasibility studies and community infrastructure repair works.
- 4.223 Contributed assets from other ACT Government entities and private developers (\$145 million) were \$14 million (10 percent) higher than the budgeted amount (\$131 million) primarily due to the higher than expected value of assets contributed from the Suburban Land Agency partially offset by lower than expected asset contributions from private developers.
- 4.224 Capital injections (\$140 million) were \$71 million (34 percent) lower than the budgeted amount (\$211 million). This was mainly due to deferrals and delays of several capital infrastructure projects including the construction of the Monaro Highway, Material Recovery Facility, Better buses to support the new bus network and Green Waste Rollout.

Table 4-44 Status of audit findings

| Previously Reported | Resolved | Partially Resolved | Not Resolved | New | Balance |
|---------------------|----------|--------------------|--------------|-----|---------|
| 3 | (2) | - | 1 | 1 | 2 |

- 4.225 The Directorate resolved two previously reported audit findings relating to:
- the salary reports first reported in 2017-18 by reviewing the reports in a timely manner and retaining evidence of these reviews. This provides the Directorate with increased assurance that its employee expenses are appropriate and irregularities including possible fraudulent payments will be promptly detected and investigated; and
 - accountability indicators for Output Class 1.1: Transport Canberra by removing the duplication of these indicators with Transport Canberra Operation's accountability indicators from the Directorate's 2021-22 Budget Paper. This provides readers of the statements of performance with clarity as to which outputs are delivered by the Directorate and those delivered by Transport Canberra Operations.
- 4.226 The Directorate did not resolve one previously reported audit finding relating to reconciliations of the Waste Management System and the Finance System that was first reported in 2019-20. Reconciliations were not prepared and reviewed in a timely manner. There is an increased risk that errors and irregularities in revenue records will not be promptly followed up and resolved.

- 4.227 One new audit finding was identified in 2020-21 relating to an accountability indicator where the result was not measured in accordance with the *Financial Management Act 1996* in the statement of performance for the accountability indicator: '*Output Class 2: Library Services, h. Percentage of participants with a learning outcome from library programs*'. The Directorate advised:

Due to COVID-19 restrictions and associated health and safety advice, paper surveys were not undertaken during the limited number of face-to-face programs run in library branches during the reporting period. As such no customer survey results can be provided. The Directorate is investigating options for implementation of electronic surveys during 2021-22 financial year.

- 4.228 The Directorate has agreed to address all audit findings.

Transport Canberra Operations

- 4.229 Transport Canberra Operations is a business unit of the Transport Canberra and City Services Directorate (Directorate) and a separate entity for financial reporting purposes.
- 4.230 Transport Canberra Operations' primary business is to provide public transport services to the ACT community.
- 4.231 Transport Canberra Operations is a Public Trading Enterprise for whole-of-government reporting purposes and is subject to the National Tax Equivalents Regime.

Summary

- The Audit Office issued an unmodified auditor's report on the 2020-21 financial statements for Transport Canberra Operations and an unmodified limited assurance report on its 2020-21 statement of performance.
- The net cost of Transport Canberra Operations' services (\$248 million) was slightly higher than the budgeted cost (\$239 million).
- Transport Canberra Operations' operating deficit before income tax equivalents of \$47 million was \$11 million (32 percent) higher than the budgeted amount (\$35 million) primarily due to the higher net cost of services.
- Capital payments received from the Directorate (\$16 million) were consistent with the budgeted amount (\$17 million).
- At 30 June 2021, Transport Canberra Operations had \$646 million in commitments for the public-private partnership with the Canberra Metro consortium to operate and maintain the light rail project.
- Transport Canberra Operations resolved one previously reported audit finding from 2018-19 relating to the reconciliation of the MyWay system with ORACLE. No new audit findings were identified in 2020-21.

Financial results

Table 4-45 Key results

| | Actual 2020-21 \$m | Budget 2020-21 \$m | Actual 2019-20 \$m |
|--|-----------------------------------|-----------------------------------|-----------------------------------|
| Expenses | (273) | (260) | (248) |
| Income | 25 | 21 | 27 |
| Net cost of services | (248) | (239) | (221) |
| Government contributions | 201 | 204 | 187 |
| Operating deficit before income tax equivalents | (47) | (35) | (34) |
| Income tax equivalents income | 14 | - | 10 |
| Operating deficit | (33) | (35) | (24) |
| Capital payments received from the Transport Canberra and City Services Directorate | 16 | 17 | 33 |

- 4.232 Transport Canberra Operations' expenses mainly consist of employee costs, payments for light rail operations to Canberra Metro, bus operating costs including fuel, maintenance and insurance and depreciation costs.
- 4.233 Expenses (\$273 million) were \$13 million (5 percent) higher than the budgeted amount (\$260 million) mainly due to a one-off expensing of capital works in progress associated with light rail stage 1 that did not meet the asset recognition criteria under the Australian Accounting Standards.
- 4.234 Transport Canberra Operations' income is primarily from passenger fares on the public transport network.
- 4.235 Income (\$25 million) was \$4 million (21 percent) higher than the budgeted amount (\$21 million) primarily due to higher than expected funding received from the ACT Health Directorate for cleaning services on public transport as a result of the Territory's response to the COVID-19 pandemic and higher fuel tax credits from the Australian Taxation Office.
- 4.236 The net cost of Transport Canberra Operations' services (\$248 million) was \$9 million higher than the budgeted cost (\$239 million) due to the previously discussed higher than expected expenses partially offset by the higher than expected revenue.

- 4.237 Government contributions (\$201 million) were \$3 million lower than the budgeted amount (\$204 million) due to lower funding from the Directorate to subsidise Transport Canberra Operations as a result of the previously discussed higher than expected income.
- 4.238 Transport Canberra Operations' operating deficit before income tax equivalents of \$47 million was \$11 million (32 percent) higher than the budgeted amount (\$35 million) primarily due to the higher net cost of services.
- 4.239 Transport Canberra Operations recorded an unbudgeted income tax equivalents income of \$14 million as the movements in tax associated balances were not anticipated in the budget.
- 4.240 Capital payments received from the Directorate (\$16 million) were consistent with budgeted amount (\$17 million).

Table 4-46 Light Rail Project - Public Private Partnership Commitments

| | Operational Commitments (excluding GST) | |
|---|--|----------------|
| | 2020-21 \$m | 2019-20 \$m |
| Within one year | 28 | 26 |
| Later than one year but not later than five years | 125 | 117 |
| Later than five years | 493 | 522 |
| Total Public Private Partnership Commitments | 646 | 665 |
| | | |

Source: Note 22: 'Commitments' of Transport Canberra Operations' of the audited 2020-21 financial statements.

- 4.241 At 30 June 2021, Transport Canberra Operations had \$646 million in commitments for the public-private partnership with the Canberra Metro consortium to operate and maintain the light rail project compared to \$665 million in commitments at 30 June 2020.

Audit findings

Table 4-47 Status of audit findings

| Previously Reported | Resolved | Partially Resolved | Not Resolved | New | Balance |
|---------------------|----------|--------------------|--------------|-----|---------|
| 1 | (1) | - | - | - | - |

- 4.242 Transport Canberra Operations resolved the audit finding from 2018-19 relating to the reconciliation of the MyWay System with ORACLE (financial management system) by having monthly reconciliations prepared and reviewed by independent officers in a timely manner. This provides increased assurance that revenue recognised in ORACLE is appropriate and errors and irregularities will be promptly detected and investigated.
- 4.243 No new audit findings were identified in 2020-21.

University of Canberra

4.244 The University of Canberra (University) provides graduate and post-graduate education to Australian and international students. The University also provides research, consultancy and student accommodation services.

4.245 In 2020, the University controlled:

- UCX Ltd which provides goods and services to the staff, students and visitors to the campus;
- UC Global Pty Limited which provides business services, including contract management, market analysis and other specialist commercial management services to the education industry;
- WJ Weeden Post-Graduate Scholarship Trust Fund which provides scholarships to students enrolled at the University for post-graduate studies; and
- University of Canberra Royal Institute of Public Administration Research Fund which provides funds to conduct research projects and the production of publications relating to public administration studies.

4.246 The Audit Office audited the 2020 financial statements of:

- the University under the *Financial Management Act 1996* (as amended by the *University of Canberra Act 1989*), and the *Australian Charities and Not-for-profits Commission Act 2012*; and
- UCX Ltd under the *Australian Charities and Not-for-profits Commission Act 2012*.

Summary

- The Audit Office issued an unmodified auditor's report on the 2020 financial statements of the University.
- The University's 2020 consolidated operating surplus (\$30 million) was \$11 million higher than prior year surplus (\$19 million) largely due to a reduction in expenditure in relation to COVID-19 pandemic restrictions.
- The University had consolidated net short-term liabilities of \$45 million at 31 December 2020. It disclosed in its financial statements that it can meet these short-term liabilities using undrawn borrowing facilities with banks, funding provided by the Commonwealth Government and other university related funding. The University will need to continue to carefully manage its cash flows to meet these short-term liabilities. The continued impact of COVID-19 pandemic and international border closures will require careful financial management by the University.
- Two of the ten previously reported audit findings were resolved. One relating to reconciliation between systems and one relating to weaknesses over computer information systems.

- Two of the ten previously reported audit findings were partially resolved. One relating to weaknesses over computer information systems and one relating to payroll payment controls.
- Six of the ten previously reported audit finding were not resolved. Two findings related to internal controls over financial management policies and procedures; and review of payroll reports, one finding related to improving financial reporting processes to resolve long-standing credit balances in student and sponsor fee accounts, and three findings related to control weaknesses over computer information systems.
- One new audit finding was identified in 2020 relating to insufficient documentation over computer information systems.

Financial results

Table 4-48 Key results (calendar years)

| University of Canberra Group – Note 1 | Actual 2020 \$m | Actual 2019 \$m |
|--|--------------------------------|--------------------------------|
| | | |
| Income | 316 | 319 |
| Expenses | (286) | (300) |
| Operating surplus | 30 | 19 |
| | | |

Note 1: The financial information presented is for the University and its controlled entities.

- 4.247 Income mainly consists of Commonwealth Government financial assistance for student places, higher education loan programs, research activities, domestic and international student fees, and revenue from providing student accommodation.
- 4.248 Income (\$316 million) was slightly lower than the prior year amount (\$319 million). This was largely the result of lower revenue from on-campus activities (e.g., parking and childcare services) and student accommodation due to a campus shutdown during the COVID-19 pandemic, partially offset by higher Commonwealth Government financial assistance due to higher domestic student enrolments.
- 4.249 Expenses consists mainly of employee costs, administrative expenses, and depreciation and amortisation.
- 4.250 Expenses (\$286 million) were \$14 million lower than the prior year amount (\$300 million) mainly due to a decrease in payments to academic partners for providing degrees on behalf of the University and lower travel and other operational expenses resulting from COVID-19 pandemic restrictions.

4.251 The University's 2020 operating surplus (\$30 million) was \$11 million higher than the prior year operating surplus (\$19 million) mostly due to the decrease in expenses discussed above.

Financial position

Table 4-49 Net short-term liabilities (calendar years)

| University of Canberra Group – Note 1 At 31 December | Actual 2020 \$m | Actual 2019 \$m |
|---|--------------------------------|--------------------------------|
| Short-term assets - Note 2 | 49 | 23 |
| Short-term liabilities - Note 3 | (94) | (85) |
| Net short-term liabilities | (45) | (62) |
| Ratio of short-term assets to short-term liabilities | 0.5 to 1 | 0.3 to 1 |

Note 1: The financial information presented is for the University and controlled entities.

Note 2: Short-term assets (\$49 million) consist of current assets (\$54 million) as presented in the Statement of Financial Position minus restricted cash and investments (\$5 million) held in the University of Canberra Royal Institute of Public Administration Research Fund and WJ Weeden Post-Graduate Scholarship Trust Fund. Restricted cash and investments were subtracted from current assets as these funds cannot be used to pay liabilities.

Note 3: Short-term liabilities (\$94 million) are less than current liabilities (\$104 million) presented in the Statement of Financial Position. Short-term liabilities only include liabilities expected to be paid within 12 months as this provides a better indication of the short-term asset coverage.

4.252 At 31 December 2020, the University's consolidated short-term liabilities (\$94 million) exceeded its short-term assets (\$49 million) by \$45 million (92 percent). The amount by which short-term liabilities exceeded short-term assets decreased from \$62 million at 31 December 2019 to \$45 million at 31 December 2020. This was largely due to the University holding additional cash and reduction in other financial liabilities at 31 December 2020.

4.253 The University's financial statements disclose that it can meet its short-term liabilities using undrawn borrowing facilities with banks, funding provided by the Commonwealth Government and other university related funding. However, the net short-term liability position means that the University needs to continue to carefully manage its cash flows to ensure that it can meet its short-term liabilities, particularly as COVID-19 pandemic is expected to continue to impact its operations.

Audit findings

Table 4-50 Status of audit findings

| Previously Reported | Resolved | Partially Resolved | Not Resolved | New | Balance |
|---------------------|----------|--------------------|--------------|-----|---------|
| 10 | (2) | 2 | 6 | 1 | 9 |

4.254 Two of the ten previously reported audit findings were resolved, two were partially resolved, and six were not resolved. One new audit finding was identified during the audit of the 2020 financial statements.

4.255 Two previously reported audit findings were resolved. In prior years, the Audit Office recommended the University:

- improve its password controls by requiring all users to change their passwords on a regular basis and also implement multi-factor authentication for all users, however those who have access to key corporate systems and information technology networks should be prioritised. Although the University has not enforced all users to regularly change their passwords, it resolved this audit finding by introducing multi-factor authentication as a mitigating control. This reduces the risk of user accounts being compromised from not enforcing regular password changes; and
- consistently perform and review reconciliations between the student administration system (Callista) and financial management system (Finance One) on a monthly basis; and ensure there is documented evidence to support the timely preparation and review of the reconciliations. The University resolved this finding by preparing and reviewing the student fee revenue reconciliations in a timely manner. This reduced the risk that errors and irregularities (including fraud) in student fee revenue will not be promptly identified.

4.256 Two previously reported audit findings remain partially resolved. In prior years, the University:

- restricted system administrators from making changes to their computers, however other users can make changes to their computers where the user submits a request for local administrator rights and this is approved. The University's controls over providing local administrator rights are inadequate as there was not always an apparent business need for providing this access to some users, nor was there evidence that the software installed by users with this access is security assessed or subject to ongoing security patching. This increases the risk that the computers of the users holding local administrator privileges could be compromised and introduce security threats to the University network which could remain undetected. The University has partially agreed to resolve this finding and are currently implementing application security controls across its network.
- processed payroll payments by generating an electronic funds transfer payment file and placing them in an unrestricted folder. The University restricted access to this

folder in 2019, however changes can still be made to the payments files and access to the folder is not monitored. The University agreed to address this audit finding and advised that it has implemented an automated control to encrypt these payment files subsequent to 31 December 2020.

4.257 Six previously reported audit findings were not resolved. These relate to:

- the review of financial management policies and procedures. Some policies were out of date as they referred to processes or systems that are no longer used or positions of approving officers that no longer exist. This increases the risk that such policies and procedures will not be adequately or consistently applied, which in turn increases the risk of irregularities and fraud. The University has agreed to address this audit finding.
- the review of fortnightly salary reports. Since 2012, the Audit Office has reported that these reviews were not always documented or performed in a timely manner. This presents a risk of undetected erroneous or fraudulent payments to employees. The University has partially agreed with this audit finding and has advised that it will take steps to improve the completion and timeliness of these reviews.
- long-standing credit balances in many student and sponsor fee accounts recorded in the student administration system. These credit balances are money received by the University more than three years ago that need to be reviewed and corrected against a receivable in the system or a refund provided to the relevant student or sponsor. These credit balances are potentially misstatements in the financial statements. The University has agreed to address this audit finding.
- the University's general information technology controls as compared to those recommended in the Essential Eight mitigation strategies set out by the Australian Cyber Security Centre (ACSC). In particular, controls have not been implemented that mitigate against malware being executed by malicious actors, such as application whitelisting (permitting only specified applications to operate on systems) and application hardening (disabling internet browser add-ons and unneeded program features). This presents a higher risk that the University's information technology network environment and applications could be compromised. The University agreed to address recommendations relating to implementing application hardening. The University partially agreed to recommendations to implement application whitelisting subject to completing an implementation plan.
- management of privileged users (administrator) accounts. Administrator access provides these users with considerable access within an entity's network and applications, and the ability to perform higher risk activities in applications without approval. The University had not documented its procedures for managing privileged user access, placed appropriate restrictions on privileged user accounts and regularly monitored the activities of these users. This increases the risk of inappropriate use of privileged accounts and these accounts being compromised. Actions implemented as at 31 December 2020 are at a high level and the recommendations cannot be confirmed as resolved until the processes for logging and regular monitoring of privileged user activities are fully implemented. The University has agreed to address

recommendations relating to documenting procedures and monitoring of privileged user activities. The University partially agreed with one recommendation related to restrictions on privileged user accounts and is subject to completing a review to identify high risk activities, users and systems.

- logging and monitoring of database privileged users (administrators) activities for the University's financial management and student administration systems. Specifically, there was no evidence that the activities of database privileged users were logged and monitored, or that alternate mitigating controls exist. This increases the risk of unauthorised (including fraudulent) access to the system and its data, and that any such changes remain undetected. The University has agreed to address this audit finding.

4.258 One new audit finding was identified in 2020 relating to a lack of application specific security documentation for key financial information technology applications. The University has not developed System Security Plans, Continuous Monitoring Plans, Security Assessment Reports or Plans of Action and Milestones, recommended as better practice in the Information Security Manual. The absence of system specific documentation creates a higher risk that security related activities for key financial application systems may not be enforced appropriately resulting in inappropriate system access and insufficient monitoring of high-risk activities that have the potential to compromise the integrity of payments and financial data. The University has partially agreed to the recommendation and will make further assessment under its Cybersecurity program of work.

APPENDIX A: KEY TERMS

This report contains terms the reader may not be familiar with. These are discussed below.

Financial statements

Financial statements are a summary of transactions undertaken by reporting agencies. These transactions are summarised from the accounting records maintained by the reporting agencies to present the financial information in a meaningful way.

Financial statements show a reporting agency's financial performance (revenue, expenses and surpluses/deficits and cash flows) and financial position (assets, liabilities and net assets/liabilities). The financial position shows the capacity of a reporting agency to meet its financial obligations (liabilities).

Reporting agencies are required to prepare financial statements in accordance with Australian Accounting Standards set by the Australian Accounting Standards Board. These standards outline the reporting and disclosure requirements for financial statements.

An auditor's report is issued on a reporting agency's financial statements after the completion of an audit in accordance with the Australian Auditing Standards.

Auditor's report on financial statements

An auditor's report with an unmodified audit opinion is issued where the Auditor-General concludes the financial statements provide a fair representation of a reporting agency's financial performance and position in accordance with the relevant reporting and disclosure requirements.

An auditor's report with a modified audit opinion is issued where the Audit Office:

- disagrees with management about the financial statements. This includes disagreements in relation to the reported amounts or other disclosures; or
- has been unable to gain sufficient evidence, or perform sufficient work, to form an opinion in relation to the information (amounts and disclosures) reported in the financial statements.

Statements of performance

A statement of performance shows the results of a reporting agency's accountability indicators (performance measures) and related performance targets. This facilitates an assessment of the reporting agency's performance in providing public services by enabling the actual performance to be compared to planned (targeted) levels of performance.

The statement of performance is also required to include explanations for significant variances between actual and planned performance for each accountability indicator. Accountability indicators are set by the reporting agency and included in its Budget Papers or Statement of Intent presented to the ACT Legislative Assembly and may provide information on the number, quality and timeliness of services provided.

A limited assurance report is issued on a reporting agency's statement of performance after the Audit Office has completed audit work on the reported results.

The Audit Office performs a limited assurance engagement for each reporting agency's statement of performance. The work performed in a limited assurance engagement is substantially less than those performed in an audit of financial statements and therefore a lower level of assurance is provided.

Work performed on accountability indicators is limited to making inquiries with representatives of the reporting agency, performing analytical and other review procedures, and examining selected evidence supporting the results of accountability indicators.

Work performed on accountability indicators is limited to making inquiries with representatives of the reporting agency, performing analytical and other review procedures, and examining selected evidence supporting the results of accountability indicators.

The limited assurance report does not include an opinion on the relevance or usefulness of the accountability indicators or targets included in the statement of performance because these indicators and their related targets are set by the reporting agency during the annual budget process

Limited assurance report on statements of performance

A limited assurance report with an unmodified conclusion is issued where no matters have come to the Audit Office's attention which indicate the results of the accountability indicators reported in the statement of performance are not fairly or accurately presented.

A limited assurance report may include an emphasis of matter paragraph where the reporting agency has not complied with the requirements of the *Financial Management Act 1996* to establish accountability indicators and targets, or measure a result, for one or more of its accountability indicators.

A modified limited assurance report will be issued where a reported result of an accountability indicator is not accurate or cannot be independently verified.

Materiality

In assessing whether information included in financial statements or statement of performance is fairly presented, the Audit Office assesses whether any misstatements (whether caused by error or fraud) are material. Material information is that which affects decisions made by readers of the financial statements or statement of performance.

Where misstatements are identified but their combined effect is not material, the Auditor-General is required to provide an unmodified auditor's report or unmodified limited assurance report.

The Audit Office focuses on information in financial statements and statement of performance that is of higher risk of material misstatement to provide readers with assurance that they are free of material misstatements.

Rounding

The totals for the financial information included in the tables of this report may not add as the figures are rounded to the nearest million dollars.

Misstatements

Misstatements are the amount by which the correct amount varies from the reported amounts. Misstatement may be caused by errors or fraud (deliberate misreporting).

Net assets

Net assets are the amount by which total assets exceed total liabilities.

Net operating balance

Net operating balance is the difference between revenue and expenses. The net operating balance is 'in surplus' where revenue exceeds expenses and is 'in deficit' where expenses exceed revenue.

Operating results

The operating surplus/(deficit) is the sum of the net operating balance and other economic flows. Other economic flows mainly comprise gains/(losses) on investments and land revenue. These gains/(losses) mostly reflect changes in market conditions that affect the value of investments and land.

Net cost of services

The net cost of services shows how much of an agency's operations can be funded from the revenue it generates and the extent of reliance on government funding to subsidise its operations.

The net cost of services is the difference between total expenses and the revenue generated by an agency. It excludes government contributions and income or expenses not directly relating to the agency's operations such as those from transferring assets from/to other ACT Government agencies.

Present value

Present value is the estimate of the current value of the future net cash flows using a discount rate prevalent in the market. The reported amount will be higher when a lower discount rate is applied and vice-versa assuming other factors being equal.

Discount rate

Discount rate is the interest rate used to calculate the present value.

APPENDIX B: AGENCIES INCLUDED IN THE TERRITORY'S FINANCIAL STATEMENTS

The following agencies are included in the Territory's financial statements¹.

ACT Audit Office
ACT Electoral Commission
ACT Executive
ACT Gambling and Racing Commission
ACT Health Directorate
ACT Insurance Authority
ACT Integrity Commission
ACT Local Hospital Network Directorate
Cemeteries and Crematoria Authority
Canberra Health Services
Canberra Institute of Technology
Chief Minister, Treasury and Economic Development Directorate
CIT Solutions Pty Limited
City Renewal Authority
Community Services Directorate
Cultural Facilities Corporation
Education Directorate
Environment, Planning and Sustainable Development Directorate
Housing ACT
Icon Water Limited
Independent Competition and Regulatory Commission
Justice and Community Safety Directorate
Legal Aid Commission (ACT)
Lifetime Care and Support Fund
Major Projects Canberra
Motor Accidents Injury Commission
Office of the Legislative Assembly
Office of the Work Health and Safety Commissioner
Public Sector Workers Compensation Fund

¹ Note 3 on page 16 of the 2020-21 Australian Capital Territory Government Consolidated Annual Financial Statements.

Public Trustee and Guardian
Suburban Land Agency
Superannuation Provision Account
Territory Banking Account
Transport Canberra and City Services Directorate
Transport Canberra Operations

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| Report No. 05 – 2021 | Management of Closed-Circuit Television Systems |
| Report No. 04 – 2021 | ACT Government’s vehicle emissions reduction activities |
| Report No. 03 – 2021 | Court Transport Unit Vehicle – Romeo 5 |
| Report No. 02 – 2021 | Total Facilities Management Contract Implementation |
| Report No. 01 – 2021 | Land Management Agreements |
| Report No. 10 – 2020 | 2019-20 Financial Audit – Financial Results and Audit Findings |
| Report No. 09 – 2020 | 2019-20 Financial Audits Overview |
| Report No. 08 – 2020 | Annual Report 2019-20 |
| Report No. 07 – 2020 | Management of care of people living with serious and continuing illness |
| Reports Published in 2019-20 | |
| Report No. 06 – 2020 | Transfer of workers’ compensation arrangements from Comcare |
| Report No. 05 – 2020 | Management of household waste services |
| Report No. 04 – 2020 | Residential Land Supply and Release |
| Report No. 03 – 2020 | Data Security |
| Report No. 02 – 2020 | 2018-19- Financial Audits – Computer Information Systems |
| Report No. 01– 2020 | Shared Services Delivery of HR and Finance Services |
| Report No. 11 – 2019 | Maintenance of ACT Government School Infrastructure |
| Report No. 10 – 2019 | 2018-19 Financial Audits – Financial Results and Audit Findings |
| Report No. 09 – 2019 | 2018-19 Financial Audits – Overview |
| Report No. 08 – 2019 | Annual Report 2018-19 |

These and earlier reports can be obtained from the ACT Audit Office’s website at <http://www.audit.act.gov.au>.